The Political Economy of Crisis and Global Governance

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ABSTRACT

This thesis considers the significance of contemporary developments in global governance. It argues that contemporary processes can be understood via Marx's depiction of the crisis ridden nature of historically developing social relations under capitalism and Gramsci's concept of hegemony, Poulantzas's notion of relative autonomy of political authority and Karl Polanyi's description of the 'double movement'. Following several other critical scholars influenced by these concepts, the thesis develops a multi-dimensional analytical matrix for understanding patterns of change and persistence in the construction of capitalist hegemony, and different manifestations of it. The thesis argues that contemporary global governance is characteristic of the construction of a specifically neo-liberal hegemony but that this is characterised by two distinct phases. While the first was disciplinary in nature and concerned to dismantle a previously embedded hegemonic world order, second-phase strategies aim to contain the crisis tendencies generated by first-phase reform, embedding capitalist hegemony over the long-term. The deployment of these second-phase strategies by agencies bearing a degree of relative autonomy at domestic, macro-regional and global levels is considered in depth through three case study chapters.

DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

ABBREVIATIONS

ACP – African, Caribbean and Pacific Group of States.

ALMPs – Active Labour Market Policies.

BCBS - Basle Committee on Banking Supervision, part of the Bank for International Settlements (BIS).

BEPGs – Broad Economic Policy Guidelines (EU).

BIS – Bank for International Settlements (Global).

BSF – Building Schools for the Future (UK).

BWI – Bretton Woods Institution (Global).

CAS – Country Assistance Strategy.

CDF – Comprehensive Development Framework (Global).

CEC – Commission of the European Communities (EU).

COR – Committee of the Regions (EU).

DfES - Department for Education and Skills,
formerly DfEE Department for Education and Employment (UK)

DoH – Department of Health (UK).

DTI – Department for Trade and Industry (UK).

DWP – Department for Work and Pensions (UK).

EAZ – Education Action Zones (UK).

ECB – European Central Bank (EU).

EFA – Education for All (Global).

ECOFIN – Economic and Finance Committee (EU)

ECOSOC – Economic and Social Affairs Committee (EU)

EIB – European Investment Bank (EU).

EMU – European Monetary Union (EU).

ERDF – European Regional Development Fund (EU).

ESAF – Enhanced Structural Adjustment Facility.

ESCB – European System of Central Banks (ESCB).

ESF – European Social Fund (EU).

ESM – European Social Model (EU).

ESS – European Social Strategy (EU).

EU – European Union.

FSA - Financial Sector Assessment (Global).

FSA – Financial Services Authority (UK).

FSAP – Financial Sector Assessment Programme (Global).

FSF – Financial Sector Forum (Global).

FSSA – Financial Sector Stability Assessment (Global).

G7 – Group of Seven Industrialised Nations. Sometimes the G8.

GATS – General Agreement on Trade in Services (Global).

GOR – Government Office in the Regions (UK).

HIPC – Heavily Indebted Poor Country Initiative.

HMT – HM Treasury (UK).

IAIS - International Association of Insurance Supervisors (Global)

IMF – International Monetary Fund.

IMFC – International Monetary and Finance Committee, formerly the Interim Committee of the IMF.

IMFC – International Monetary and Finance Committee, successor to the Interim Committee of the IMF (Global).

IMS – Internal Market Strategy (EU).

IOSCO – International Organisation of Securities Commissions (Global)

LGIU – Local Government Information Unit (UK).

LLSC – Local Learning and Skills Council (UK).

LS – the Lisbon Strategy (EU).

LSC – Learning and Skills Council (UK).

LTCM – Long-Term Capital Management (Global).

MAI – Multilateral Agreement on Investment (Global).

MDG – Multilateral Development Goal.

NAPs – National Action Plans on Employment (EU).

NAPs/Incl – National Action Plans on Social Inclusion (EU).

NIRA – National Industrial Recovery Act, (US).

NLP – New Labour Project (UK)

NMW – National Minimum Wage (UK).

NYFR – New York Federal Reserve (Global).

ODPM – Office for the Deputy Prime Minister (UK).

PFI – The Private Finance Initiative (UK and world wide).

PMA – Policy Monitoring Arrangement (Global).

PRGF – Poverty Reduction and Growth Facility.

PRSP – Poverty Reduction Strategy Paper.

PSA – Public Service Agreement (UK).

RCU – Regional Coordination Unit, part of the ODPM (UK).

RDA – Regional Development Agency (UK).

SAF – Structural Adjustment Facility.

SDRM – Sovereign Debt Restructuring Mechanism (Global).

SEA – Single European Act (EU).

SGP – Stability and Growth Pact (EU).

SSDA – Sector Skills Development Agency, now called the Skills for Business Network (SfB) (UK).

TEU – Treaty of the European Union (EU).

UN – United Nations (Global).

UNGA – United Nations General Assembly (Global).

UNIDO – United Nations Industrial Development Organisation (Global).

USGAO – United States General Audit Office (Global).

WB – World Bank.

WDR – World Development Reports (Global).

WEF – World Economic Forum.

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THE AUTHOR

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Alex's academic publications include a co-authored article on locking-in and EU relations with the African, Caribbean and Pacific group of states (with Sophia Price) in *Historical Materialism*, and a an article on the commodification of higher education and trade liberalisation in *Education and Social Justice*. He has also written several published pamphlets and reports.

Alex's future academic research interests include developing some of the core themes of this thesis, particularly in relation to further development of the analytical matrix, understanding the development of contemporary approaches to multi-levelled governance and the implications of this for the location of political authority and accountability, economic adjustment and social change. He also has a developing interest in the study of poverty and the mobilisation of initiatives to address it, in historical context.

INTRODUCTION

Introduction and Summary

This thesis is concerned with understanding patterns of change in global governance within the historical development of capitalism. It argues that many contemporary approaches to global governance are insufficient in their treatment of the relationship between governance and capitalist social relations over time. This is argued to be particularly the case in relation to changes – both apparent and real – in the nature and location of political authority. The thesis begins with a brief survey of different theoretical approaches to governance, drawing on both older and more recent literatures on the state, inter-state relations and global governance. It then draws on an alternative literature grounded in the ideas of Karl Marx and Antonio Gramsci to develop a multi-dimensional analytical matrix for understanding patterns of change in global governance and the political economy content of such changes. The thesis presents both a broad overview of global governance in the 20th Century, relating it to patterns of change in capitalist social relations and a detailed empirical consideration of contemporary governance strategies. These contemporary strategies are related to the construction of a specifically neo-liberal form of capitalist hegemony within which, it is argued, there are two discernible phases. While the first of these phases is well understood and widely written about, the second is less well understood. Therefore the thesis focuses in particular on the second of these phases which, it argues, are aimed at embedding neo-liberal hegemony for the long-term. The development of these strategies by key state and supra-state agents of political authority forms the empirical basis of the thesis over 3 case-study chapters. The core contribution made by the thesis is to better understand the significance of the contemporary developments, which find expression through changes in the organisation of global governance, for analyses of the location of political authority and their political economy content. In doing so, the thesis also contributes to understandings of relative change and stability in the construction of capitalist hegemony.

Approaches to Global Governance

In recent years, global governance has emerged as a major area of academic study, with a burgeoning literature considering it in theoretical and empirical context (Hewson and Sinclair, 1999; Wilkinson, 2005). Indeed, some commentators have argued that the term is over used without significant definitional clarity (Finkelstein, 1995). While the explicit use of this term is quite a recent trend, there is a much longer intellectual heritage dating back to the eighteenth century at least which has considered the role of governance at and beyond the state (Kant, 1795). However, this more recent interest has derived partly as a result of the inadequacies of reified analyses of the state and partly as a result of a concern to theorise an apparent change in the nature of world affairs and patterns of governance that go beyond the state. A starting point for this work is that changes within the structure of politics and economics have resulted in a transition of power, authority and capacity away from nation states. Political changes are associated with increased, technology-enabled, communication and the concomitant globalisation of issues, from the environment to culture and identity, which have been part and parcel of the emergence of a global, or at least transnational, civil society, complete with organisational forms for the representation of interests (Scholte, 2004). Economically, these changes are associated with the globalisation of financial, monetary and product markets and the transnationalisation of production, again enabled by technological changes in transportation, communications and production processes. These economic changes, it is argued, increasingly constrain the capacity of the state to autonomously manage economic development and the distribution of its benefits within its borders (Cerny, 1993; 2000).

These changes and the apparent shift in political authority are then analysed and interpreted variously by different scholars. Some see the emergence of a borderless world (Ohmae, 1994). Others see the state fragmented from below and being integrated into cooperative forms from above as the location of political authority bleeds away from the state in both directions and into new emerging forms of governance that are less formal and less hierarchically organised (Rosenau, 1997). This notion has been at the centre of the emergence of an entire collection of scholarship on multi-levelled and poly-centric governance (Hooghe and Marks, 2001) which sees strong linkages between emergent patterns of governance at the highly localised and global level. Some go on to argue that this may herald the emergence of a new medievalism (Ruggie, 1993; Cerny, 1998).

However, there are some very real weaknesses in much contemporary work on global governance. First, in arguing that power is being transferred away from the nation state, there is a marked tendency to forget history, confirming the 'sovereignty myth' by claiming its decline (Weiss, 1998). Second, with a few notable exceptions (Ibid) there is also a neglect to study in any great depth the patterns of state adaptation and management of change which has marked their continuity. Third, there is ambiguity in the definition of what is meant by 'governance' itself and a tendency to confuse or merge mechanisms which hold political authority and mechanisms which are in actual fact more about implementation and delivery. The latter tend to have a minimal amount of autonomous power vested in them in order to broker legitimacy, build support for strategies and initiatives designed elsewhere, and to implement these more effectively by taking account of local contextual factors.

Another strong theme in work on global governance is a normative concern to make it work better, though, as Cox (1996b) reminds us, the precise meaning and interests attached to 'better' is crucial to understanding how this might be achieved and who would benefit as a result. Despite the problems in Cox's approach (Cammack, 1998), interrogating the character of change in patterns of governance forms part of the starting point for this thesis. While the linkages between globalisation and global governance are frequently explored, there is a general failure to fully locate changing patterns and trends in governance within the long-term historical development of capitalist social relations. Contextualised in this way, it is illuminating to consider shorter and longer-term patterns of change and stability.

Understanding Governance and Capitalist Development

The role of governance in capitalist development

The understanding of governance developed here sees it as fundamentally linked to solving the collective action problems posed by capitalist development. Capitalism requires certain social and institutional preconditions such as mechanisms for the privatisation of property, securing individual property and the enforcement of contracts. It requires a certain level of technological development to enable the means of production to be sufficiently organised to turn a profit. For primitive accumulation to emerge, a proletariat must be formed and brought together with sufficient capital, to subject it to commodification. Thus, labour needs to be sufficiently free from the requirements of producing for its own subsistence and from feudal ties, therefore able to enter into contracts to sell its labour. The transition from primitive to advanced capitalist accumulation poses similar problems, such as the need to encourage innovation and investment, to provide infrastructure to facilitate market consolidation and expansion, and access to labour power and raw materials. Further, capitalist development also requires that labour power and its reproduction are enhanced through a multitude of interventions, principally in education and health. Solutions for some of these collective action problems can be provided by capital itself through agglomeration or monopoly, but for the most part require external political authority.

The genesis of capitalist development thus requires that pre-existing patterns of governance be transformed to provide these functions, as witnessed by the convulsive and revolutionary change in European state formation in the early period of capitalist development. Therefore, the process of capitalist development has been closely related to changing patterns of governance since its inception (Polanyi, 2001; Lindblom, 1977; Gill and Law, 1993; Poulantzas, 2000). The modern capitalist state adapted to providing the functions required by capitalist development including the regulation of accumulation and markets, enforcement of contracts, property rights and law and order through the monpolisation of legitimate force and jurisprudence and regulation and management of labour power, provision of infrastructure and the construction of legitimacy and consent for continued capitalist accumulation and reproduction.

In this context, the relationship between political authority and capitalist development is characterised by both the structural power of capital (Lindblom, 1977:170-88) and the space available for hegemonic classes and class factions to take advantage of differences between blocs of capital and between capital and labour to exercise leadership through the state and to broker autonomy from sectional interest (Marx and Engels, 1985:90; Poulantzas, 2000:127). This autonomy is essential to the capacity of political authority to provide the necessary conditions for capitalist accumulation, to reproduce labour power, to limit, offset and contain social unrest and hostility to the reality and effects of accumulation and inequality (Poulantzas, 2000:166-89). This thesis develops the notion of relative autonomy, within the context of contemporary globalisation and changes to the structure and operation of governance above and below the state. In doing so, it pays particular attention to the role of political authority in the management of crises in capitalist hegemony.

The role of crisis in capitalist development

Crisis is an integral component of capitalist development in at least three ways. First, crisis tendencies occur within the process and logic of accumulation itself, principally the tendency toward over-accumulation. Over-accumulation is both a constant pressure within capitalist development and occasionally erupts in actual crises, finding real world expression in over-production, under-consumption, declining profitability and the devaluation of fixed capital (Harvey, 1982:195). Second, crisis is related to the tensions between the logic of capitalist development and accumulation and the conditions required to reproduce capitalist social relations. These include the reproduction of sufficient amounts and quality of labour power and the natural, environmental and ecological conditions required for continued accumulation (Bakker and Gill, 2003). Third, crisis is related not only to the mechanics of reproduction but to its continued legitimacy.

Governance is crucial to resolving these crisis tendencies. In dealing with the continual pressure toward over-accumulation there is a perpetual role for relatively autonomous political authority to offset over-accumulation through what Harvey (1982; 2003:109-121) calls ‘spatio-temporal’ fixes. These involve the absorption of capital in the expansion of commodification and investment in fixed capital, and infrastructure, and in measures to reproduce and enhance labour power over the long-term, such as social and welfare infrastructure. Such measures to contain over-accumulation through temporal fixes are also related to containing crisis tendencies in reproduction, which requires capitalist hegemony to be embedded in social and institutional structures. Taken together with the expansion of commodification, Polanyi termed this the ‘double movement’ (Polanyi, 2001).

Gramsci, Hegemony and Global Governance

Gramsci’s (1971) notions of hegemony and historic bloc help to illuminate the mechanisms which underpin governance and allow it to serve the requirements of accumulation and contain crisis tendencies. Hegemony is about more than just coercion and is built beyond the parameters of the narrow state apparatus manipulated by the hegemonic class faction. Thus hegemony is produced in the extended state, encompassing not just its formal institutions but their fusion with the institutions of civil society. In this way, hegemonic and subordinate classes and class factions are joined together in long-term strategic alliances or ‘historic blocs’.

Gramsci’s concepts have been exported from the domestic context to explain governance beyond the state also, first by Robert Cox and more recently by a group of scholars influenced by Gramsci, Marx and Cox himself. While each of these authors develop Gramsci’s and Marx’s analysis in different ways, they share a core concern with explaining global governance as the product of changing social relations within capitalism, and the shifting configurations of capitalist hegemony. Recent changes in global governance are then related to contemporary processes of globalisation, class conflict and the emergence of a specifically neo-liberal form of capitalist hegemony.

Cox argues that global governance in the context of contemporary globalisation is characterised by the emergence of a *nébuleuse*: an opaque consensus among the “caretakers” of the global economy over the most appropriate model of political economy and resulting state strategies. At the global level international organisations provide some of the functions related to the construction and maintenance of capitalist hegemony that are performed domestically by the state (1996b). Stephen Gill (1998) goes further, identifying the purposeful construction of a disciplinary neo-liberalism in which states are required, by the coercive discipline of international financial markets, to place important parts of economic policy making beyond the scope of democratic decision-making. The purpose of this ‘new constitutionalism’, is to ‘lock-in’ the requirements of neo-liberal accumulation, and thus those of the dominant factions of the hegemonic historic bloc associated with this, to state policy frameworks over the long-term.

The thesis

The Approach

This thesis seeks to build-on and go beyond Cox and Gill’s arguments in several important ways. First, Cox’s nébuleuse implies that the state has been eroded in much the same way as that proposed by much of the more mainstream global governance literature. This thesis suggests that this is something of a simplistic misunderstanding, both because the state was never so perfectly sovereign as this would suggest and second, because the state remains an important part of the project to secure capitalist hegemony. Despite being heavily influenced by Gramsci, Gill’s discussion of locking-in is overly focused on the disciplinary elements of the first-phase in constructing neo-liberal hegemony, ignoring some of the more consensual elements contained within contemporary second-phase strategies. The importance of these has been recognised in the work of Rupert (2000:132-55) and Murphy (1994:260-73), who draw attention to the recognition, within the social forces associated with neo-liberal hegemony, of a number of crisis tendencies resulting from the imposition of first-phase strategies and the resulting adoption of strategies to promote “globalisation with a human face”.

This thesis develops these themes in a detailed analytical critique. It emphasises the specific crisis tendencies produced by first-phase restructuring and to the realisation of these within core agencies performing the roles associated with the narrow state concept, at global, macro-regional and local level. It then discusses the adoption of complex strategies for the locking-in of neo-liberal hegemony in ways that go beyond Gill's focus on constitutional controls over economic policy-making, towards strategies aimed at performing the social and institutional transformations required to lock-in neo-liberal hegemony over the long-term. To do this, the thesis adopts some of the concerns proposed by both Cammack (2004a; 2003; 2002; 2002a) and Weber (2004), who provide a more detailed approach to the construction of these second-phase strategies, particularly within international development. Specifically, they draw attention to the expansion of commodification and securing primitive accumulation in the developing world. This thesis argues that this has been a dominant theme in second-phase strategies, not just in the developing world but also in the core of the global economy, especially where first-phase restructuring had cast significant sections of the global labour force out of the scope of formal commodification. However, it also shows how the development of second-phase strategies has focused not just on expanding the scope of primitive accumulation but on securing increases in relative surplus value generation also. In doing so, the thesis contributes to collective social knowledge by adding greater detail and clarity to understanding contemporary patterns in the political economy of global governance.

In order to develop these arguments further, the thesis develops a multi-dimensional analytical matrix to analyse and understand the construction of hegemony. The matrix suggests that this takes place at a variety of spatial levels, from the global to the individual. Second, the matrix suggests that capitalist hegemony is layered, containing structural or foundational elements, such as individual property rights and wage labour. Above these, are more transitory elements that give character to different configurations of capitalist hegemony at any particular point in time and space. This makes it possible to understand relative processes of change and stability in capitalist development. Finally, the matrix contains a number of facets (ideological, institutional, social, and material) in which strategies to secure hegemony are developed, particularly through the agents of capitalist governance.

This analytical matrix is then used to interrogate contemporary developments in the political-economy of global governance at three distinct levels: the global level, the macro-regional level and the state level (including discussion of sub-state developments). Each of these three levels is used as a case study of second-phase neo-liberal locking-in strategies. In doing so, the thesis rejects the oft cited claim in the global governance literature that contemporary changes reflect the declining importance of the state as a location of political authority. It argues that key states have been at the forefront of developing second-phase strategies, and in the case study of state level locking-in, the thesis demonstrates that the new Labour government in the UK has consciously brokered significant relative autonomy from the structural power of capital in order to develop and implement its second-phase programme of social and institutional reform. In making these arguments, the thesis contributes to contemporary knowledge about changing patterns of governance and their significance, especially with regard to the relationship between the state and (potential) locations of political authority above and below it.

Plan of the thesis

Part one

Part one of the thesis develops the conceptual and historical background for the subsequent analysis of contemporary global governance.

Chapter one documents the emergence of the global governance literature from the intellectual heritage of liberal theories of inter-state cooperation. It charts common themes in this literature, such as the concern, within the agencies of global governance, to improve its performance, efficiency and functionality. Other themes include the apparent decline in the capacity of the state in relation to both internal fragmentation and external integration within supra-state and market frameworks.

Drawing on the ideas of Marx, the role of governance and crisis in capitalist development is then discussed and related to Gramci's concepts of hegemony, historic bloc and social change. This theoretical discussion forms the backdrop to the development of a multi-dimensional analytical framework for studying and interpreting contemporary developments in the political economy of global governance.

Chapter two considers broad changes in global governance in the Twentieth Century, locating these in the historical development of capitalism and specifically in two periods of crisis and restructuring. First, the depression of the 1930s is located in the preceding history of US capitalist development and international economic relations to argue that this represented not just a collapse in accumulation but a fundamental crisis of over-accumulation, reproduction and legitimacy within capitalist hegemony. The chapter charts the emergence of a range of competing visions for the restoration of capitalist hegemony, alongside apparent alternatives to capitalist hegemony. The result was both internal political fracture within a large number of states around the world and confrontation between states unified by different conceptions of how to resolve the crisis in their own domestic context. The most significant of these confrontations was played out in the form of the Second World War between a fascist revisionist reactionary response to the crisis and a 'progressive' resort to social planning and embedding capitalist social relations within a social and institutional structure that could offset over-accumulation, sustain reproduction and generate legitimacy. Ultimately, the victorious allies promoted this latter vision, in the form of a widely replicated post-war social compromise and international institutional framework. However, throughout this period, the specifically post-war social democratic/Keynesian/Fordist hegemony remained in tension with an (at least superficial) alternative in the form of the Soviet Union. What is significant however, is that the construction of post-war capitalist hegemony involved the creation of a substantial multi-levelled framework of governance, which included the establishment of important international institutions such as the United Nations and the Bretton Woods Institutions (BWIs).

The second period of crisis and restructuring considered is the breakdown of post-war hegemony. Crisis tendencies (of over-accumulation, reproduction and legitimacy) were manifest in slow growth, rising inflation and social conflict within the core, in the challenge to the legitimacy of the prevailing international system of accumulation in the periphery, and in substantial currency volatility which undermined the institutionalised Bretton Woods financial and monetary order. An organic and later more directed spatial-fix to these problems is charted in the emergence of private strategies of transnationalisation in production and finance, as capital sought to circumvent embedded social structures in the core. A more directed fix was encapsulated in the domestic application of monetarism and then more comprehensive neo-liberal restructuring programmes. In the periphery, this strategy was manifest in the export of devaluation from the core in the form of the debt crisis and the subsequent 'management' of this through the externally directed application of structural adjustment via the aegis of the state. To manage these processes of restructuring and transnationalisation, a significant institutional capacity has been created at a global level, including but not limited to Gill's new-Constitutionalism. This involved the significant reorientation of the BWIs to implementing structural adjustment and ultimately the broadening and deepening of the trade regime and its institutionalisation in the establishment of the World Trade Organisation (WTO). Following Gill and others, chapter two associates this process with the active construction of a specifically neo-liberal form of capitalist hegemony. However, in this thesis these strategies are considered to be only the first-phase in this project, concerned more with dismantling the core components of a pre-existing hegemonic settlement.

Part two

Part two presents a detailed analytical and empirical discussion of the development of second-phase strategies at three levels, in the form of case study chapters. While part one presents a broad overview of historical episodes of crisis and restructuring in capitalist hegemony, part two explicitly focuses on the recognition of crisis and the adoption of second-phase strategies by key agencies in the exercise of political authority at each of the levels. Each of the case studies chosen demonstrate examples that, while not typical, represent leading exemplary projects.

Chapter three uses the UK as a case study of second-phase locking-in at a domestic level. It is argued that the new Labour project (NLP) in the UK represents neither a radical reinterpretation of social democracy or full acquiescence to the power of global markets. Rather, it is presented as a far-sighted project to reconstruct neo-liberal hegemony. To do this, the new Labour government have invested considerable effort in brokering relative autonomy by building confidence with financial markets and developing a long-term strategic policy agenda to meet the needs of neo-liberal accumulation. In particular, it is argued that the reform project has been shaped by the emergent crisis tendencies generated by first-phase restructuring. Thus, there has been significant concern within the NLP to draw large sections of the decommodified labour force back within the confines of the labour market, allowing new Labour to lay claim to the social democratic tradition of previous Labour governments. However, the NLP is also concerned to restructure the operation of labour markets, to make them more flexible and to substantially augment labour market discipline, albeit within rigidly defined boundaries, using social policy to act more as springboard – the means of rapidly re-entering employment – rather than safety net and protection from market discipline. As a result, the project does not seek to fundamentally challenge dominant factions in the neo-liberal historic bloc, but to significantly augment and extend the strategic alliances which underpin them. The NLP is thus not a departure from the construction of neo-liberal hegemony, but an aggressive project to secure it over the long-term, locking it in to ideological, institutional, social and land-use frameworks and into the technology and organisation of production itself. Throughout, governance mechanisms are used to secure compliance with national strategies at a local and institutional level while maintaining a superficial semblance of increased autonomy for local communities and public institutions through the apparent adoption of both multi-levelled and poly-centric governance mechanisms.

Chapter four considers contemporary developments in the European Union and policy convergence between its member-states, arguing that they represent the establishment and institutionalisation of neo-liberal hegemony at the macro-regional level, including mechanisms to translate that process to the state and sub-state levels. These are most developed in the process of common economic and social policy formation but, through the development of the proposed EU constitution, there are drives to extend this to citizenship also. While tensions remain in this process, particularly with regard to the emphasis placed on monetary and fiscal discipline, the project reflects the need to build a degree of relative autonomy through the exercise of discretion in policy making and adherence to an overall neo-liberal reform strategy. The chapter describes in detail the content of social and economic policies promoted at EU level and translated to domestic level through governance mechanisms remarkably similar to those employed in the UK to secure local and institutional coherence. Again, these are shaped by concerns about competitiveness and crisis tendencies thrown up by first-phase restructuring. However, at the EU level, there is also a commitment to continuing nascent first-phase restructuring and to undertake this simultaneously with second-phase strategies, reflecting differences in the establishment of neo-liberal hegemony in the UK and other parts of the European Union. Yet, as the detailed consideration of EU macro-economic policy convergence, the European Employment Strategy, the European Social Strategy, Internal Market Strategy and financial liberalisation demonstrates, the neo-liberal character and trajectory of contemporary reform are undoubtable.

Finally, chapter five argues that these patterns are observable at the global level also. While it is more difficult to isolate a lead-institutional actor at this level, the chapter considers the broad division of labour between the International Monetary Fund (IMF) and the World Bank (WB) to argue that the two institutions (and particularly the latter), with the support of other parts of the UN system, are involved in a project remarkably similar to that demonstrated in the other two case studies. The chapter argues that financial regulation, pursued through the IMF and other institutions, has been designed against the analytical backdrop of the need to contain the contradictions created by first phase-strategies. It also argues that the financial crises of the late 1990s acted as an important catalyst in this process. In support of this, the WB, in particular, has led a rearticulation of the dominant development paradigm in ways that are characteristic of second-phase concerns to secure the deeper and wider adoption of primitive accumulation on a global scale. Thus, poverty reduction, good governance, pro-poor and participatory development have replaced the language of discipline and structural adjustment. Like in the other case studies there is an observable attempt, particularly in the case of the WB, to broker a degree of relative autonomy to pursue these strategies. Moreover, governance mechanisms are again used to secure compliance between 'levels', with a strong emphasis on coordination with state and sub-state institutions.

Method

Aims and objectives

This thesis aims to interrogate key contemporary issues in the political economy of global governance. It aims to make a contribution to understanding the location of political authority in new and emerging forms of governance and to debates about who benefits from these. It also aims to uncover and make explicit some of the underlying political economy elements of global governance and to identify the role of political authority in this process.

However, the purpose is not just academic but also explicitly normative. By exploring the dynamics of hegemony, the role of crisis in hegemonic orders and contemporary processes of constructing hegemony on the part of political authority, the thesis aims to uncover some of the dynamics of change and stasis and to identify opportunities for counter hegemonic social forces to exercise leverage in support of progressive transformation of the status quo, what Gramsci called a 'theory of praxis'.

While limitations of time, space and resources mean that detailed consideration of the lessons to be learnt from the research in terms of informing counter-hegemonic war of position strategies are largely beyond the scope of the thesis, areas for further work are clearly implied. This is particularly important in the international sphere where politics often appears to be even more disaggregated from the social processes which led to its construction. This is what Rupert has called 'second order alienation':

> "international politics concerns itself with the mutual estrangement of political communities which are themselves constructed within relations of alienation…thus obscured from view are the relations which make possible the specific institutional forms of capitalist society, as well as the social processes by which these characteristic forms have been produced and reproduced and through which social reality may be changed. Illumination of these relations and processes – as a necessary part of the transformation alienated capitalist socially – is the objective of the critique" (Rupert, 1993).

Research questions

These aims and objectives are addressed by the following key research questions:

1. How should contemporary dynamics in global governance be located in longer-running patterns of change in capitalist social relations?
2. What are the prevailing political economy dynamics in contemporary global governance and the adoption and implementation of second-phase neo-liberal reform strategies?
3. What implications do new and emerging patterns of global governance hold for analyses of the location of political authority?

Research methods and sources

In order to answer these key research questions, several social science research methods are employed, principally through the adoption of a historicist, Marxist-Gramscian analytical framework. Thus chapter two considers the broad sweep of the 20th century through a historical narrative, substantiated by detailed empirical evidence. Chapters three to five consider the development of second-phase strategies by selected key agencies of political authority in the construction of neo-liberal hegemony at three distinct levels. This analysis is guided by the analytical and methodological matrix developed from the work of Marx, Gramsci and their successors and presented in chapter one. In applying this matrix analysis, qualitative documentary and policy analysis is the main methodological approach used. Where appropriate, documents that appear in series' or cover similar themes (e.g. subsequent years of the European Employment Strategy, or different Poverty Reduction Strategy Papers) were analysed via the use of custom designed document analysis templates, allowing common and divergent themes to be identified.

The sources used in the thesis largely follow the conceptual discussion and analytical matrix. Thus in chapter two, historical and archive documents are used to substantiate arguments and to augment secondary materials. In chapters three to five, the main sources of evidence are the primary policy documents, strategies, committee papers, legal texts and supportive research from the main agents considered in the case study chapters.

Case study selection

Chapters three to five include three case studies of the adoption and deployment of second-phase strategies at state (UK), macro-region (EU) and global (WB and IMF) levels. This process included case selection both of the level of enquiry and the specific example agents to be considered. The choice of levels of analysis largely flowed from the literature on global governance in which it is arguable that these are the primary levels of analysis. However, the choice of specific case studies was more difficult. Several criteria were used in these selections. The first was practical and revolved around the availability and accessibility of documentary evidence in the English language. The second was more conceptual. At each of the levels, attention was given to selecting agents at the forefront of second-phase strategies, and as such these case studies can also be seen as exemplar leadership projects rather than being typical. They thus fit within the aims and objectives of the thesis to uncover the dynamics of contemporary efforts of relatively autonomous political authority to advance the project to construct neo-liberal hegemony.

Summary

In summary, this thesis develops the following core thematic arguments:

1. That global governance can only be adequately understood when located firmly in an analysis of the historical development of the social relations of capitalist development.
2. That governance generally performs functions which are essential to the process of capitalist development, particularly with regard to solving collective action problems and managing the crisis tendencies inherent in capitalist development.

3. That in order to perform these governance functions, political authority requires a measure of relative autonomy from sectional interest.
4. That the sustenance of capitalist social relations requires also the existence of a broad social order in which those social relations appear as natural. Following Antonio Gramsci, this can be termed hegemony. While hegemony is related to the dominance of capital *per se*, layered and different configurations of hegemony are produced by the interaction between relative autonomy and broader social relations over time and space.
5. That the history of global governance in the twentieth century is related to changing configurations of hegemony, in which crisis has performed an important role in the transition process.
6. That more recent patterns of change that have formed the basis of work on global governance have been related to a shift in the configuration of hegemony on a global scale between a social democratic / Keynesian/welfare/fordist hegemony to a more neo-liberal hegemony characterised by the ascendancy of transnational capital.
7. That the construction of neo-liberal hegemony has included two distinct phases, which approximate Polanyi's depiction of a double-movement in the transition between stages in capitalist hegemony. While the first-phase was characterised by the imposition of disciplinary reform, particularly in relation to some of the institutionalised parts of the previous hegemony, the second-phase has reflected a concern to lock-in neo-liberal hegemony through a social and institutional transformation. This transformation has centred on the need to offset some of the crisis tendencies invoked by first-phase restructuring, including the expansion of primitive accumulation and simultaneous efforts to increase relative surplus value production. Second-phase strategies have also been characterised by efforts to build ownership and support for neo-liberal hegemony.

1 CRISIS AND THE CONSTRUCTION OF HEGEMONY

1.1 Introduction

This chapter begins with a consideration of different theories of political authority at the level of the state and inter-state relations. It then goes on to review contemporary developments in the study of global governance, in particular the claim that the state is giving way to qualitatively new patterns of 'multi-levelled' 'global governance' which represent the shift of political authority to global and sub-state levels.

The chapter suggests that changing patterns of governance need to be firmly located within an understanding of the historical development of capitalism. It draws on an alternative literature, inspired by Gramsci and Marx, to argue that both government and governance perform a fundamental role in the development of capitalist social relations, allowing capital to overcome significant collective action problems and crisis tendencies. The former represents the actions of the 'narrow state' operating within the confines of 'relative autonomy', while the latter represents the 'broader state', fused with civil society. In line with this approach, an analytical and methodological matrix is developed for understanding global governance as a component part of strategies to construct capitalist hegemony on a world scale.

Finally, it is argued that capitalist hegemony is not a singular concept but has multiple possible structures and configurations. Therefore, within the hegemony of capital *per se*, there are identifiable and changing configurations of specific hegemonies. Following a range of critical authors, it is argued first that contemporary global governance is the product of the establishment of a specifically neo-liberal form of hegemony. However, it is also argued, following Polanyi's image of the 'double movement', that in the process of constructing this specific form of hegemony, there are at least two identifiable phases, and that contemporary global governance represents a 'second-phase' concern to perform a thoroughgoing institutional and social transformation to match the imposition of market discipline from above.

1.2 Conceptualising Governance

Theories of the State and Inter-state Relations

The commonly (though not universally (e.g. see Caporaso, 2000; Krasner, 1995/6)) accepted wisdom is that the 1648 Treaty of Westphalia[1] sounded the arrival of the modern state system, with several fundamental features. Sovereignty is unified within a bounded territorial area and characterised by the monopoly control of law and order and use of force. Therefore the 'traditional' approach to theorising political authority during at least the last century, has focused on the role of the state and relations between them.

During the post-war period, debate over the nature of the state was widespread. Pluralists argued that the state is a source of social contest between competing social and institutionalised interests, with the state acting as benign arbiter. Though pluralists like Dahl (1956; 1961) recognised that these competing interests are unequal in power and resources, he suggested that this varied by issue meaning that resources and power tended not to be cumulative but dispersed in changing and decentralised configurations. To classical pluralism, competition between organised minorities is an essential component of democracy and a diversity and multiplicity of interests undermines the development of de Tocqueville's 'Tyranny of the Majority'. In turn, democracy provides not for majority rule by numbers but a mechanism for incrementally buying-off interests and reinforcing and brokering basic agreement (Held, 1996:199-207).

Later versions of pluralism (Dahl, 1985), however, more fully accepted that the structural power of vested interests – particularly large corporate interests - tends to produce and reproduce dangerous levels of inequality. Specifically, the conception of power moved from being relational to structural and capital was understood to exert structural influence over the form and type of governance and the state because of the central dependence of society on investment to generate economic activity and the surplus from which redistribution takes place (Lindblom, 1977; Gill and Law, 1993:100).

Statists have accepted some of the claims of Rational and Public Choice theorists: that the state will have interests of its own (Mishra, 1988; Buchanan, 1997). However, they go further to argue that the state also has the power to broker

[1] See Treaty of Westphalia (1648) at the Avalon Project, Yale University, http://www.yale.edu/lawweb/avalon/westphal.htm.

autonomy from all competing social interests and to pursue its own independent agenda (Krasner, 1978; 1984; 1995; Skocpol, 1979; Skocpol and Finegold, 1982).

Statism has been implicitly accepted in dominant forms of 'traditional' International Relations (IR) theory which has been marked by concerns to study the relations between states. For instance, realists, whose central claim (drawing on Hobbes (1996)) is that the interstate system is disorderly and anarchic (Waltz, 1959), have explained periods of cooperation as the product of state power. Thus cooperation and stability is either the result of temporary and unstable periods of a balance of power (Ibid:198-210) or the preponderance of power on the part of a single – hegemonic – state (Kindleberger, 1973, Gilpin, 1976). In either example, rules and mechanisms of governance are both simultaneously the result of, and seek to constrain, state power.

An alternative tradition within IR theory has also focused on state power and interstate relations but has explicitly sought to use mechanisms of global governance to regulate state power in the interests of advancing cooperation and promoting peace. While not a singular tradition, these liberal approaches have been shaped by the central enlightenment proposition that human action and rational thought have the potential to transcend and transform the context of human relations (Kant, 1795). Thus a defining feature of liberal approaches has been a concern to create rules and structures which can promote mutual learning, respect and cooperation, with a particular emphasis on economic interaction. For instance, Adam Smith stressed that free trade and economic relations would not only be the chief vehicle for attaining co-operation, but would also be the *telos* of that co-operative effort. In the interwar years there was considerable concern to promote peace and prosperity through the creation of an international organisation that could constrain and shape state behaviour in order to begin the learning and transformative process of cooperation (Murray, 1918). This led authors such as Leonard Woolf (Wilson, 1995) and politicians like Woodrow Wilson (1918) to develop ambitious plans for supranational governance in the form of the League of Nations.

An additional theme in this work was the connection between interstate cooperation, global governance and democracy. Both Kant's *Perpetual Peace* and Wilson's Fourteen Points emphasised the potential for democracy to prevent future wars. In the wake of the collapse of the Soviet Union, more recent theorists have returned to this theme (Fukuyama, 1992).

Functionalist approaches to interstate cooperation have stressed the importance of cooperation over specific issues which can then spill-over into more generalised cooperation (Mitrany, 1943; Haas, 1968). Keohane also placed emphasis on the potential for spill-overs of cooperation between sectors in relation to issues that cannot be dealt with at a national level. In this context of 'complex interdependence' (Keohan and Nye, 1989) there is an increased need for international cooperation which itself takes on a self-reinforcing character (Keohane and Nye, 1974). Drawing on Ruggie (1982) this allowed Keohane to centralise the role of international regimes as defining the political context of everyday international economic activity. The starting point for regimes analysis was that "patterns of state behaviour are influenced by norms, but that such norm-governed behaviour was wholly consistent with the pursuit of the national interest" (Haggard and Simmons, 1987). As such, there is no single definition of regime. For instance, Keohane and Nye (Ibid) stress that in addition to state power, regimes may be explained by technological change, connections across issue areas, or the context set by international organisations (which may have initially been the result of state power but subsequently take on a life of their own). Krasner (1983:2) defines a regime as "sets of implicit or explicit principles, norms, rules and decision making procedures around which actors expectations converge in a given area of international relations". Regimes thus act as 'intervening variables' (Krasner, 1995). In fact, the focus on regimes is understood by several authors as a strategic response to perceptions of declining hegemony (Gilpin, 1976; Keohane, 1984:177-181). This is especially so given the expectation that where regimes become institutionalised the tendency toward persistence through time is accentuated and change becomes difficult and path dependent (Krasner, 1984; 1995). Keohane and Nye (1989:277-8) also suggest that crises act as junctures which offer particular opportunity for regime development and change. Others have stressed the importance of hegemonic leadership, not through coercion but through cooperation, consent and reciprocity (Duedeny and Ikenberry, 1999).

The focus on regimes as broader than organisational forms provides linkages to institutionalist theories which have been used to explain governance at a regional level, specifically with regard to the EU (Wilkinson, 2001:399). More recent work by Ruggie has re-emphasised the importance of global issue areas, the potential for cooperation and the increased non-governmental production of global public goods (Ruggie, 2004). He (1998) emphasises the importance of broad-based cooperation between states as a generalised 'multilateralism' in which there is increased resort to organising principles, organisations and international law, specifically addressing collective action problems between states. Finally, work on regimes has included a recognition that the character of regimes will represent dominant approaches to resource allocation and political economy (Haggard and Simmons, 1987:498).

Global Governance

A prominent theme in the recent proliferation of work on global governance, as opposed to inter-state relations, has been shaped by the increasingly widespread perception of the need for collective problem solving, or what Higgott (2004) refers to as Global Governance Type 1. Referring to this thematically as 'enhancing global governance', Wilkinson (2005:4) argues that:

> "Much of this work grows out of a belief in, and commitment to, the principles and values that underpin the UN; a recognition of the changed circumstances in which the organisation finds itself; and an acknowledgement of the problems associated with organisational overstretch, an absence of appropriate political leadership among key member states and the shortfalls in the UN's operational capacities".

This has been a central theme in the policy-based literature on the UN. For instance, the Commission on Global Governance addressed the need for enhanced global governance to deal with impending global issues related to the environment, conflict, population growth and poverty (Commission on Global Governance, 1996). Similar concerns were voiced by UN Secretary General Kofi Annan in the run up to the UN's Millennium Summit (2000).

Similar concern has also focused in recent years on the way in which global economic governance is formulated. Prominent among work on this topic is that of Joseph Stiglitz, academic and one time US presidential advisor and Chief Economist of the World Bank (2002; 2002a). His stinging criticism of the IMF has drawn much attention, though, as later chapters of this thesis reveal, the reforms suggested by Stiglitz represent incremental and technical concerns rather than a fundamental value shift. Concern with reform also emanates from within international organisations. For instance the IMF's own publications regularly consider the need for reform of the institution to better reflect the economic prominence and importance of emerging market economies rather than the dominant economic powers at the time of Bretton Woods and to enable it to tackle dynamic contexts such as changing sectoral patterns of growth, increased private capital flows and demographic change (IMF, 2004h; Kelkar et al, 2005; 2004). Calls for change also come from outside the organisation with a particular emphasis placed on increasing domestic scrutiny and leverage over IMF decisions and policy and over increased transparency (House of Commons Treasury Committee, 2001; Action Aid et al, 2005). A wave of prescriptions for reform of the IMF, World Bank and the World Trade Organisation ensued after the Asian Crisis of 1998 with the aim of making the institutions of global economic governance better able to cope with and respond to financial crisis (Blair, 1998; G7, 1998; IMF, 1998; IMFC, 1998). Finally, in the run up to and aftermath of the protests at the Seattle meeting of the WTO in 2000, a rash of calls for reform of the world trade system emerged, especially from within civil society and academia (Wilkinson, 2002; 2004).

Particularly since the early 1990s, the focus of the global governance literature has been to move beyond the state, to differentiate 'governance' from 'government' and to relate it to the organisation of civil society:

> "…governance is concerned with the regime which constitutes the set of fundamental rules for the organisation of the public realm, and not with government. Both governance and government refer to goal-oriented activities and systems of rule, but whereas government suggests constituted policies backed by formal authority, governance refers to activities backed by shared goals that may or may not derive from legal and formal authority. Governance clearly embraces governmental institutions, but it also subsumes informal, non-governmental institutions operating within the public realm" (Bøås, 1998:120).

James Rosenau (1992; 1997; 2005:45) has been at the forefront of this broadening of the concept of global governance to incorporate "…all levels of human activity – from the family to the international organisation" to come to terms with a globalised world where authority has been relocated and governance takes place 'within' a range of different 'spheres of authority'. In this context, an 'epochal transformation', has taken place with state borders giving way to the 'Frontier': a 'world view' in which turbulence and complexity are to the fore, and the transition to a new more orderly pattern of governance is likely to be a long-term process fraught with uncertainty. Therefore, the traditional territorial integrity of state sovereignty and authority is the subject of 'fragmegration' or the fragmentation of its authority and the simultaneous integration of identify, values and meanings (globalisation and localisation). Here he draws on Held's notion of transnational cosmopolitanism where multiple linkages of identity and interest are possible between individuals and groups within and between states without recourse to the organising institutions of the state itself. Crucial to his overall understanding is Rosenau's commitment to the conclusion that people everywhere are becoming more attuned to political processes and skilled at exercising influence in a "satellite-ringed, fibre-optic wired world…" with a "…continuing trend in which people everywhere are increasingly committed to a democratic, free-market ideology" (Rosenau and Fagan, 1997:682-3). A key concern of this theme in the global governance literature is normative, often concerned with issues of democracy and accountability, what Higgott (2004) refers to as Global Governance Type 2.

Weiss (2000:806) takes on Rosenau's focus on the changing nature of governance arguing that "the phenomenal economic expansion and technological progress of the 1990s have not benefited the world's citizens equally" (Ibid:807). Thus "the logical link between governance at global and national levels lies in solving the collective action puzzle to provide public goods". However, in the face of a retreating state and the absence of world government, "global governance should perhaps be seen as a heuristic device to capture and describe the confusing and seemingly ever-accelerating transformation of the international system". From the standpoint that "ideas and concepts, both good and bad, have an impact", Weiss argues for the articulation of a normative theory of 'good governance' to deliver "processes or rules of decision making that are more likely to result in actions that are in the public interest, rather than favouring the private exploitation of the public interest". In the form of the UN and World Bank sponsored shift in the concept of good governance and the increasing acceptance of the need for state and institutional capacity to deliver this, Weiss sees hope that global governance can be the terrain on which 'good' governance is delivered. In this process, Weiss envisages that the UN will have a leading role in promoting good governance but is less clear about what that role might be. Indeed, he explicitly rules out strengthening existing international organisations or the search for anything approaching a central sovereign. However, he does argue for the UN to develop task sharing practices with a variety of actors, particularly NGOs (Smith and Weiss, 1998).

Others too highlight the declining importance of the state. For instance, to Strange (1986; 1998) this was in the face of the emerging power of international financial markets, though she argues that this was brought about by a combination of decisions and non-decisions on the part of key states, notably the US and the UK. For Cerny (1993; 1998; 2000) the location of authority is also shifting to international financial markets – the infrastructure of the infrastructure – which increasingly determine state policy as they compete for scarce investment in a global market, with the result that the scope for governance and autonomy from financial interests is severely constrained. Cerny (2000a) has also argued that contemporary processes of globalisation have begun a fundamental transformation in the structure and character of governance, with three component elements. First, he argues, is a change in the functions and role of the state from those of the welfare state to those of the competition state (2000). Second, Cerny highlights the fragmentation of the state structure of governance, the merging of public and private boundaries, "leading to the crystallisation of multilayered and asymmetric institutions and patterns of authority and, within this structural context, the fragmentation and refocusing of actors' identities and objectives" (2000a:22). The third dimension is the relationship between structure and agency which restricts and permits individuals and groups to drive change. Here, Cerny draws on both constructivist and structural theories to develop his concept of 'structuration' and a matrix for explaining the structuration process. The core idea is that change is path dependent and the extent to which individuals and groups are able to drive change will depend first on the tightness of their structural context and secondly on their orientation to change, producing four categories of potential change: 'routine adjustment', 'incremental adaptation', 'punctuated equilibrium', and 'articulated restructuring' (Cerny, 1999).

Theories of state decline are not just promoted within the global governance and internationally oriented literature. For instance, Rhodes (1996; 1997) has emphasised a transition to 'governance without government' in the UK as authority has been hollowed out of the central state apparatus and vested instead in "self-organising, inter-organisational networks" where there is some tension between the autonomous nature of these networks and the capacity of the state to imperfectly steer them. The stress here is not merely empirical but also normative. It is argued that the state no longer commands such legitimacy or capacity (efficiency, information, effectiveness) as to make it desirable for central state bureaucracies to retain sole control. There are explicit linkages here also to rational choice theory and the New Public Management (NPM) with the stress being on the supreme allocative efficiency of the market (Peters and Pierre, 1998; Dunleavy and Hood, 1994) and the emphasis for government placed on "steering rather than rowing" (Osborne and Gaebler, 1992). Eckerberg and Joas (2004) argue that governance has shifted "towards sub-units that are reforming environmental governance patterns directly with supra-national units, such as the EU".

Linda Weiss (1998) offers an important and powerful corrective to much of this literature. Returning to state theory, she draws up a riposte to the “myth of the powerless state” arguing that it is incorrect to see all states as the same or even to see an individual state as a unified actor. Rather, states should be seen as a collection of capacities which draw strength from their ability to be both embedded in a particular industrial order and sufficiently autonomous to implement transformation. The crux of Weiss’s argument is that the capacities needed to effect this transformation change over time alongside the relations of production. In this context, effective state forms will need to adapt to change. As such, by judging states to have *en masse* declined in authority relative to a range of other factors, many approaches to global governance are simply misunderstanding the many and complex processes of successful and unsuccessful state adaptation that are underway.

Despite Weiss’s contribution, the context of ‘fragmegration’ and in particular EU integration and subsidiarity, has led to an increasing interest in recent years in the linkages between processes of change and governance both above and below the state. ‘Multi-level governance’ acts as both a generic umbrella label for this work and a specific approach to defining particular instances of it. Thus Hooghe and Marks (2001) distinguish between multi-level (Type 1) and poly-centric (Type 2) governance.

Type 1 governance is characterised by traditional federal systems, typically with a strong central source of political authority with a variety of sub-levels, made up of multi-task jurisdictions with defined and exclusive borders and which do not overlap (Ibid). This is the traditional Westphalian form (Caporaso, 2000) but with additional levels. For instance, to Waltz’s (1959) three categories of individual, the state and the international system of anarchy, might be added supra and sub-national layers of bounded political authority. These institutional forms tend to be relatively persistent through time, with the substantial costs associated with change, as well as deeply embedded cultural and identity ties forming substantial barriers to flexibility. This approach to governance can, for instance, describe some of the processes at work within the contemporary EU with sovereignty in places shared, at least notionally, between levels (Hooghe and Marks, 2001a; Scharpf, 1994).

In the context of the debate on sovereignty and uncertainties over the continued relevance of Westphalian assumptions, Caporaso’s suggestions that the sovereignty of the UK state is being eroded by the 'authority', as distinct from 'power' or 'influence'[2], of the EU, a process in which "fragments of European citizenship are emerging as part of a Court-inspired jurisprudence based on a European constitution… and a distinct body of European law" (Caporaso, 2000:23). Smith (1996; 2004) argues that multi-level governance is a reality in the EU and has enabled the EU to develop distinctive foreign policy formation processes at the supra-national level in order to act as a single policy actor on the global stage. The focus here then is on a migration of authority between levels.

If such a shift is under way however, it is equally important to identify the mechanisms for coordination and securing compliance *between* levels. Bulmer and Padgett (2004) identify three types of governance mechanism to manage policy transfer between levels: 'hierarchical', 'negotiated' and 'facilitated unilateralism'. They argue that hierarchical mechanisms, including the power of coercion, are used where there has been a clear shift in authority to the supra-national level. Negotiated mechanisms are used where policy is coordinated between sub-levels by agreeing general rules and principles by a process of (majority) consent. This mechanism then includes the much vaunted 'Open Method of Coordination' (OMC). Facilitated unilateralism is evident where states voluntarily choose to copy policy initiatives or approaches from other member-states (or, indeed, sub-state actors) with the EU acting as a facilitator or network for sharing ideas and practice. Schimmelfennig and Sedelmeier (2004), also identify three mechanisms for external policy transfer from the EU to states outside its membership, drawing on the experience of the accession and candidate countries. Their three mechanisms include 'conditionality', or the offer of incentives and penalties for compliance with policy prescriptions and rules, a 'social learning model', based on the constructivist logic of the 'appropriateness', legitimacy' and 'resonance' of the rules themselves, and the 'lesson drawing' model in which external states voluntarily copy EU policy rules.

Robert Putnam (1988) has also addressed the question of linkages between decision making and authority at different levels in an attempt to resolve the tension between theories of the state and theories of interstate relations. To do so, Putnam developed a two-level, game theoretical, approach:

> "at the national level, domestic groups pursue their interests by pressuring the government to adopt favourable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to

[2] Caporaso defines 'authority' as the "presumptive right to rule, which is a structural relation joining both rulers and ruled" (2000:9).

maximize their own ability to satisfy their domestic pressures, while minimizing the adverse consequences of foreign developments." (Ibid:434).

The crux is that there are two simultaneous games being played by sovereign states. However, it is equally possible for three or more games to reflect a wider number of levels of governance.

Figure 1: Multi-level Governance Typology

	Type 1	Type 2
Definition	Multi-level	Poly-centric
Levels	Several, not many	Many, but potentially one
Jurisdictions	Few in number Multi-task	Many in number Tendency to be task specific
Borders	Fixed Persistent Exclusive	Porous Changing Overlapping
Metaphor	Pyramid Structure	Marble Cake

Adapted from Hooghe and Marks (2001).

Type 2 or poly-centric governance refers to a vast array of potential governance mechanisms. The key features of this definition are that jurisdictional boundaries are likely to be more issue specific than Type 1 governance and that there is greater potential variance in the number of levels from many to jurisdictions that cut through many levels from central to local. Finally, Type 2 jurisdictions themselves, as well as relationships between them, are likely to be much more flexible and transitory (Hooghe and Marks, 2001).

Type 2 or poly-centric governance is then much more akin to the ideas of fragmegration proposed by Rosenau and the new governance announced by Rhodes. Scholte (2004) also argues that a poly-centric form of global governance is emerging in which states remain important nodes of governance but that global governance now involves significant supra-state regimes with varying levels of autonomy and sub-state levels of governance that interact beyond the scope of the state. Crucially, his approach is within the Type 2 definition because "no single level reigns above the others" and governance tends to be diffuse, emanating from multiple locales at once".

Linkages are apparent to complexity theory in management studies and to the study of complex adaptive systems. Here, the insights of chaos theory and evolutionary biology are used to suggest that the interplay between multiple, complex and overlapping social and institutional systems may have unexpected results, with cause and effect relationships disrupted by even small and undetected changes (Stacey, 2003). The implications of this are that centralised political authority may not be able to exert rationalist control, in a context of rapid and decentralised patterns of market change. Chaos and complexity therefore represent a reaction to modernist rationality, but stop short of post-modern nihilism. The overall approach stresses the importance of self-organisation, flexibility and networks in facilitating emergent and spontaneous change within 'complex adaptive systems' (Stacey, 2003:236-192). Complexity theory also acknowledges Rosenau's approach to governance *in* rather than *of* the world (Stacey, 2000:186).

The actuality, as opposed to the abstract theorisation, of Type 2 poly-centric and complex governance is to be found in a variety of historical and present day examples. For instance, even at the beginning of the take-off of post-cold war concerns with globalisation and governance, Ruggie (1993) provided a detailed analysis of governance and transformation in pre-Westphalia Europe, the transition to modern territorially bound state sovereignty and a glimpse of a future world order of "unbundled territoriality…the place wherein a rearticulation of international political space would be occurring today" (Ibid:171). Cerny has also posited an apocalyptical future of 'neo-medievalism' (1998) in which unified sovereignty fragments and dissolves under the pressure of globalisation creating space for special interests and fragments of government to carve out 'new fiefdoms'. Less dramatically, Ostrom et al. (1961) wrote in the 1960s of metropolitan governance in the US as being poly-centric in nature, characterised by over-lapping jurisdictions and duplication of functions in a 'crazy quilt pattern'. Other work suggests that there is a generalised world shift within both multi-levelled and polycentric mechanisms to more decentralised and less 'command and control' governance (e.g. Peters and Pierre, 2000a). In the field of spatial planning and economic development there is also an emergent concern with poly-centricism (Meijers, 2005).

Several of the contributions noted above have drawn on the importance of ideas for framing political issues and for presenting the boundaries of debate and suggesting approaches to problem solving. Several strands in the governance literature, such as those which highlight the role of epistemic communities, pick up on this theme more explicitly. Epistemic communities are particularly important for global governance because international policy issues are ripe for their formation either separately in expressing individual state interests – shaping the national interest in, for instance, Putnam's two-level game – or globally through coalescence around issues, potentially facilitated through international communication and international organisations. Adler and Haas (1992) identify several stages in the policy coordination process where epistemic communities can exert a controlling influence, particularly around problem issues to shape the institutionalisation of a new international regime or even world order. This takes place, they argue within the context of evolutionary path-dependence.

Perhaps the most powerful discussion of the influence of epistemic communities in shaping world order and global governance, is Ikenberry's (1992), argument that epistemic communities in the UK and the US separately and as components of a trans-Atlantic epistemic community were able to shape the post-war world order, including the institutional framework for global economic governance.

The need for an alternative approach

These themes in and approaches to the study of contemporary global governance, collectively, have much to commend them. The distinction between government and governance, with the latter being defined as about more than formal organisations, laws and regulations is particularly useful, as is the analytical focus on multiple and poly-centric levels. However, here there is a need for analytical precision. Having established that governance is about more than formal mechanisms, it is important not to automatically impute significance to changing patterns of communication, social networks and organisational structures. It is necessary to interrogate the claim that such changes mean that the ultimate source of political authority has shifted, a task that also involves questioning 'traditional' assumptions about the role of the state.

The focus on institutional persistence and change is also useful, as is the emphasis on change being path dependent. However, it is again necessary to go further, to identify the interests and mechanisms which underlie patterns of stability and change. In doing so, it is also desirable to distinguish between different types of change, between those which are truly transformative and those that are merely evolutionary.

Finally, the normative content of much of the literature on global governance is attractive, especially in light of the pressing need to find governance mechanisms that will facilitate solutions to collective problems. However, this process is not technical or value free but driven by interest and power. It is thus useful to identify the underlying dynamics of interest that drive changing patterns of global governance and particularly to decode and demystify ideological explanations that seek to obscure these interests.

Throughout each of these areas, there is a fundamental need to unite research, discussion and analysis of changing patterns of global governance to the historical development of capitalism, particularly underlying changes in social relations between capital and labour. This thesis proposes an alternative conception of contemporary global governance that builds on the insights of a collection of authors inspired by Marx and Gramsci to locate changing patterns of global governance with underlying trends in political economy.

1.3 Governance, Crisis and Capitalist Development

The Needs of Capital and the Collective Action Problem

Capitalism as a social system requires certain preconditions. It requires the means by which property can be privatised and transferred into the ownership of individuals, a certain stage of technological development that will allow the means of production, and their organisation, to be sufficiently managed and re-organised to turn a profit, and institutions that will enforce contracts. Crucially, for primitive accumulation to occur, labour-power must be subject to commodification, a proletariat formed and this must come together with available capital:

> "the accumulation of capital presupposes surplus-value; surplus-value presupposes capitalist production; capitalist production presupposes the availability of considerable masses of capital and labour-power in the hands of commodity producers." (Marx, 1976:873).

Thus, to secure the conditions of primitive accumulation, capital needs to be brought together with 'free workers' able to enter into contracts with the owners of capital for wage labour (Ibid:874). To achieve this, two important transformations must take place. The first of these is the more or less forceful separation of labour power from its previous means of subsistence:

> "…when great masses of men are suddenly and forcibly torn from their means of subsistence, and hurled onto the labour-market as free, unprotected and rightless

> proletarians. The expropriation of the agricultural producer, of the peasant, from the soil is the basis of the whole process." (Marx, 1976:876).

The second necessary transformation is the creation of the capitalist via the genesis of the capitalist farmer, the generation of surpluses in the form of revolutions in agricultural technology, enclosure of land, the development of a nascent credit system and the accumulation of surpluses from merchant activity (Marx, 1976:877-926).

Once primitive accumulation is in place, the transition to mature accumulation requires that labour power become more productive through investment of surpluses in the means of production (Marx, 1976:762-870). This process too requires a number of pre-conditions, including the facilitation of innovation in production processes and products, the provision of access to credit for investment in new ideas, in new machinery or in raw materials, the provision of infrastructure improvement such as roads and other communications to allow quicker and more efficient access to larger markets for finished goods, labour-power or access to raw materials. Important too are measures to improve the quality (and regeneration) of labour power through better health, or capacity and willingness to labour or absorb new production techniques.

As such, both the transition to primitive accumulation and to mature accumulation present capitalism with a series of collective action problems. For instance, large scale infrastructure or long-term projects to boost labour power are unlikely to yield profits to individual capitalists because the sheer amount of the initial investment relative to returns is insufficient, the timescales are too long, the benefits are uncertain or they may also be enjoyed by competitors, or any combination of these. Though some of these problems of collective action can be overcome by agglomeration and monopoly, as in Marx's discussion of Joint Stock companies (1981:567-570), or the contemporary behaviour of Transnational Corporations (TNCs), others, where even long-term returns to capital are uncertain, need additional mediating institutions. Fortunately for the logic of capitalist development, social transformations do not take place in isolation from pre-existing forms of social organisation and governance. Collective action problems can therefore be solved by the transformation of pre-existing forms of governance.[3]

[3] For example, the nineteenth century saw successive overhauls of different parts of the British state as each element was subjected to this transformation.

Relative Autonomy and the Structural Power of Capital

The intertwined nature of capitalist development and in particular the structural power of capital (Lindblom, 1977:170-88; Gill and Law, 1993:100) means that the democratic state in a world of capital mobility is bound up in the long-term project to secure the hegemony of capital:

> "With regard to the dominant classes and particularly the bourgeoisie, the State's principal role is one of organisation. It represents and organises the dominant class or classes; or, more precisely, it represents and organises the long-term power bloc, which is composed of several bourgeois class fractions…By means of the state are organised the conflictual unity of the alliance in power of the unstable equilibrium of compromise among its components. This is done under the bloc hegemony and leadership of one class or fraction: the hegemonic class or fraction" (Poulantzas, 2000:127).

To argue that the state is bound up in capitalist hegemony, however, does not mean that the state is merely the instrument of capital, for this would undermine its capacity to recycle and redistribute extracted surplus in order to sustain accumulation, to reproduce labour power or to limit, offset and contain social unrest and hostile reactions to the very fact of that extraction (Poulantzas, 2000:166-189). Indeed political authority may even intervene in the process of realising surplus-value itself through enforcing regulations on workers, by attempting (through skills programmes) to boost labour productivity or through directing the dissemination and uptake of new technologies and organisational innovations in the production process itself. Therefore political authority, separate from the direct and instrumental control of capital, is necessary for the realisation of surplus value over the long-term.

The structural power of capital can be reconciled with the necessity for state autonomy first because various fractions of capital do not share a singular and unified set of interests beyond the structural dominance of capital over labour. Second the reality of class struggle means that the state becomes a mediating institution between capital and labour:

> "This organisation of the proletarians into a class, and consequently into a political party, is continually being upset again by the competition between workers themselves. But it rises up again, stronger, firmer, mightier. It compels legislative recognition of particular interests of the workers, by taking advantage of the divisions among the bourgeoisie itself" (Marx and Engels, 1985:90).

At any one time then the state has varying degrees of freedom from individual fractions of capital and in certain circumstances can broker alliances to intervene in the structural base of the economy:

> "The State is able to play this role in organising and unifying the bourgeoisie and the power bloc in so far as it enjoys relative autonomy of given fractions and components, and of various political interests. Such autonomy is indeed constitutive of the capitalist State: it refers to the state's materiality as an apparatus relatively separated from the

relations of production, and to the specificity of classes and class struggle under capitalism that is implicit in that separation" (Poulantzas, 2000:127).

In other circumstances the relative autonomy of the state may not be possible. For instance, the monopoly tendency of capital may limit the autonomy of the state or capture it, or pre-existing social conditions may not allow the development of suitable social and institutional conditions for primitive accumulation to take hold. Such problems for the development of capitalism include a failure to uphold private property and contracts, insufficient investment in infrastructure and common goods, or the appropriation of surpluses by state elites such that surpluses created cannot be reinvested in transforming the means and organisation of production. War, ill health and social conflict or famine may undermine the capacity of labour-power. Physical in-hospitability such as large distances between labour power, raw materials and markets may prevent the incentives for investment in a particular place coming together. Cultural norms such as nomadic lifestyles or superstitions related to agriculture or religious preferences may also be barriers to the necessary social conditions for capitalist development. In these situations, primitive accumulation may not be possible, may be possible but insecure and vulnerable to disruption, or the transitions to more advanced capitalism may falter (Cammack, 2003:42).

It is clearly also true that while the maintenance of capitalism over the long-term is one central concern for political authority, it is not the only one. To the extent that they are able to gain autonomy or are the subject of direction from dominant classes and class alliances, the interests bound up in the particular form of political authority will develop agendas of their own, related to their own self-interest and their particular perception of the interests and needs of capital and labour and the relative balance of social power between them. To the extent that these are spatially constituted around a particular geography – i.e. states with borders – they may compete with one another for scarce resources, access to markets, a long-term vision for the future and for their own survival.

Three Types of Crisis Tendency in Capitalist Development

In the process of capitalist development, competition between capitals drives forward the desire to expand and deepen the scope of commodification, as accumulated capital seeks profitable investment in new industrial sectors and to lever up the return on existing ones.

However, increased commodification throws up a range of contradictions and crisis tendencies which threaten the long-term operation of capitalism. These crisis tendencies can be grouped into at least three broad categories: problems in the internal development of capitalism itself, problems created by the contradictions between accumulation and the conditions necessary for its continuation and those problems which are related at least partly to the independent development of the self understanding and organisation of the working class, though in reality this last category is most often shaped by the first two.

The principal crisis tendency within the logic of capitalist development itself is over-accumulation. As capital accumulates and the product of labour is appropriated by the capitalist, a gradual polarisation of society occurs with a concentration of surplus capital at one pole and a concentration of surplus labour at the other. The tendency toward over-accumulation is further enhanced by the process of investment in more efficient means and organisation of production which gradually lowers the quantity of labour-power invested in a given product, cheapens labour and is related to the long-term tendency of the rate of profit to fall (Marx, 1976:762-794; 1981:359-368;Ch 13). Over-accumulation implies, however that there is potential for capitalist development to be managed (at least temporarily) in a state of stable growth in which over-accumulation can be kept partly in check. As such, the problem of over-accumulation presents capitalism with both a perpetual crisis tendency (requiring constant management) and periodic episodes of actual crisis (requiring large scale and fundamental solutions). In either form, such crisis tendencies or actual crises can be represented by a myriad of 'real world' experiences including: over production of commodities, surplus inventories of raw materials and partially finished input products, idle capital (particularly fixed capital), surplus money and cash balance beyond what is usually required in monetary reserves, under-employed labour power and falling real returns to capital (Harvey, 1982:195).

The second crisis tendency is related to the tension between the inner-logic of capitalist development – accumulation and over-accumulation – and the production and re-production of the conditions necessary for accumulation to proceed. Engels (1969) described the reality of just such contradictions in nineteenth century England. More recently, a vast range of critiques have highlighted such crisis tendencies in contemporary capitalist development particularly with regard to social and environmental issues (Bakker and Gill, 2003).

The third category of crisis tendency and weakness in capitalism is external to its inner logic of development, even if it is profoundly affected by it. This is the capacity of labour to recognise its own position in relation to capital, to challenge the dominance of capital and to imagine, articulate and organise around alternative visions of political economy and to realise these through political, economic and social strategy. However, problems of over-accumulation, crisis pressures and actual crises are highly relevant to this capacity, especially as capitalist development successively produces a larger and smaller reserve army of labour in relation to the active labour force (Marx, 1976:781-802).

Offsetting Crises of Over-accumulation

Harvey has outlined the theoretical underpinnings and practical strategies for offsetting crises of over-accumulation. Taking Marx's (1978) description of the tendency of the rate of profit to fall and integrating it with the analysis of circuits of capital, Harvey identifies a series of means by which both capital itself and relatively autonomous political authority can overcome problems of over-accumulation. The first, and simplest, way is through devaluation. Devaluation can occur in a whole manner of ways:

> "Capital held in money can be devalued by inflation; labour power can be devalued through unemployment and falling real wages to the labourer; commodities held in finished form have to be sold off at a loss; the value embodied in fixed capital may be lost as it lies idle" (Harvey, 1982:196).

The process of devaluation is also built-in though to over-accumulation itself. For instance, where innovation and increases in labour productivity are rapid, at least part of the depreciation of fixed capital may be the result of devaluation, as well as the transfer of value to the product. Where relatively rapid periods of technological change occur, entire socially-embedded forms of fixed capital may be devalued, such as physical infrastructure, patterns of housing and public institutions such as educational or health facilities (including the human capital at work in these institutions). Other means of constant devaluation include organisational forms, or just bad business strategy, that produce less than the average rate of return to capital, thus effectively devaluing it. Devaluation is also a feature of episodic crisis, where either constant devaluation, or mechanisms to offset over-accumulation are unsuccessful and some fundamental re-adjustment must occur. Capital is literally devalued as machinery falls idle, labour is catapulted out of the formal capitalist labour market and in some cases must return to pre-capitalist subsistence to survive.

Such periods of crisis then, are also important in shaping the terrain for crises in reproduction and legitimacy, with mechanisms of governance taking centre stage. Thus as crises of devaluation take hold, political authority comes under strain as blocs of capital and individual capitalists seek to minimise their share of the overall loss and the underpinning bonds between capital and labour dissolve. Economic crisis thus becomes a social and political crisis, with political authority expressed through governance mechanisms designed to deal with fundamentally different problems (Ibid:190-203). Importantly, where crisis is generalised and political authority and the legitimacy of capitalist social relations are structured around bounded entities – e.g. states – such crises may also lead to competition between states to avoid the costs of devaluation, with the potential to end in one of the most striking examples of devaluation: war and the ultimate destruction of physical and human capital.

Harvey also notes ways in which over-accumulation might be offset. Primarily, these are bound up in what he calls ‘spatio-temporal fixes’ which can be employed either as constant strategies to offset surpluses or as a ‘solutions’ to episodic crises. Spatial fixes are based on the expansion of capital to areas of the domestic or world economy that have lain beyond the scope of commodification and capitalist accumulation:

> “The frontiers of a region [or any spatially bound economy] can be rolled back or relief granted by exports of money capital, commodities or productive capacities or imports of fresh labour powers from other regions. The tendency towards overaccumulation is unchecked but devaluation is avoided by successive and ever grander ‘outer transformations’. This process can presumably continue until all external possibilities are exhausted or because other regions resist being treated as mere convenient appendages” (Ibid:427).

Clearly, a variety of methods can be employed for the achievement of this spatial expansion, such as the export of commodities (as in foreign trade), use of the credit system to export surplus capital (as in the 1970s to the developing world), the export of capitalist development per se as in the export of both capital and expertise or conditions to secure capitalist development outside the scope of the existing formal capitalist economy (examples of which might be foreign aid or FDI). This latter strategy is firmly part of the expansionary logic of capitalist development:

> “it [the bourgeoisie] compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their

midst, i.e. to become bourgeois themselves. In one word, it creates a world after its own image." (Marx and Engels, 1967:84).

This type of strategy may also be attached to changes in the structure of capitalism at the core of the global economy to realise surplus value in new ways, while inserting newly developing/developed capitalist economies into the structure of expanded production at lower stages of development. Each of these strategies, though, entails problems and carries its own internal contradictions (Harvey, 2003:117-121).

Temporal fixes embody the absorption of surplus capital from the primary (production) circuit of capital, into the secondary and tertiary circuits. In the secondary circuit such investments focus on both fixed capital (especially shared fixed capital, such as roads, communications and infrastructure) and the 'consumption fund' (such as the built environment). In the tertiary circuit surpluses are invested in the social infrastructure, in activities which may ultimately flow back into surpluses such as long-term investments in education and healthcare (Ibid:109-111).

Offsetting the Crisis Tendencies of Reproduction

Crisis tendencies in the production and reproduction of the conditions needed for capitalist accumulation provide an important bridge between the first and third category of crisis tendency, showing how the historical development of capitalism is shaped both by competing visions (and associated capitalist interests) of the future of capitalist development and the struggle between capital and labour.

Identifying, quantifying and predicting this category of crisis tendency is a major concern for both critics and supporters of capital accumulation in any historical conjuncture. Thus capitalists themselves have often been at the forefront of this process, for instance through the work of philanthropic foundations and 'think tanks'. At points this can mean that the interests of critics and 'progressive' elements in the forces of capitalist development come together. Identifying crisis tendencies and fashioning solutions which at the same time broker such alliances between critics and supporters of capitalist development has thus been a major focus for relatively autonomous political authority.

Resolving crisis tendencies in capitalist development requires that capitalism is brought into touch with its underlying social and institutional conditions. Part of the necessity for political authority to maintain some degree of autonomy from capital therefore is also to advance a seemingly contradictory process to commodification:

socialisation. Socialisation is a strategy to offset the contradictions and crisis tendencies of capitalist development and to embed the dominance of capital in social and institutional structures. Contending that labour, land and money are fictitious rather than real commodities Polanyi argued that:

> "Social history in the nineteenth century was thus the result of a double movement: the extension of the market organisation in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelieveable dimensions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labour, land and money" (Polanyi, 2001:79).

However, socialisation may act either to limit and restrict the discipline of capital in a manner reflecting political, economic and social gains for labour relative to capital, or it may simply serve to 'lock-in' the hegemony of capital in deeper ways. Whichever is the case, in any one specific historical and social context, these two apparently contradictory forces (commodification and socialisation) develop in dialectical fashion and taken together are contained in Polanyi's 'double movement'.

Some of these themes are taken up in more detail below in the discussion of offsetting crisis tendencies in class conflict but they apply equally as well to crisis tendencies in social reproduction.

Offsetting Crisis Tendencies in Class Conflict

Marx's analysis of capitalist social relations shows them to be heavily exploitative, based on the expropriation of surplus labour from a gradually expanding and pauperised working class whose very existence is periodically questioned by episodic crises. Even where capitalist growth is periodically stable, a significant proportion of this gradually expanding working class – the reserve army of labour – is left, at least temporarily, out of touch with even a miserable connection to subsistence. The question arises therefore, as to why the working class does not simply forcibly take ownership of the means of production and redistribute the massive surpluses generated by capitalism or supplant capitalist production altogether.

A substantive set of answers to these questions lies in the work of Antonio Gramsci. A number of Gramsci's key concepts are of interest here. The first of these, 'hegemony', refers to the foundation of an entire social order encompassing institutions (such as forms of state, government, the law, religious and welfare organisations), social practices and lived reality, in which certain interests (including class interests) achieve institutionally and socially embedded authority over other groups and classes. It is too simple, though, to see hegemony as a process of dominance. Rather it is a complex and dynamic phenomenon within which the acquiescence of less powerful groups and classes and even those without a relative material interest is brokered via coercion, the 'manufacturing of consent' and a mystificatory logic. Thus domination by coercion is preceded by leadership:

> "the supremacy of a social group manifests itself in two ways, as 'domination' and as 'intellectual and moral leadership'. A social group dominates antagonistic groups which it tends to 'liquidate', or to subjugate perhaps even by armed force; it leads kindred or allied groups. A social group can, and indeed must, already exercise 'leadership' before winning governmental power (this is indeed one of the principal conditions for winning such power); it subsequently becomes dominant when it exercises power but even if it holds power firmly in its grasp, it must continue to 'lead' as well. (Gramsci, 1971:57-58)

'Dominance' at the domestic level takes shape for instance in the monopolisation of the legitimate use of violence and retribution. The role of ideas and ideology are crucial to hegemony in that they "shape preferences and constrain perceptions of what is possible" (Gill and Law, 1988:77). Ideas act to obscure class consciousness and to build support for a particular configuration of classes, groups and institutions and present them as legitimate. Legitimisation extends to other social, economic and political norms, collective and private institutions and shared values, crucially exceeding the scope of the formal state (political society) to encompass institutions and practices within civil society (Gramsci, 1971:12-13; Murphy, 1994:31).

Gramsci refers to the fusion of hegemonic classes and subordinate groups into a unified political movement as a 'historic bloc'. This is much broader and more complex than the 'ruling class', capturing the idea that long-term strategic alliances are formed between dominant and less dominant classes and groups (Gramsci, 1971:366,418-9; Rupert, 1993:81; Gill and Law, 1993:94).[4] Less dominant classes and groups are persuaded to suppress aspects of their class (especially relative) interest, but this is not purely achieved via coercive means (Gramsci, 1971:161; Rupert, 1993:80-81). The manipulation of ideology and the granting of concessions also cement the alliance and offset the internal contradictions of the historic bloc. As such, the role of 'organic intellectuals' is key, being the group that produce the ideas that make the social reality of the historic bloc appear as natural and in the interests of all, as the "popular common sense" (Gramsci, 1971:3-43;

[4] For a discussion of 'historic bloc' see Cox (1996); Rupert (1995; 2000).

Rupert, 2000:10-11). So too are the form and functions of the concessions offered. This is because there is a clear potential for these to fit with the needs of capital itself to absorb surpluses. As such, the provision of education, healthcare, housing and other public goods take on a dual function as not only a means of absorbing surplus capital, but at the same time offsetting class conflict and the contradictions between the needs and effects of accumulation (i.e. undermining the capacity of the working class to offer its labour power for commodification). Equally though, concessions at other times and in other places may exceed the technical need to augment labour power and absorb surplus and reflect more the need to offset class conflict. Finally, in any given context, organic intellectuals, on all sides, do not necessarily (or precisely) know the appropriate mix of coercion and consent or even specific types of concession needed to efficiently broker support. The result is that they may either under or over-estimate the scale and form of concessions necessary to uphold the historic bloc.

The extent to which a historic bloc can be said to be hegemonic is determined by the degree to which the central values, institutions, practices, norms and ideas are universal and accepted as legitimate. The spatial and temporal boundaries of this universality and legitimacy therefore constitute the limits of hegemony.

Crucial to Gramsci's work was an understanding of the dynamics of social change and stasis. Gramsci set out four key concepts in this regard: *war of movement*, *war of position*, *trasformismo* and *passive revolution*. War of movement describes revolutionary forms of social change where previously non-hegemonic social forces capture the central institutions of society. Depending on the relationship of civil society to those institutions, this may or may not be sufficient to establish an alternative hegemony. As an alternative, Gramsci developed the concept of the 'war of position', which envisages the slow creation of an alternative historic bloc. This entails the gradual coalescence of a range of social forces around an alternative series of values, material practices and even institutional formations. It requires that the hegemony of the existing historic bloc is constantly challenged and its contradictions exposed. While Gramsci notes that this is largely a domestic project, he also concedes that there are international aspects to this struggle (Gramsci, 1971:240-3).

This type of strategy can be used to challenge the existing hegemony from within. However, it can also explain the transition between different phases of capitalist hegemony that appear as comprehensive social, political and economic transformations, adding a strategic element of agency to the discussion of the structural power of capital discussed above. However, as Gramsci explicitly recognises, the war of position strategy is long-term, difficult to construct and fraught with danger.

> "Only a very skilled political leadership, capable of taking into account the deepest aspirations and feelings of those human masses, can prevent disintegration and defeat" (Gramsci, 1971:88).

It is dangerous in the sense that at every stage (and particularly those points where it seems there may be a chance of success) the war of position is vulnerable to being 'bought-off' from within. Gramsci called this 'trasformismo' and it refers to processes by which incremental reform within the hegemonic structures of the existing historic bloc, disrupts, fractures and disperses potential challenges. Often this is brokered through a 'divide and rule' strategy on the part of those social forces at the centre of the historic bloc and involves the granting of concessions and benefits to elements within counter-hegemonic movements. Gramsci himself demonstrates the operation of trasformismo in late nineteenth and early twentieth century Italy in terms of the gradual convergence of political parties to represent broadly similar policies and programmes, despite the fact that they emerged from fundamentally different class interests in a process which Gramsci defines as the creation of a more extensive ruling class:

> "The formation of this class involved the gradual but continuous absorption, achieved by methods which varied in their effectiveness, of the active elements produced by allied groups – and even of those which came from antagonistic groups and seemed irreconcilably hostile" (Gramsci, 1971:58-59).

A key feature of the operation of trasformismo is that it is difficult to see whether real change has taken place or whether it amounts largely to 'window dressing'. This is further compounded by the need to distinguish within the operation of trasformismo between constant changes to the composition of the ruling class as a result of actual or perceived change in dominant material circumstances and changes which reflect the cooption of partially effective challenges from subordinate groups.

The final form of social change is described by Gramsci as 'passive revolution', a process by which transformation is imposed or imported from outside the existing balance of spatially bound social forces, without these being fully displaced or transformed. It is easiest to think of this in terms of nation states where domestic civil society is subject to the imposition of a particular hegemonic consensus without the necessary complementary social revolution having taken place from within, and a resulting stalemate between forces of transformation and forces of restoration (Gramsci, 1976: 106-120). A state of passive revolution is then the opposite of hegemony, in which there is social discord between elements of the dominant social compromise. The impasse might be broken by "molecular changes which in fact progressively modify the pre-existing composition of forces, and hence become the matrix of new changes" (Ibid:109) or by the more aggressive intervention of a metaphorical strongman, what Grasmcsi called Caesarism (Cox, 1996b:229).

The 'Double Movement' in Capitalist Development

Karl Polanyi (2001) identified a pattern in the development of crisis tendencies and measures to contain them in the history of capitalist social relations. Polanyi noticed that the history of capitalist development was marked by a 'double movement'. The first element of this is the advance of market discipline in which the 'man', 'nature' and 'productive organisation' is subjected to the power and logic of the self-regulating market. This, Polanyi associates with uniquely with capitalism as the only historical organisation of social relations which has seen the means of producing and allocating economic benefits as over-riding society rather than being one component of society, in the process rendering labour, land and money as commodities within the system.[5] The counter-movement occurs precisely because the advance of market discipline disrupts the conditions under which accumulation takes place. It thus takes on at least the appearance of progressive change, protecting man, nature and productive organisation. However, it is argued here that while the double movement is constrained within the bounds of capitalism per se, the counter-movement merely embeds and secures capitalist hegemony, locking it in, in more stable and persistent organisational forms. As Polanyi argues, these processes of ebb and flow, classes and class factions become attached to the advance or defence of the market or the counter-movement, throwing up the potential for various strategic alliances between parts of the capitalist and working classes and opportunities for leadership on the part of factional leadership (political) classes.

1.4 Globalisation and an Alternative View of Global Governance

Gramsci's ideas have found particular expression in an alternative explanation for contemporary patterns in global governance, initially put forward by Robert Cox, but subsequently expanded on by others, most notably Stephen Gill, Mark Rupert and Craig Murphy. Cox sought to use the concepts of hegemony, historic bloc

[5] Polanyi terms these 'fictitious commodities'.

and trasformismo to locate the evolution of global governance within the transition from Fordism/Keynesianism to new more flexible forms of capitalist accumulation in the core of the global economy. In particular, Cox considered the role of international institutions such as the UN in the ultimate failure of developing states to bring to fruition a New International Economic Order (NIEO), the dynamics of an intensifying international division of labour and the construction of something that he tentatively called 'world order'.

Distinguishing his approach from contemporary versions of realism and functional liberalism, he argued that World Order could only truly be conceptualised from a standpoint of dialectical-historicism, as the product of domestically rooted historical and social conflict, which took particular effect during periods of crises of the system rather than of actors within it (Cox, 1996a:77). Others have declared that this type of historicist basis and approach to the study of world order are essential (Hewson and Sinclair, 1999:17). Developing this argument Cox (1996; 1996b) distinguished what he termed 'critical theory' from less sophisticated forms of thought that he dismissed as 'problem solving', an approach which:

> "takes the world as it finds it, with the prevailing social and power relationships and the institutions into which they are organised, as the given framework for action. The general aim of problem solving is to make these relationships and institutions work more smoothly by dealing effectively with sources of trouble" (Cox, 1996b:88).

Problem solving is then associated (and dismissed) with modes of thought which normatively favour the status quo, including Waltzian Neo-Realism and liberal internationalism. By contrast, critical theory is presented as a sophisticated theory of change, with substantial emancipatory potential (Ibid:90). However, Cox's definition and use of problem-solving is problematic and confuses sophistication with normative content. In dismissing analysis designed to sustain the status quo as merely problem solving, Cox significantly underestimates the emphasis given within the social forces of the status quo to analysing crisis tendencies, anticipating social change and putting in place strategies to maintain hegemony in the face of considerable internal and external problems (Cammack, 1998). This is significant in terms of the role of political authority in driving the construction of hegemony.

Cox then highlights four ways in which his own version of historical materialism 'corrects neo-realism'. First, it is by reference to dialectial analytical method and historical change which allows the potential for alternatives which are historically constituted. Building on this, the historical dialectic of repeated social conflict shapes human consciousness, the potential for further change and is thus the driving force of history and structural change. Second, he introduces the concept of 'imperialism' as a 'vertical dimension of power' in contrast to realism's narrower focus solely on the horizontal confrontation between similar actors. Third, he argues for Gramsci's conception of civil society and the state being one and the same, as the expression of hegemony moves beyond realism's problem of defining the national interest (Ibid:96). Fourth, he argues that production processes are the 'critical element' in explaining the form taken by state/society complexes (Ibid:96).

In determining the particular form taken by these state/society complexes then, it is necessary to consider the relationships and conflicts between different social forces which take place in a structure consisting of material capabilities, ideas and institutions. The first of these – material capabilities - are related to the organisation and means of production. Ideas are separated into two categories, those that are more or less universally accepted social norms of the time and those that are contested, related to the legitimacy of prevailing power relations. Institutions are "amalgams of ideas and material power which in turn influence the development of ideas and material capabilities", reflect hegemony and counter-hegemonic realities (Ibid:97-100).

This structure is then elaborated at three distinct but highly interrelated levels: Social forces (or the balance of class interests in the dominant mode of production), states, and world orders, with each shaping the possibilities for change in the others. As such transformations of social forces may shape both forms of state and, as an outward expression of this, the configuration of world order (1996:136-7). However, world order in turn clearly also limits the possibilities of forms of state and further the configuration of social forces. Clearly, in the construction of world order, transnational social forces are also important (1996b:100-101).

Describing the power of the post-war US state, Cox argues that this was brought about by the internationalisation of the social forces (and social structures of production) that had taken shape earlier domestically. This was then accompanied by a concomitant internationalisation of certain functions of the state, reflected in the institutionalisation of hegemony in the form of the erection of organisations like the BWIs, policy coordination and an increasing acceptance of mutual obligations by states at the core of this hegemonic world order. In achieving this internationalisation of social forces and state functions, the US state performed a key leadership role (Cox, 1996b:108-111; 1996:136). This is a historical pattern, with path dependency determining that leading states have been those charged with international leadership and the provision of governance functions beyond their borders (Gamble, 1990:8-9). However, this does not mean that all states have equal capacity to do so or even that leading states have been able historically to control these processes without domestic adjustment to the systems of governance that they themselves have helped to create. Even the archetypal Westphalian sovereign – the nineteenth century British state - was from the time of empire always dependent on the world market and "national policy has been conceived as finding ways to adjust the national economy as smoothly as possible to world economic conditions, so uniting external and internal economic management" (Ibid:129). Moreover, forms of political authority beyond the state, have also altered to suit the requirements of the particular configuration of capitalist hegemony, often presented as a single ideological form such as laissez-faire, or post-war social democracy (Gamble and Walton, 1976:162-3; Gamble, 1990:43-95,129-21).

As the process developed though, Cox and others have argued that a transnational set of social forces emerged with a clear global class structure, drawing on Marx's conception of a hierarchically disaggregated labour force/class structure (1997:58; Sklair, 2001).

Cox (1996b:137-40) argued that the internationalisation of social forces and the state has led to the establishment of international organisations as mechanisms for global governance to fulfil five core functions, reflecting the internationalisation of the state and production:

> "(1) they embody the rules which facilitate the expansion of world orders; (2) they are themselves the product of the hegemonic world order; (3) they ideologically legitimate the norms of the world order; (4) they co-opt the elites from peripheral countries and (5) they absorb counter hegemonic elites".

Cox also identified less formal elements of global governance that have facilitated, or reflected, the rise of transnational capital and specifically neo-liberal hegemony. Gradual transnationalisation and the attendant growing strength of global financial markets, he argued, had meant a ratcheting up of the structural power of capital and a massive corresponding constraint on the space available for relative autonomy at either state or sub-state level:

> "States willy-nilly became more effectively accountable to a *nébuleuse* personified as the global economy; and they were constrained to mystify this external accountability in

> the eyes and ears of their own publics through the new vocabulary of globalisation, interdependence, and competitiveness.” (Cox, 1996c:298).

In this context, the power vested in the global economy is without an adequately institutionalised or leveraged counterpart in political authority at the global level. The nébuleuse is thus “governance without government” in which a woolly and opaque process of consensus is spawned within the “caretakers” of the global economy operating in and through organisations such as the OECD, the WB, the IMF and the G7. Under this pressure, Cox argues, the state is becoming fragmented below into micro-regions and from above is being integrated into macro-regions designed to more effectively coordinate the hegemonic consensus and to cope with its contradictions. Once again, the imagery is of multi-level and even ‘medievalist’ governance, a process in which the opening up of these new levels of governance create the potential terrain for the operation of alternative politics for either the embedding of the market discipline or a more radical transformation to “a new discourse of global socialism” promoted through a Gramscian war of position strategy (Ibid).

This framework for understanding international relations and the role of international organisation spawned a whole new ‘school’ of international relations, and political economy, which has been called variously the New (or Neo)-Gramscian, New-Italian school or transnational historical materialism (Germain and Kenny, 1998).

Craig Murphy characterises global governance as “what world government we actually have”, arguing that its successive waves of expansion have been dictated by the need to provide political authority to regulate and govern the expansion of capital. Thus, the expansion of global governance and regulation:

> “… has happened every time there has been a leap in the scale of the world’s leading industries, that is, at every industrial divide since the industrial revolution. The beginning for the information age in the 2000s is no different from the beginning of the Jet Age in the 1950s or the second industrial revolution of the 1890s, or the Railway Age of the 1840s.” (Murphy, 2000:802).

Murphy (1994) argues that global governance has performed the crucial tasks of collective action problem solving beyond the boundaries of the state. He also argues that this process involves more than just legal and regulatory functions to include the extended features of the state merged with civil society, identified by Gramsci. Finally, he argues that global governance should be seen as a multi-levelled and multi-faceted process which extends far beyond the scope of international organisations. Global governance, following Cox, is intimately bound up in the process of constructing hegemonic world order. In this process, Murphy defines a crucial role for fundamental crisis, understood not just in terms of the interruption of accumulation, but as the collapse of the legitimacy of capitalist rule. Hewson (1999) has also argued that the facilitation of certain functional requirements of capitalist hegemony, principally information production and communication, have been important in spurring the development of patterns and webs of governance above, between and within states.

Mark Rupert has also made the direct connection between forms of governance and the underlying social relations of capitalism. He argues that changing dominant patterns in the organisation of global governance in the twentieth century have been shaped by the conscious internationalisation of domestic US social transformations, in order to remake the world first in the image of the post-war new deal liberal consensus and second, more recently, in the image of the flexible neo-liberal competition state. Crucial to this process is domestic class conflict and changing patterns in the social relations of production. What is striking about Rupert's careful empirical analysis of Fordist hegemony is the extent to which a specific form of capitalist hegemony must be consciously produced and reproduced (Rupert, 1990; 1995; 2000).

Drawing on Lindblom, Stephen Gill (1992:271; 1995) argues that the structural power of capital holds true not only within states but between and outside them. He highlights the increasing levels of financial liberalisation and technological advancement as creating a greater transparency of information about different state policies and configurations of labour (or investment sites) and also the means by which capital can move between them. This means that capital is increasingly global with ever greater disciplinary power. Thus Gill returns to the essentially Coxian argument that world order is being shaped by the internationalisation of the dominant form of accumulation accompanied by the core functions of the state, social practices and culture which are associated with it and the growth and ascendancy of a transnational capitalist class (2003a:192-6), operating through the international financial system. The result, is that capital's 'veto' power is significantly strengthened, discipline is enhanced and domestic policy autonomy constrained (1999):

> "It [disciplinary neo-liberalism] relies upon the market, especially the capital market, to discipline economic agents. And it is premised on the fact that investors constitute a privileged stratum in capitalist societies – since the process of economic growth depends on the need to maintain investor confidence and thus governments are driven to sustain their credibility in the eyes of investors by attempting to provide an appropriate business climate." (Gill, 1998:2).

Not only are capital's demands supported by its 'veto', but they are increasingly enshrined in an elaborate, legally enforceable and quasi-constitutional framework of agreements between states and groups of states. This is the 'new-constitutionalism' which is 'locking-in' the disciplinary power of neo-liberalism, by placing important aspects of economic management beyond the remit of domestic democratic accountability (Gill, 2002:49). Practically it is reflected in the establishment of institutions at the global level to handle some of the functions of the state in relation to managing a global capitalist economy and to project the new-constitutionalism downward into domestic polities, economies and legal systems (Ibid:49).

The functions being pursued under the new-constitutionalism are three-fold. First, are measures to reconfigure state apparatuses, in the process enshrining neo-liberal development models and enhancing supervisory functions and transparency at the global and domestic level, a process he calls 'panopticism'[6] (2003:10). Second, are measures to construct markets and define and institutionalise property rights. Third, are a much more complex set of measures designed to contain and deal with the contradictions posed by commodification. For example, the promotion of safely channelled participation and inclusiveness in designing development policies (1998:3-4). Thus, for Gill:

> "What may be novel therefore, about new-constitutionalism is that, unlike its predecessor, the construction of a self-regulating market today requires not suppressing, but attenuating and co-opting democratic forces in order to prevent a second Polanyian "double movement" that might lead towards authoritative re-regulation, and perhaps a more pervasive popular democratisation of control over the dominant forces in the global political economy" (Ibid:9).

In more recent work, Gill has highlighted the rationale for this dual strategy as the failure of the imposition of neo-liberal constitutionalism and market civilisation from above:

> "limits of market civilisation soon became apparent as social atomisation and inequality intensified, and as contradictions of a more crisis prone form of global economic development became manifest. In turn, forms of political agency began to challenge globalisation-from-above of the elites" (Gill, 2002:50).

Spurred in particular by the impact, both real and ideological, of the Asian financial crisis of the late 1990s, Gill identifies an emerging confrontation between the forces of disciplinary neo-liberal globalisation and a range of new social movements from below. These new social movements are conditioned by pre-existing cultural norms and their interaction with neo-liberal globalisation to

[6] In reference to Bentham's famous design for a prison.

produce a variety of identities for this ‘clash of globalisations’ which is delineated as “what it means to be civilised”. Crucially, these social movements, though exhibiting some of the characteristics of a self-organised global political party through demonstrations at global meetings and at major fora such as the World and European Social Forums, are fractured and represent a variety of cleavages and points of contestation with global capital. As such, the fears of a core lower middle class about physical and future economic insecurity are represented alongside those of traditional communities, new forward looking political movements (such as the Brazillian Workers Party) and environmental interests. It is this clash of globalisations that Gill sees as at the heart of renewed strategies of trasformismo among a select group of national governments (e.g. New Labour in the UK, and for a time Clinton in the US) and institutions of global economic management like the World Bank (Ibid).

In his more recent work, Gill has also, along with others, advanced a revised basis for theorising the global political economy based upon a schema of power, production and social reproduction, with a particular emphasis on the role of gender and race in addition to class in the construction of governance models around disciplinary neo-liberalism. The expansion of the focus from the technical and legal forms of locking-in is one taken up in this thesis. Despite this, Gill’s focus remains on the extension of commodification through the new-constitutionalism and the role of the US state in advancing an agenda to secure a world market for US capital and to support a continuing way of life for the relatively affluent and secure elements of the US population (though he notes a declining sense of security amongst even these groups) (Gill, 2003a; 2003b).

Both Murphy and Rupert have also gone beyond the application of this Gramscian/Marxist critique of global governance as being the product of the establishment of the disciplinary element of neo-liberal hegemony. They highlight the emergence of a more reflexive pattern in neo-liberal hegemony concerned to offset the crisis tendencies of capitalist development and in particular to contain failing legitimacy within a revised hegemony of “globalisation with a human face” (Murphy, 1994:260-273; Rupert, 2000:132-155.

However, because of their dismissal of Marxist analysis of the internal logic of accumulation in preference for elements of class struggle (Cox, 1996b:94), the new Gramscians pay less attention to the measures that the managers of global capital need to take in order to deal with the internal contradictions (the first category of crisis tendency) of capitalist development, even if it were not the case that other contradictions are present.

Notwithstanding his criticisms of Cox, Cammack's 'New Materialism' is broadly consistent with the new Gramscian approach. He proposes the new materialism on the basis of the assumption that the completion of the world capitalist system is a realistic possibility, at least in terms of an analysis of a practical political project designed to achieve it. Building on this, and in a line of argument consistent with that set out above regarding the needs of capital and crises in its development as a social system, Cammack locates this in Marx's broad approach to the historical development of capitalism. Specifically, he draws heavily on the concepts of over-accumulation, the production of a reserve labour army and the need for relative autonomy of the state to manage the process. He argues that the closer potential for the completion of the world market has generated the need to replicate this relative autonomy at the global level. Specifically, this autonomy is needed to manage the processes of proletarianisation, in securing primitive accumulation at the margins of capitalist hegemony and the subsequent transition to mature accumulation, based on the gradual realisation of relative surplus value (Cammack, 2003:39-48; 2002a:194-198). Cammack then identifies a contemporary project to establish this global and generalised capitalist hegemony and relative autonomy in the institutional form of key WB strategies, supported, in particular, by the new Labour government in the UK. As such, the global project of poverty reduction becomes related to attempts to secure primitive accumulation on a world scale with a massive reserve labour army enabled, by investments in health, education, institutional capacity building and infrastructure, to compete to offer its labour for commodification (2002:2). In doing so, Cammack draws on the class schema set out by Marx (1976:783-5). At the pinnacle of this structure is "an international governing class entrenched in Central Banks and Ministries of Finance around the world, and intended to secure the most favourable conditions for the hegemony of capitalism on global scale" (Cammack, 2003:57). Beneath this is a segmented global labour force which includes a reserve army of labour (itself divided into latent and stagnant labour power) and a further tier consisting of the absolute poor which serve to discipline the rest (Cammack, 2002a:196; 2003:13-14):

> "In essence, it seeks to create a reserve army of labour available on a global scale at a rate of US$1–2 per day, resting on a stratum of the absolutely poor with a cash income below a US dollar a day. It is this outcome, in conditions of secure bourgeois hegemony, that 'good governance' is intended to foster".

He also argues that involved in this project is a concomitant attempt to fashion a clear division of labour between the key institutions of global economic management – the Bretton Woods triumvirate of the Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO) – in order to fulfil the various functions of relative autonomy and in particular to engage states in the overall project at a domestic level (Cammack, 2001).

1.5 A Three Dimensional Analytical Matrix

Locking-in is developed here into a multi-dimensional concept with three constituent elements: 'Levels'; 'Facets' and 'Layers'.[7] This goes (sympathetically) beyond Gill's depiction of the erection of a quasi-constitutional framework for neo-liberal accumulation, in several ways. First, the process Gill describes is not simply developing at the global level but involves a complex series of linkages between 'levels' of governance, involving a familiar distinction between global, macro-regional and domestic levels. Locking-in also occurs at sub-state levels (Harvey, 1996; 2000; 2003:103-5; Dicken, 2001; Peck and Tickell, 1995; 1992). It is also important to add to this, the institutional, firm, community, family/household and individual all of which are subject to the dynamics of locking-in (Marx and Engels, 1985:82-83). This is also a segmented process, with spatial differentiation cutting across these levels, for instance with differences between different sub-regions, states and macro-regions. At the global level, the process is most visible in the creation of institutions and both 'hard' and 'soft' frameworks of rules and norms. Gill's new-constitutionalism is just one aspect of this. This institutional form of locking in is also clearly replicated within a number of regions, most notably within Europe. However, locking-in is not just institutional and spreads across a number of other 'facets'.

As such, the multi-dimensional matrix draws on the familiar Cox/Gill three part framework of ideas, material practices and institutions and insights from Cammack's New Matarialism to show how the construction of hegemony can be broken into five separate 'facets'. The institutional facet in locking-in refers to the structure of governance and organisation of the state and political authority, including linkages between levels of governance and incorporating as one element Gill's description of constitutionalism. However, locking-in incorporates a host of additional facets in and through which hegemony is constructed. For instance, it encompasses ideological locking-in which embeds generalised ideas in common

[7] See Nunn and Price (2005) for an earlier and incomplete discussion of the concept.

consciousness related to the dominance of capital over labour, but also particular ways in which this is constructed through time and space. This relates for instance to macro-economic orthodoxy, ideas about social responsibility and rights, the relationship between political authority and civil society, justifications for the structure of governance, management orthodoxy and popular culture. A third facet considers the construction of strategic class alliances, linking factions of the capitalist class, ruling class and subaltern elements of the segmented working class, in order to secure support for a specific form of hegemony. A fourth facet relates to the organisation and technology of dominant production practices. Finally, a social facet in which the pattern of engagement between capital and labour is set through, for example, the operation of labour markets, the social construction of specific forms of labour power, the construction of social order and the land use and spatial patterns of hegemony.

Finally, the matrix is sensitive to the uneven nature of the transition to primitive accumulation and then to more mature accumulation, as well as the potential to back-slide into primitive accumulation or pre-capitalist forms of subsistence. This highlights a third dimension: the multi-layered nature of hegemony, differentiating between the construction of deep-rooted elements of general capitalist hegemony and more superficial, particularistic and transient layers forged in the process of conflicts between competing blocs of capital, between capital and labour, between alternative visions of capitalist (and other) futures.

2 A SHORT HISTORY GLOBAL GOVERNANCE AND CRISIS IN THE 20TH CENTURY

2.1 Introduction

This chapter considers the evolution of global governance within 20th Century capitalist development, with a focus on the role of crisis in triggering reform. Specifically, two periods of crisis are considered. First is that of the 1930s, culminating in the massive devaluation of capital and confrontation of competing visions for the organisation of accumulation in World War Two (WW2). The particular configuration of class forces and form of the space-time fix to over-accumulation is then considered in the construction of the post-war welfare state, Fordist mass-production and a nascent system of global economic governance. The second period of crisis is that superficially represented by the authored collapse of the Bretton Woods monetary order, but the underlying structural dynamics of this crisis in over-accumulation, reproduction and legitimacy are also discussed.

What was common to both these periods was that an ascendant faction within the capitalist class sought to use the crisis as an opportunity to rework capitalist hegemony in support of their material interests. Where the two periods differ markedly is that during the 1930s the ascendant capitalist class faction had to broker a compromise with labour in which the latter gained real concessions. In the second period, the ascendant capitalist faction consciously sought to undermine the conditions of the working class, perceiving labour and its supporting institutional structures to be barriers not just to short-term accumulation but to the hegemony of capital on a global scale.

This chapter thus presents a broad sweep of history to demonstrate some of the key themes of the thesis. Primary among these is the claim that shifting patterns of governance reflect and support the construction of capitalist hegemony. Building on this, the chapter demonstrates the layered nature of capitalist hegemony and that more superficial layers of hegemony shift through time, with changing patterns of governance reflecting this. Moreover, the historical discussion also demonstrates that traditional conceptions of state sovereignty are far from universally applicable, either through time or between states. Thus it prepares the way for a more nuanced discussion in later chapters of the precise nature of more contemporary changes in the shape, scope and character of global governance and hegemony. The chapter also demonstrates the development of 'first-phase' strategies for the construction of neo-liberal hegemony. In doing so, it sets the stage for discussion, in part two, of the crisis tendencies in first-phase restructuring and the subsequent attempt in second-phase strategies to secure capitalist hegemony over the long-term.

2.2 The Great Depression and the Structural Crisis of Laissez Faire Hegemony

The Failure of Political Authority

Many explanations of the crisis of the 1930s emphasise failings in the exercise of political authority, both to identify crisis tendencies and to cope with their financial repercussions. For instance, Keynes (1919:219), who participated at Versailles, had long argued that the punitive sanctions placed on Germany after WW1 would impair the social and institutional capacity to re-start accumulation with the potential to undermine capitalist hegemony. He also identified the building dislocation between the underlying structure of accumulation and global institutional monetary and credit frameworks, especially in Britain's return to the Gold Standard at pre-war exchange rates, and in laissez-faire more generally (Keynes, 1925, 1926).

Kindleberger (1973:131-5) argues that political leadership failed to maintain an open trading environment, counter cyclical credit and liquidity through lender of last resort facilities. Prior to the war, Britain had provided these functions but afterwards was no longer able and the US refused the role, exemplified in the enactment of the 1930 Smoot-Hawley Tariff.[8] The importance of this failure was not just that "it made it clear that in the world economy there was no one in charge" but that it also undermined counter-cyclical lending. The repeated refusal of the US to provide this function restricted the availability of investment capital to Europe for reconstruction and development, undermined markets and destabilised currencies (Ibid:291-6).

Friedman also highlights economic mismanagement as the major cause of the depression, although he emphasises the role of monetary policy and the US Federal Reserve system. He maintains that the crisis would have been unremarkable had the banking system not acted as the conduit for a dramatic

[8] The long passage of the Bill gradually undermined international efforts to avoid tariff-wars, begun at the 1927 World Economic Conference, despite continued British efforts to mobilise it.

contraction of a third of the total money stock. He also argues that it was the Federal Reserve system's intransigence which deepened and prolonged the depression in failing to counter the monetary contraction, choosing instead a protracted series of rate cuts and increases which dealt piece meal and ad-hoc with events as they occurred and 'sterilised' gold payments. He blames this inaction on the relationships between key individuals and parts of the system and the very existence of the Federal Reserve system which prevented private banks from pursuing private monetary expansion (Friedman and Schwarz, 1963:299-419).

Galbraith, focusing on the causes of the crash rather than the ensuing depression, argues that the 'mood' of speculation, facilitated by abundant savings and new financial innovations, was crucial in fuelling the speculative boom. While this explanation is valid for the Crash, he argues, the subsequent depression was caused by five fundamental weaknesses in the US economy. First, was a marked inequality in income distribution, boosting luxury spending and capital investment. Second, weak corporate structure, resting on financial innovations such as holding companies, particularly in infrastructure sectors made the economy particularly vulnerable to interruptions in investment income. Third, the decentralised and fragmented banking system meant that bank failure was contagious: "when one failed, the assets of others were frozen while depositors elsewhere had a pregnant warning to go and ask for their money". Fourth, the unbalanced and unstable state of the international payments system relied on US private loans facilitating the payment of German reparations, as well as other war debts and private purchases of US goods. Fifth, obsolete economic orthodoxy made expansionary monetary and fiscal policy difficult (1975:186-210). Galbraith's critique offers a bridge between theories of macro-economic mismanagement and more structural perspectives, which can only be fully appreciated by a historical understanding of the preceding development of US capitalism.

A Structural Explanation of the Crisis

The Roots of the Crisis: Capitalist Development in the US

Throughout the late 19th Century the US witnessed accelerated capitalist development. In 1869 agriculture made up 48.3% of employment and 22% of national income, dropping to 21% and 9% respectively by 1929. New industrial sectors expanded rapidly, as did government administrative capacity at federal and state level (US Dept of Commerce, 1975:F250-261). The annual production of raw steel and rails rose from 13,000 and 205,000 short tons to nearly 62 million and 3 million short tons respectively by 1929 (Ibid:P262,5). Industrialisation was accompanied by massive population growth and urbanisation. In 1860 the urban population accounted for just 19.8% of the domestic population of 31 million. By 1930 this had grown to 56% of the total 122 million (Ibid:A29-42;A57-72). Railroads, telegraph and then telephone communications linked East and West coasts and major urban centres, unifying local markets. In 1850 there were around 31,000 miles of railtrack in the US, by 1900 this had grown to 200,000: more than the total in all of Europe (Blum et al, 1985: 454-6). In 1876 there was one telephone for every 10,000 people in the US, by 1929 there was one for every six, with nearly 42% of households having access to them and nearly 80,000 conversations taking place every day (US Dept of Commerce, 1975:R2,3,911). Rising agricultural productivity (see Table 3) and innovations in food preservation assisted in achieving the separation between industrialisation and subsistence economies.

During this period, huge industrial empires were forged in oil, steel, chemicals and cars as the logic of capitalist competition took hold, resulting in the growth of household names like Du Pont, US Steel, Standard Oil, General Motors and AT&T. This consolidation was accompanied by 'vertical integration'[9] and the emergence of huge industrial bureaucracies, gradually shifting control from industrial dynasties to the new and burgeoning managerial and clerical classes. While public criticisms of the 'Robber Baron' industrialists led to the creation of regulatory checks on individual power, such as anti-trust laws, these merely augmented existing trends like the creation of holding companies and trusts which facilitated both centralisation and decentralisation by separating out the new functions of these industrial enterprises into separate firms linked together by financial ties and umbrella companies (Blum et al, 1985:452-71).

Technological development in steel refinement, electric power and the telephone revolutionised the means of production and were harnessed by new production techniques and products, and organisational changes in production generated out of the work of the industrial 'sciences' (Urwick and Brecht, 1949). In particular, Taylor advocated 'scientific management' to simplify the labour process, reinforcing and expanding the division of labour and applying strong managerial control to every aspect of the labour process, cementing the separation of the

[9] See Chandler (1965; 1971).

conception of the production process from the exercise of labour (Braverman, 1974:85-151). While these innovations were pioneered in steel and car production, they were rapidly generalised, creating massively increasing labour productivity. When Ford first installed the moving assembly line in 1913, the time taken to assemble a car was 12 hours 8 minutes. The effect of the moving assembly line and Taylorism reduced this to 1 hour 35 minutes (Chandler, 1997:77).

A Crisis of Over-Accumulation

This urgent capitalist development contained within it pressures toward over-accumulation that were, for a time, offset by expansion. Industrialisation, urbanisation, western expansion and technological innovations (especially in transport which enabled the integration of the huge domestic market), as well as in some cases pioneering industrial social systems (such as that introduced by Ford) guaranteed the necessary mass market for new industrial produce, while creating access to an expanding supply of cheap labour[10]. For a time, surpluses could be absorbed through the huge development of corporate structures including in mergers and acquisitions, fixed capital and infrastructure development and renewal. However, over-accumulation was also clearly present (Gamble and Walton, 1976:147).

Productivity and returns to capital were rising rapidly while gains to workers did not keep pace (Rupert, 1995:79; Levine, 1988:21,29-31). Table 3 demonstrates the increase in labour productivity at the same time as falling wages and the increasing concentration of wealth. Between 1890 and 1929 output per-hour worked more than doubled. Between 1915 and 1925 alone, labour productivity rose by 44%. Productivity gains in Steel, Cars and Chemicals – the boom industries – were even more pronounced. However, average earnings did not keep pace. Real wage rates fell between 1920 and 1930. When considered against productivity gains, the relative cheapening of labour power becomes even more evident. The ratio of productivity to average earnings in Steel, Cars and Chemicals fell from 1:0.7 in 1920 to 1:0.4 in 1930. Table 4 is even more conclusive, showing that even a generous estimation of annual earnings[11] fell substantially in relation to output. Table 3 also shows that high income earners saw their income as a proportion of the national income rise substantially over the decade. The opportunities to satisfy the generalised profit requirements of surplus

[10] Augmented by immigration and population growth, see Table 5.
[11] Which inflates them due to the effect of seasonal changes, strikes, sickness etc.

capital began to falter and over-production began to emerge. Accumulation and labour utilisation stalled (Table 5).

While corporate development could offset this for a time, ultimately this proved to be limited. As Galbraith points out, holding companies merely served to further entrench unequal income patterns and to surpluses being channelled through the stock market rather than within industrial empires creating a financial bubble resting on fundamental structural imbalances (Rupert, 1995:80; Aglieta, 1987:93-95; Bernstein, 1960:55-75). The initial period of market growth, rising commodification of labour and expansion had for a time created rising real wages and employment. In this context, stock market development had been augmented by individual investments and access to credit, buoyed by confidence in the future of the economy, fuelling the speculative bubble. Individual debt peaked at $72.9bn in 1929, a level it would not reach again for twenty years (US Dept of Commerce, 1975:X393-409).

Crisis Tendencies in Reproduction and Legitimacy

While often untold, the history of US industrialisation had been accompanied by major conflicts between capital and labour, during which the legitimacy of capitalism as a social system was regularly questioned. The ‘Great Upheaval’ of the 1870s witnessed widespread industrial action, alongside violent confrontations between labour and factory owners, backed by the state, police and military (Brecher, 1972). Industrial unrest continued throughout the industrialisation and urbanisation period. 1919 marked a period of intensified class struggle against a backdrop of revolution in Russia and widespread poverty and desperation across Western Europe. In the US, labour regularly ignored the trade union establishment, holding wildcat strikes and other forms of industrial unrest. This reached the scale of organised insurrection as workers not only withheld their labour but took over whole towns and assumed administrative control, organising essential services and governing by strike committee (Ibid:101-143).

However, between 1920 and 1933, union membership fell from more than 5 million to less than 3 million (US Dept of Commerce, 1975:D 940). Work stoppages which had hovered around 3.7 million a year between 1915 and 1920 slowly dropped throughout the 1920s, remaining under 1 million a year between 1927 and 1932 with reductions in disputes over wages and hours being the crucial factor (Ibid:D977,8). In the early period, legitimacy and support was brokered through the increasing availability of consumer goods made possible not only by labour productivity but also by new credit structures such as hire-purchase and gradual but significant reductions in the number of hours worked (Bernstein, 1960:65).[12] Consent was augmented by the gradual increase in disciplinary pressures as the relative size of the reserve labour army increased. This détente in class struggle was characterised by a marked de-radicalisation of the labour movement (Ibid:88-144):

> "'America is an employers' paradise' the sharp eyed Australian HG Adam observed in 1928. He was most certainly right. At no other period in the twentieth century, at least, were employers as a class so free of the countervailing restraints of a pluralistic society as during the 1920s".

However, by the end of the decade, tensions began to re-emerge. Daniel Willard, president of the Baltimore & Ohio Railroad Company gave evidence to the Senate (Couzens) Committee on Unemployment saying that "it is a dangerous thing to have so many unemployed … we need not be surprised if they steal before they starve".

By the early 1930s unemployment was biting hard. By 1933 it had more than doubled its previous high. In 1921 just over 2 million were unemployed, representing 5% of the civilian labour force. By 1933 this figure was nearly 13 million or 25% (see Figure 2).

Despite the government's efforts to maintain them (Hoover, 1929; 1929a), wages fell dramatically. Figure 3 shows that wages (and investment, growth and personal consumption) fell dramatically, only reaching their under-inflated 1929 levels in 1940. The California Unemployment Commission reported that:

> "a new class of poor and dependants is rapidly rising among the ranks of young, sturdy, ambitious labourers, artisans, mechanics and professionals, who until recently maintained a relatively high standard of living and were the stable and self-respecting citizens and tax payers of this state. Unemployment and loss of income have ravaged numerous homes. It has broken the spirits of their members, undermined their health, robbed them of self-respect, destroyed their efficiency and employability…Idleness destroys not only purchasing power, lowering the standards of living, but also destroys efficiency and finally breaks the spirit. The once industrious and resourceful worker becomes pauperised, loses faith in himself and society" (quoted in Bernstein, 1960:322).

The loss of 'faith in society' quickly resulted in the return of industrial and political militancy. Major strikes and confrontations between the forces of the establishment and workers and the unemployed arose in San Francisco, Toledo, Minneapolis, North Carolina, New England and down through the eastern seaboard (Brecher, 1972:144-7). Prolonged strikes were marked by violent and

[12] Wholesale Price Indices by major product groups all showed a decline in prices see US Dept of Commerce, *Historical Statistics*, Series' E40-51, for hours worked see Series D 831.

mass confrontations between workers and the unemployed on one side and police, private militia and even federal troops on the other. *The Los Angeles Times* reported of the General Strike in San Francisco: “what is actually in progress there is an insurrection, a communist-inspired and led revolt against organised government” (quoted in Brecher, 1972:156). Throughout 1930 and 1931, large-scale Communist Party rallies took place in a range of cities, often accompanied by riots and confrontations with police. A flood of ex-WW1 service-men congregated in Washington in 1932 to demand payment of bonuses that had been promised them in the early 1920s. The ‘Bonus Marchers’, became entangled in long running negotiations with Hoover, terminating in a bloody battle when the President ordered them out of a government building. The sense of threat was conveyed by General MacArthur:

> “that mob…was a bad looking mob. It was animated by the essence of revolution…they had come to the conclusion that they were about to take over in some arbitrary way either the direct control of the government or else to control it by indirect methods” (quoted in Hoover,1953:228).

MacArthur’s bluster was undoubtedly intended to justify the actions of the President, but that even patriotic war veterans could be cast in that light is suggestive of a growing sense of vulnerability. Hoover himself declared that the Bonus Marchers were organised by ‘communists’ (Hoover, 1958:230;1932).

Other indications of the growing vulnerability of capitalist hegemony were the rise of unemployed councils (Levine, 1988:52-60) and self-help societies among the working class and the operation of de-commodified ‘barter’ and alternative currency[13] markets and bootleg industries (based on the dispossession of capital[14]) as the boundaries of the formal capitalist economy retreated (US Bureau of Labor Statistics, 1933; *The New York Times Magazine*, 1932; *The New Republic*, 1933; *National Municipal Review*, 1933).

The US as the Crucible of an International Crisis of Capitalist Hegemony

The economic problems of the US were world problems because of the unbalanced and insecure structure of the global economy, particularly the financial and trading relationship between Germany, the UK and France, and between Europe and North America. Keynes had predicted that German reparations were not merely punitive but would deter investment, a particularly acute problem because of Germany’s lack of raw materials. Stripped of its colonial trading partners and deprived of investment and productive loan capital (other than that

[13] e.g. the use of ‘scrip’.
[14] e.g. bootleg coal mining (Adamic, 1934).

approved by the US in the Dawes and Young Plans) Germany was perpetually on the brink of collapse throughout the 1920s. Added to these specifically German problems were those of European dislocation more generally. The war left eight million soldiers and sailors and nearly twenty million civilians dead, four thousand French towns had been "wiped off the map" (LaFeber, 1989:316). European transport and communication systems were destroyed, and the living and wounded population was tired, weary and distrustful. Even where productivity could be raised to reasonably competitive levels, weak infrastructure undermined investment conditions (Keynes, 1919:216-220). France and Britain were left war debts in excess of $3.5bn to the US or roughly 40% more than the value of all British exports in 1913 (Maddison, 2000:Table I-1).

As Table 1 shows, between the end of WW1 and the onset of the depression, the British economy stagnated. GDP fell after 1915, only reaching the same level by 1928. Exports only reached their 1900 levels in 1929 and declined as a proportion of the world total. While employment rates held up reasonably, the number of hours worked per person fell dramatically. What is certain is that Britain had retained insufficient economic strength to resume the leadership role it had previously played, as demonstrated by the failure to successfully restore the gold standard in 1925 (Gamble, 1990:135-7). With this, the exercise of political authority for global capitalist relations disappeared.

Despite this, GDP per-hour worked and per-capita both rose (and Table 1; Table 2). This general pattern of rising productivity at the same time as falling relative wages was spread across the world (Mahaim, 1936:208-11).

Table 1: UK Economy 1870-1938

Date	Exports	World Exports	UK as % of world exports	Employment	% of Pop Employed	Hours Worked Per person employed	GDP per hours worked
1870	12237	56247	21.76%	12285	41.91%	2984	32.05462
1900	39348	139671	28.17%				
1913	31990	236330	13.54%	18566	42.91%	2624	89.16959
1929	39348	334408	11.77%	18936	41.46%	2342	102.4701
1938		302976		20818	43.83%	2062	137.8104

Maddison, A 2000 A-3a,b C-16a,b.

Table 2: UK Economic Trends 1900-1939

Date	Population	GDP	% Increase over Decade	GDP Per Head	% Increase over Decade
1900	38426	177791		4.626841	
1905	40131	185512		4.622661	

1910	41938	197763	11.23%	4.715604	1.92%
1915	43268	233981	26.13%	5.407715	16.98%
1920	43718	203312	2.81%	4.650533	-1.38%
1925	45059	221327	-5.41%	4.911938	-9.17%
1930	45866	238270	17.19%	5.194916	11.71%
1935	46868	259502	17.25%	5.53687	12.72%
1939	47991	286953	41.14%	5.979309	28.57%

Maddison (2000 A-3a,b C-16a,b).

However, this rising productivity was insufficient to match that of the US, leading to unstable financial and monetary conditions where investment capital was constantly sucked back to the more productive US, undermining the potential for a spatial fix. This exacerbated existing European structural barriers to switching investments to emerging industrial sectors, a problem which had plagued the British economy even before WW1 and has been partially explained by the interrelated 'early industrialiser' and 'over-commitment' theses (Svennilson, 1954; Frankel, 1955). There were also contemporary suggestions that there was insufficient access to the necessary capital to achieve sectoral consolidation, rationalisation and specialisation, especially without the commitment of the state to provide it (*The Economic Journal*, March 1931:1-19). Further, internal economic reform in Europe also stalled. For instance, while Taylorist management ideologies were widely talked about in European circles, they were only imperfectly applied, and where they were, tended to focus only on controlling and efficiency aspects of Taylorism rather than more foresighted Fordist practices (Rupert, 1995:73). This then further entrenched the problem of European productivity and competitiveness in relation to the US, created by its 'natural' advantages of a large, growing and maturing land-based domestic market at a time of expansion and improvements in overland transport technology. These were also additional to the financial cycle created by the post-war settlement and the impact of the US stock market bubble (Mahaim, 1936:203-205). The result was a major economic crisis across Europe, as *The Times* noted in 1932:

> "The economic storm which began in 1929 and blew with the force of a blizzard in 1930, in 1931 assumed the force of a tempest" (*The Times*, 1st January, 1932).

The political and social manifestations of the crisis were evident across Europe. Unemployment cast a shadow across British politics, in the wake of already convulsive relations between capital and labour, as seen for instance in the General Strike of 1926. *The Times* was moved to comment in January 1933:

> "Unemployment was the major issue [of the preceding year] … in this extraordinary and even paradoxical characteristic of civilisation all other cares must seem secondary. In a world possessed of the means to supply mankind as never before with all the goods

needful, the prospect presented itself more grimly than ever to this country that some 3 millions of the working population might have to be regarded for some indefinite time as workless." (*The Times*, 2nd January 1933).[15]

Trade union and labour militancy and the rising influence of Communism (inspired by the success of communist Russia) on the one hand was countered by the rising popularity of Oswald Mosely's black shirts and the British Union of Fascists on the other. Economic crisis and mass unemployment created fertile ground for political instability and extremism across continental Europe (Hobsbawm, 1995:109-141; Carr, 1964:230; Reynolds, 1981:269). *The Times* "Review of the year" during the 1930s reported rising social extremism and political instability across continental Europe and Latin America on an annual basis (*The Times*, January, 1930; 1931; 1932; 1933; 1934; 1935; 1936). French and Belgian governments of left and right fell with remarkable rapidity. Spain descended into Civil War between Anarchists, Communists and Fascist Nationalists. Mussolini took power in Italy and Nazism spread across Austria. Rebellions and civil wars erupted in Greece. Hobsbawm (1995:111), describing the general situation as 'the fall of liberalism', underlines the point:

"In short the only European countries with adequately democratic political institutions that functioned without a break during the entire inter-war period were Britain, Finland (only just), the Irish Free State, Sweden and Switzerland…In the Americas … the list of *consistently* constitutional and non-authoritarian states in the western hemisphere was short: Canada Colombia, Costa Rica, the USA and that now forgotten 'Switzerland of South America' and its only real democracy Uruguay".

In Germany, economic and social crisis cleared the ground for the most coherently and dominantly expressed form of this right wing extremism. Hitler's National Socialist Party offered a populist political ideology allied to a faith in technological modernisation and articulation of national pride and renewal that was able to confront the country's fifteen year economic and social crisis:

"the theme of the day is the moral revival of Germany, the unity of the people, the regaining of self respect and honour, the annihilation of the enemy and the break with outworn liberalism" (*The Times*, 1st January, 1934a).

"the exultant nationalism with which Herr Hitler has inflamed Germany had been dormant since the war. Defeat and the consequential suffering had embittered them, … they were ready to respond to the call of a leader who could appeal to their enormous emotions and racial pride" (*The Times*, 1st January 1934).

Hobsbawm notes that though often thought of as homogenous, the rise of the right in the interwar years, especially before the triumph of Fascism in Germany, was

[15] Just two years earlier the same publication had commented on rising unemployment of less than half the numbers (*The Times*, 1st January, 1930) and for those in work, falling wages were a reality (*The Times*, 1st January, 1932; 1935).

reflected in a series of fragmentary and contradictory ideologies, essentially underlining the structural crisis of hegemony on a continental and world scale.

Over-Accumulation Pressures in Figures

Table 3: Labour Productivity and Relative Prosperity 1890-1930

Year	Non-Farm Output per Man hour 1958= 100	% Inc. Over Decade	Non-Farm Output per Employee 1958$	% Inc. Over Decade	Av Output Per Man Hour Steel/Cars/Chemicals 1947=100	Av Weekly Earnings in 25 Selected Man. Industries $	Ratio of Output to Earnings Steel/ Cars/ Chemicals	Share of Total Income, Disposable Income Variant Top 5%	Share of Total Income Disposable Income Variant Top 1%
1890	23.9	n/a	2,438	n/a					
1900	29	21%	2,873	18%					
1910	33.9	17%	3,317	15%					
1920	43	27%	3,774	14%	42.1	29.39	0.7	23.96	11.80
1925	50.1	44%	4,218	25%	54.2	27.08	0.5	31.09	16.54
1929	54.1	26%	4,444	20%	71.4	28.55	0.4	33.49	18.92
1930	52.9	23%	4,215	-5%	72.1	25.84	0.4	30.95	15.38

US Dept of Commerce, *Historical Statistics*, Series' D684, D687, W47, W50, W52, D832, G341/2.

Table 4: Ratio of Average Wages to Output

Year	Non-Farm Output per Employee 1958$	Average Annual Earnings 1958 $	Proportion of Annual Earnings to Output
1920	3,774	1528.28	40.49%
1925	4,218	1408.16	33.38%
1929	4,444	1484.60	33.41%
1930	4,215	1343.68	31.88%

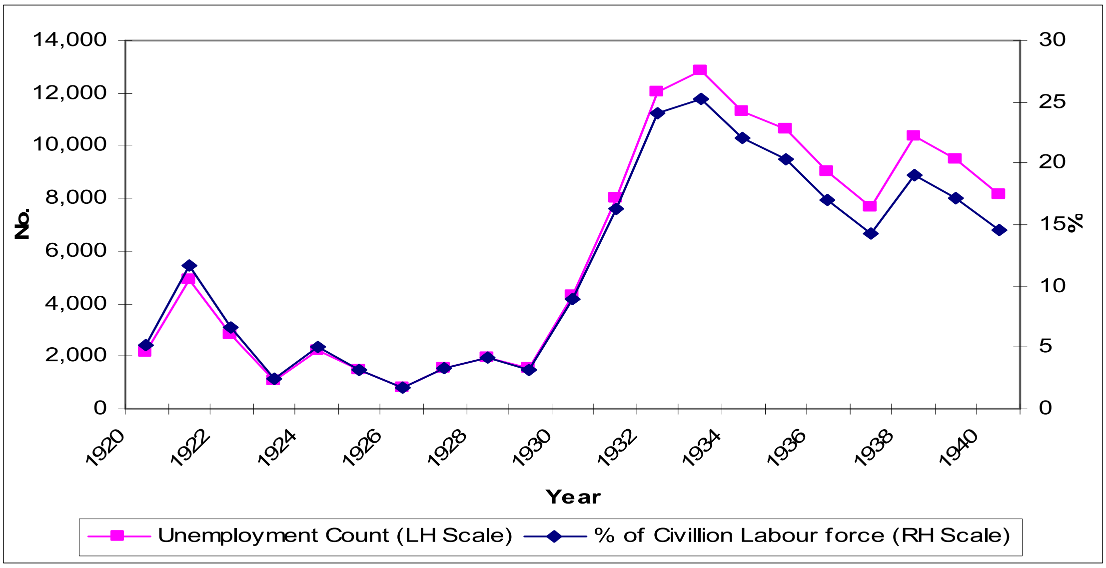
US Dept of Commerce, *Historical Statistics*, Series' D684, D687, W47, W50, W52, D832, G341, G342.

Table 5: US Population, Labour Force and Employment 1890-1930

Year	Population	% Inc. in Population	Birth Rate	Immigration	Labour Force	Non Agricultural Employees	% of Labour Force Employed
1890	63,056,000	25%	n/a	445,680	13,360,000	n/a	n/a
1900	76,094,000	21%	32.3	448,572	17,390,000	15,178,000	87%
1910	92,407,000	21%	30.1	1,041,570	25,710,000	21,697,000	84%
1920	106,461,000	15%	27.7	430,001	30,820,000	27,434,000	89%
1930	123,188,000	16%	21.3	241,700	38,270,000	29,424,000	77%

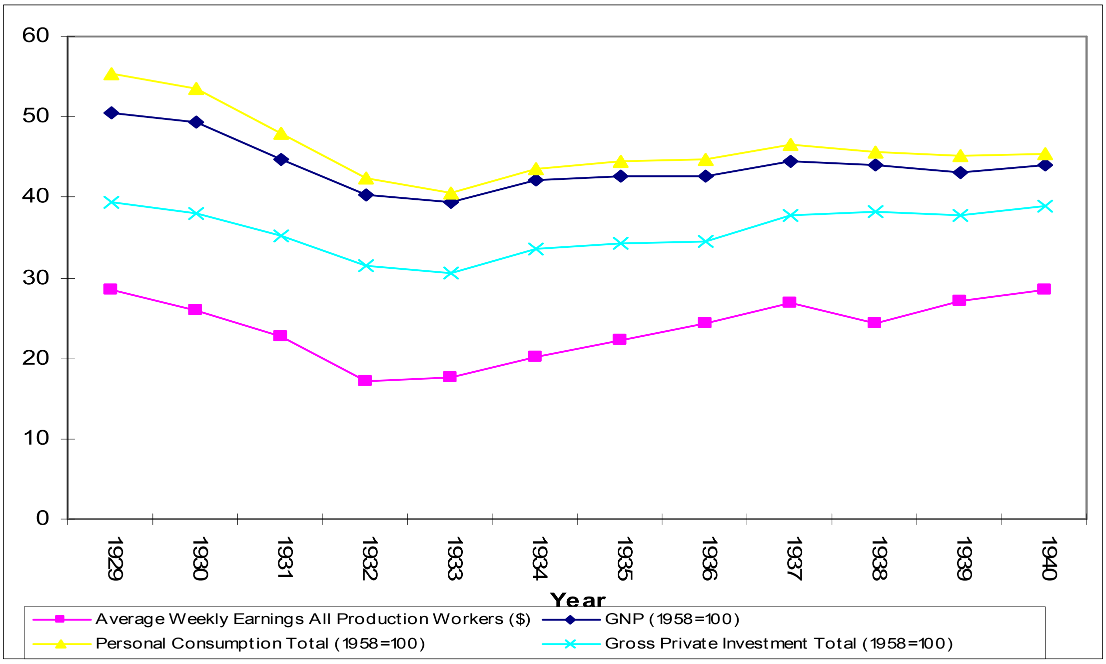
US Dept of Commerce, *Historical Statistics*, Series A7, B5, C90, D127, D167.

Figure 2: US Unemployment 1920-1940



US Dept of Commerce, *Historical Statistics*, Series' D8 and 9 (1975).

Figure 3: US Economy (1920-1940), Earnings, GNP, Consumption and Investment



US Dept of Commerce, *Historical Statistics*, Series E 1, E2, E6, (1975).

2.3 Resolving the Structural Crisis of Laissez-Faire Hegemony

Competing Visions for Restored Hegemony

Among policy responses in the 1930s, economic nationalism and protectionism was the most universal and created the tensions that ultimately led to WW2 (Carr, 1964:230; Reynolds, 1981:269). However, these responses were largely defensive and reactionary. In terms of articulating a vision of restored capitalist hegemony, there was little consensus. The effects of the crisis in terms of the severe hardship faced by the working class across North America and Europe allowed the manipulation of ideology and identity in support of radically different political and social resolutions.

In both Italy and Germany a reworked historic bloc formed, allying elements of the aristocracy with mass-based social movements, giving political expression to the social identity of the working class in a way that challenged the rise of social revolutionary forces of the left, though often borrowing superficial aspects of their rhetoric (as with Hitler's National *Socialist* Party and its use of the red flag) (Gramsci, 1971:292-4; Hobsbawm, 1995:85-177). Gourevitch (1984) however, shows how the evolution of this stance was not simple. For instance, in Germany similar class and intra-class fractions to those in the US shaped the debate toward the response to successive economic crises and it was only after the collapse of 1929 which shattered the power of progressive social forces, that more repressive and regressive coalitions could be brokered (104-112).

Russia presented a second option, based on the Bolshevik revolution. The resilience of the closed and planned Russian economy to the depression made a state planned economy appear to be a viable and successful alternative. For instance, *The Times* (1936) reported the ability of Russian industry to offer pay rises in the middle of the depression in glowing terms. Thus state socialism was the second seemingly plausible resolution to the crisis.

In the US, Britain and Sweden an alternative class basis for resolving the crisis was beginning to emerge by the middle of the 1930s. In Britain, the forces of conservatism, within the bounds of constitutional rule and parliamentary democracy, began to find a way between the competing demands of socialists and the far right. Sweden gradually adopted government spending for demand stimulus. In the US, Roosevelt came to power espousing an emergent New Deal, restoring international trade and building alliances for a national programme of reconstruction.

The New Deal as the Basis for Revised World Hegemony

Initially, policy responses in the UK and the US rested on laissez-faire with Snowden in the UK and Coolidge, Hoover and at first even Roosevelt in the US, all insisting on balanced budgets (Hoover, 1932; Roosevelt, 1933; *The Times*, 1932). Indeed in justifying the Smoot-Hawley tariff, Hoover (1930) argued that it was not large in the history of US tariff laws and was essential to protect agriculture.

However, Roosevelt's election in 1932 reflected a generalised disaffection with the inability of laissez-faire policies to resolve the crisis (Levine, 1988:2).

What followed was a series of attempts using (and building) the capacity of the state to mediate between factions of capital and between labour and capital to pursue an alternative framework to restart accumulation (Radosh, 1981; Bernstein, 1970). The significance of this New Deal has been debated at length by commentators and theorists of state power.

Ferguson (1984; 1995) argues that the New Deal is explicable from a pluralist party competition model which awards structural power to competing interests, principally those of internationally and domestically oriented capital and labour. The New Deal was possible therefore because industrial change and the depression awarded increased significance to internationally oriented high-technology and capital intensive industries. Precisely because this bloc of capital was manifest in mature accumulation, it was able to side with organised labour as a means of generalised control of working-class radicalism while being relatively insulated from the material gains for workers vis-à-vis capital in more labour intensive industries. Others too have emphasised the splits in capitalist interests between capital intensive internationalist industry and protectionist labour intensive industries (Hogan, 1989: 10-12; McQuaid, 1978).

Skocpol and others (notably Finegold) under the banner of "bringing the state back in" argue that the New Deal provides classic evidence of how the unified and independent state is able to direct other interests. To Skocpol and Finegold the resolution of the crisis came in the form of state directed war time production (Skocpol, 1980; Skocpol and Finegold, 1982). Levine (1988), adopting a Poulantzian line of argument, argues first that Skocpol is misconceived in her analysis, principally because she fails to locate her explanation of the New Deal in the historical development of capitalism and the class and intra/class struggles contained within it. She argues that the New Deal reflected the gradual brokering and exercise of relative autonomy in exceptional historical circumstances. As such, the various attempts, by the Roosevelt administration, to broker a resolution to the crisis were shaped first by the overall aim to restore the conditions for continued capitalist accumulation, second to mediate conflicts between rival blocs of capital and third by attempts to contain the increasingly radicalised working class. Early New Deal initiatives were therefore not a coherent and pre-designed solution as much as a set of incrementally developed piecemeal solutions shaped by social conflict:

> “Rather than representing a coherent blueprint that by conscious design established an overall plan for economic recovery, the Roosevelt administration muddled along, tinkering with various programmes – making every effort to force compromises between antagonistic interests wherever possible and simply imposing a solution when adjudication seemed impossible” (Levine, 1988:16).

Thus she explains the failure of the initial National Industrial Recovery Act (NIRA) and the gradual incorporation of more progressive approaches to working-class organisation (such as in the incorporation of Section 7a in the NIRA and the later passage of the ‘Wagner’ and Social Security Acts) were shaped continuously by differing levels of class conflict and especially by rising labour militancy and the expression of radicalised solutions to the crisis (Ibid:16-19).

While Levine is correct to highlight the role of class conflict, the way in which the state was able to gain and utilise relative autonomy is clearly important. Crucial in this process was the establishment of significant intellectual and policy capacity in the form of an emerging elite ‘cadre’[16], capable of translating the high level themes of the developing New Deal into practical policy. There is also a general agreement that the shape of that alliance offered limited concessions to both large/internationally oriented capital and to organised labour.

What is less clearly shared, is Levine’s focus on the specifics of over-accumulation, though perhaps even she offers too little emphasis to it. The recognition of over-accumulation and the expression of the need to find both supply and demand-side solutions for it explains the general trajectory of the response. As he took up the Democratic nomination Roosevelt himself identified this structural characteristic of the crisis:

> “…before 1929 we know that this country had completed a vast cycle of building and inflation; for ten years we expanded on the theory of repairing the wastes of the War, but actually expanding far beyond that, and also beyond our natural and normal growth. Now it is worth remembering, and the cold figures of finance prove it, that during that time there was little or no drop in the prices that the consumer had to pay, although those same figures proved that the cost of production fell very greatly; corporate profit resulting from this period was enormous; at the same time little of that profit was devoted to the reduction of prices. The consumer was forgotten. Very little of it went into increased wages; the worker was forgotten, and by no means an adequate proportion was even paid out in dividends--the stockholder was forgotten.
>
> And, incidentally, very little of it was taken by taxation to the beneficent Government of those years.
>
> What was the result? Enormous corporate surpluses piled up-- the most stupendous in history. Where, under the spell of delirious speculation, did those surpluses go? Let us

[16] See Shoup and Minter (1977); Berman (1983:11-40); Coser (1965:337-47); Fisher (1980:277-306).

talk economics that the figures prove and that we can understand. Why, they went chiefly in two directions: first, into new and unnecessary plants which now stand stark and idle; and second, into the call-money market of Wall Street, either directly by the corporations, or indirectly through the banks. Those are the facts. Why blink at them?

Then came the crash. You know the story. Surpluses invested in unnecessary plants became idle. Men lost their jobs; purchasing power dried up; banks became frightened and started calling loans. Those who had money were afraid to part with it. Credit contracted. Industry stopped. Commerce declined, and unemployment mounted" (Roosevelt, 1932).

The challenge set down for Roosevelt's New Deal, was to restart accumulation, cope with and offset the devaluation that had already occurred, broker a political alliance in support of a reworked hegemony based on an approach to accumulation that could absorb continuing pressures of over-accumulation within the system, and maintain its legitimacy in the face of both internally and externally promoted alternatives.

Gourevitch (1984) shows that this shift from orthodox neo-classical deflation to demand stimulus was more widely attempted (successfully or otherwise) elsewhere too. Analysing policy responses to the crisis in Germany, France and Sweden in addition to the US, he shows that where this shift was completed before WW2 it was because a sufficiently powerful supportive coalition of aligned business interests, politicians and organised labour could be brokered (as in Sweden and the US). Where this compromise could not be brokered, it was either imposed (as in Germany) by un-constitutional means, or was resisted (as in the UK). However, in Sweden and the UK, Gourevitch points to the intervening variable of a muted and gradual economic recovery that was able to buy-off further interruptions to the set pattern of policy response.

However, he underplays the significance of those measures that allowed this muted recovery. These were the shift to demand stimulus in some countries and, even where this did not fully occur, the adoption of policies (that he himself marks as significant) to absorb surpluses, such as British electrification. Of course, British protectionism was different to that of other countries, stopping not at the boundaries of the British state but, especially after 1932, extending to the boundaries of empire. This allowed significant capacity for exporting deflation and absorbing surpluses. Ultimately "the Second World War provided the shock to economic orthodoxy that the depression had been unable to produce" (Weir, 1989:65). With this shock in place the ground was clear for Keynes and his sympathisers to be gradually incorporated into the war time economic planning establishment (Harrod, 1972:10), where they were able to take advantage of the widespread public distrust of the Gold Standard and laissez-faire in the context of war-time constrained financial interests (Keynes, 1944:844; 1980:85, 1980a:27; Penrose, 1953:53; *The Daily Express*, 1944).

Constructing a Global Framework to Renew Accumulation

The international perspective of capital in Roosevelt's coalition, alongside the continental limits to domestic market expansion,[17] necessitated that the New Deal have an international character. The emergence of the confrontation between competing visions for the restoration of accumulation in the form of WW2 provided the context for this.

Keynes' appointment as special advisor to the Treasury marked the beginning of his official influence on the post-war settlement, as he began to fashion his ideas around barter and reciprocal trade practices (Penrose, 1953:15; Thirlwall, 1974:3-4; *The Sunday Times*, 1943). Such ideas meant that neither the Anglo-American alliance that ultimately shaped the institutionalisation of a global framework for the revised hegemony nor the war time alliance itself (Reynolds, 1981) was inevitable. Indeed, until Britain faced near defeat in 1940, policy had been based either on the assumption that American help would not be forthcoming or on resistance to it (Reynolds, 1986:21). As Hitler's expansionism and the old power's inability to maintain the European 'balance of power' became clear and the development of long-range bombing capacity meant that Britain was increasingly seen as the first line of American defence, US public opinion gradually swung behind intervention on the side of the allies (LaFeber, 1989:392-5; Reynolds, 1986:39). These pressures were significantly augmented by the fear that the expansion of Germany's closed and autarchic economic system would stifle US plans to take advantage of generalised international demand stimulus abroad (Ikenberry, 1992:306).

The development of post-war economic planning during the war took shape in the context of a developing and unequal relationship characterised by British dependence on the US (van der Pijl, 1984:116). The Atlantic Charter provided a framework for increased cooperation on post-war planning and Roosevelt asked for concessions from Britain in return for the Lend-Lease programme (van Dormael, 1978:12-28). The US demand for the break up of Imperial Preference and the UK's rejection of these "lunatic proposals of Mr Hull" (Keynes, quoted in Gardner,1969:57) constituted the basic antagonistic positions of the UK and the

[17] For an early discussion of the importance of continental expansion see Turner (1947).

US as they negotiated the post-war institutional settlement. British insistence that such an explicit reference to the end of Imperial Preference be removed actually meant however that the agreed version of Article 7 went further in binding the two countries into a specific form of post-war planning, based on “the expansion…of production, employment and the exchange and consumption of goods” and the negotiations were opened up to “other countries of like mind” (UK Government, 1942).

The evolution of those negotiations was shaped in the first place by Keynes’ plans for an International Clearing Union to provide the financial basis of expanded world trade, facilitated by an international currency (Bancor) and overdraft facilities proportionate to a country’s share of world trade. The Clearing Union was intended to smooth over temporary balance of payments difficulties and spread the costs of adjustment between creditors and debtors through the use of a sliding scale of charges for excessive credit or deficit (UK Government, 1943; van Dormael, 1978:36-37; Crump, 1943). An additional, unspecified, agency was proposed for the provision of finance for reconstruction after the war (UK Government, 1943:Article X). The US made alternative proposals, which were broadly similar but provided more comprehensive plans for an International Bank for Reconstruction and less ambitious plans for an International Stabilisation Fund (Schild, 1995:88-90). The ongoing negotiation process culminated in the publication of a joint statement (UK Government, 1944) which was negotiated bilaterally by the UK and US but formed the basis of the multilateral discussions at the Bretton Woods conference. Indeed, the statement included most of the provisions that were finally represented in the Bretton Woods agreement. The plan was much less ambitious than either the initial White or Keynes plans, and significantly relied on a lower overall amount of capital to be made available through subscriptions rather than new liquidity and responsibility for adjustment was to a certain extent shared between creditors and debtors (Keynes, 1944a:843; *The Economist*, 1944).

Despite wranglings at the Bretton Woods conference itself over the relative size of quotas, the final act was signed by all forty-four nations present to:

> “reduce the obstacles to international trade in other ways promote mutually advantageous commercial relations” with the aim “of facillita[ting] co-operative effort…designed to promote and maintain high levels of employment and progressively rising standards of living” (UK Government, 1944a).

The outcome of the conference was to create a system of intended support for short-term balance of payments fluctuations, international supervision of domestic economic policy, fixed exchange rates and capital for reconstruction after the war. The framework, institutionalised in the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (or World Bank), was to provide the basis for freer international trade and domestic expansion. Free trade itself was to have further institutional support provided by an International Trade Organisation (ITO) which, it was assumed, would be formed later. However, the agreement to establish an ITO was subsequently fatally undermined by the refusal of an increasingly conservative US Congress to ratify the treaty (Wilkinson, 2000).

There are a variety of explanations for the creation of the Bretton Woods institutions (BWIs). Ikenberry argues that expert-led policy innovation was largely responsible for providing the basis for international agreement, which could broker the support of important domestic coalitions in the US and UK (1992:291-293). Ruggie (1982) argues that the agreement was just one part of a broader embedded liberal compromise aimed at balancing domestic commitments to expansion within a multilateral framework for the coordination of free trade. Reynolds makes a more realist argument that Bretton Woods was the result of a relationship of ‘competitive cooperation’ between the US and UK in the context of a joint war effort. Owing to relative disparities in power, the compromise was closer to US than British demands (1981:274-94). Reynolds fortifies his argument with an explanation of the negation of the WB by the Marshall Plan and the loan to Britain, demonstrating the relative importance of American leadership (1986:33-4). Parmar (1995:160-93; 1995a) has also argued, from a statist perspective, that the creation of the BWIs reflected the state advancing its own interests.

All of these different accounts are ultimately lacking. The Bretton Woods process did reflect a state driven process, unsurprisingly in the context of a war, and within that process there was special manoeuvring room for experts, principally Keynes and White. However, what tied the interests of both states and experts together was the promotion of a framework to reinstate accumulation after the war, based on a common belief in the appropriateness of a revised domestic and international hegemony, influenced crucially by Keynes’ *General Theory* (1993), and earlier writings (Salent, 1989: 37-8) which tallied with and influenced the development of the New Deal. In the wake of the collapse of the 1930s, the desire was to provide an outlet for surpluses and to control finance (Schild, 1995:192; Kingsley-Wood, 1943:826). Thus the explanation offered above for the New Deal also holds true for the Bretton Woods process, with the exception that financial interests and the

Bank of England were gradually subordinated by war time planning and shouldering the blame for the failures of the Gold Standard (van der Pijl, 1984:108) to industrial interests which coalesced with labour. As the end of the war came nearer, British state policy moved decisively away from laissez-faire toward Keynesian state planning, ultimately implemented by the Labour party. The Beveridge Report (UK Government, 1942a) and the subsequent, and less radical, *Employment Policy* White Paper made this clear (Beveridge, 1944; Robinson, 1945; UK Government, 1943a).

The Generalised Time-Space Fix and Class Compromise

With the central planks of a new hegemony in place – the international acceptance of demand stimulus, heavy state intervention in the economy, domestic accommodations between large scale industry and independently organised labour, an international orientation towards free trade and international institutions to police the system – the stage was set for the establishment of a full social and institutional transformation.

This revised hegemony and historic bloc in the core was sustained by the central position of large scale production with a large industrial labour-force employed, at an incrementally increasing wage rates. This relied on a high level of aggregate demand where relatively high levels of wages were translated into demand for consumer goods. The state played a crucial role, intervening in labour markets to offset over-accumulation through temporal fixes such as large scale infrastructural development and welfare spending (Harvey, 1990:180-181). Over-accumulation could be offset by technological and organisational development which absorbed surplus capital as investment in future production. The consensual system of industrial relations which traded pay increases for rising productivity and labour discipline, further supported a rising rate of surplus value (Aglietta, 1987:151-207). The welfare state translated surpluses into major capital investment projects in communications and transportation, public housing, education and health systems. Geographically concentrated surpluses, such as in the US, could be recycled spatially through the Marshall Plan, which then reinforced accumulation through the purchase of American goods. Population growth, as the baby boom kicked in, also helped to generate increasing demand for consumer goods, cemented by a new culture of consumerism and innovation (Hoogvelt, 1997:44-46; Rupert, 1995:172-173).

All this was facilitated by the post-war international system which treated the reconstruction, integration and prosperity of the Western European economies as a bulwark against internal disintegration and later against the westward expansion of Soviet Communism. To achieve this, the American system of production was exported to Western Europe, facilitated by Marshall Aid, Foreign Direct Investment (FDI) and the nascent European integration project (Cox, 1987:215-216; Rupert, 1995:39-58). This was supported by a liberal trading order where gradually liberalising trade terms under the auspices of the General Agreements on Tariffs and Trade (GATT) meant that trade between the core countries expanded from less than 30% of world exports of manufactures in 1935 to more than 74% by 1970 (Gordon, 1988:47).

2.4 The Structural Crisis in Fordist Social Democracy: From the Nixon Shocks to the Global Debt Crisis

Signs of Crisis

While the post-war period is often seen as a 'golden age of capitalism' (Marglin and Schor, 1992), as early as 1958, Triffin argued that the system of dollar-gold convertibility in tandem with the need for the US to run a substantial deficit, to ensure global liquidity, created an unsustainable contradiction in the global financial system. Dollars were the lynch-pin of the system but the constant US deficit would eventually undermine confidence unless the price of gold was allowed to rise (1961:3-70; 174-181). Geo-strategic reasons meant that the US was unlikely to let this happen as this would transfer some of the financial benefits of seignorage to major gold producers like the Soviet Union and South Africa.

Triffin's prediction began to be fulfilled as early as 1967 when a flight from dollars to gold occurred as speculators feared a dollar devaluation in the wake of a devaluation of sterling, and in late 1968 the gold market was differentiated to allow the price of gold produced for non-official purposes to rise. The ratios of reserves to imports are also telling here. In 1960 the US had reserves totalling 120% of imports. This figure was in sharp decline throughout the period and by 1968 was less than 20% (IMF, 1971:26-28). These tensions were illustrated between 1967 and 1971 when the French Franc was devalued, the Deutschmark re-valued, floating exchange rates were introduced between Canada and the US, and between Germany and the Netherlands. Most importantly, short-term capital flows rose massively, especially out of dollars into gold and into West Germany (Ibid:37-38). Indeed, the rise in short-term capital flows was so large that the par-values of the fixed exchange rate system could not be defended. The spectre of further flight from dollars prompted Nixon's shock announcement of the suspension of dollar-gold convertibility and effective devaluation (Ibid:1; *New York Times*, 1971; 1971a).

More structural elements of crisis also emerged. The IMF (1973:8) noted that "at the beginning of 1972, following the economic slowdown, the degree of slack in utilisation of resources in the industrial world was on average greater than in any previous time since 1958". This was made worse by the realisation that the inflationary pressures that had accompanied the long period of growth persisted even when that growth subsided. Accompanying these apparently technical economic problems was a growing sense that the social and political order was also dissolving. Humiliating defeat of the capitalist world's pre-eminent military power by a guerrilla force in Vietnam, the apparent weakening of domestic and international political institutions and the proliferation of social unrest throughout the advanced capitalist world led to a spreading appreciation that capitalist hegemony faced a fundamental crisis. The Trilateral Commission, which represented the fraction of those capitalist and political classes that had been dominant in the Post-War historic bloc, commissioned a substantial and influential report on the crisis and governability of democracies in the triad (Crozier et al, 1975). Well known organic intellectuals of an emerging alternative faction of the capitalist and political class also warned of the unsustainable nature of Keynesian welfare democracy (Jay, 1976; Buchanan, 1978; Walters, 1978) and as Gamble and Walton (1976:2-5) noted at the time, debate in UK newspapers regularly raised the question of whether liberal democratic capitalism could survive without the imposition of military discipline.

Some Explanations of the Crisis

Theories of Economic Decline

Explanations such as Triffin's highlighted the costs of realist hegemony. HST theorists identified the US strategy of FDI as effecting a capital, knowledge and technology drain on US hegemony (Gillpin, 1987). The effects of this were multiplied by high spending as a consequence of the arms and space races, conflict in South East Asia, Johnson's Great Society program and Nixon's election spending, in combination with successive US administration's unwillingness to tax the American public (Calleo, 1982:25-28). This contributed to a Triffin-like dollar 'overhang' or 'glut': where dollar holdings outside the United States were far in excess of US gold reserves, which were supposed to underwrite their value (Gilpin, 1987:314-315; Cerny 1994; Mustow, 1998:117-181).

Cerny (1994:232-7) also argues that developments in the global economy during the 1970s reflected a decline in US hegemony. However, he argues that this was in relation to financial markets rather than other states. He parallels Kindleberger's arguments about the necessity of a financial hegemon to underwrite the system, with the post-war order based on the role of US strategic interest and the dollar. The dollar shortage and US military and financial dominance allowed the US state to design the system according to the requirements of US state, private financial and industrial interests. The breakdown of the system was the product of changing US interests and the built-in tensions of the Bretton Woods system that had facilitated German and Japanese recovery. In this context, the changes of the 1970s marked a shift toward international financial markets as "autonomous, transnational structures…an embedded financial orthodoxy" which would increasingly shape state behaviour.

Neo-Classical Theories of Structural Weakness in the Post-War System

Understandings of hegemonic decline at the international level accompanied a resurgent debate regarding appropriate macro-economic policy frameworks. In the wake of the currency and exchange crises and the onset of inflation (which Keynes did not see as a danger in the 1940s), the validity of Keynesian policy prescriptions was severely questioned (Mustow, 1998:7-54). Of particular importance was the inflationary push embodied in the Keynesian/Fordist accumulation model. The inability of Keynesian 'fine tuning' to contain inflation led to competing groups of business, academic and policy specialists developing rival and competing models to explain and solve the problem. Increasing numbers of academics (Friedman), influential economic journalists (Jay, Brittan) and policy makers (Healey, Thatcher) became disenchanted with Keynesian solutions.

The monetarist school, of which Friedman was the most prominent advocate, argued that inflation was primarily a monetary problem and could therefore be controlled with monetary policy. However, underlying this analysis was a rejection of the broader central political, social and economic principles of Keynesian macroeconomic policy and the social goals that had informed them. Monetarists argued that the theoretical understanding of the relationship between inflation and employment adopted by 1960s Keynesians – the Phillips Curve (Phillips, 1962) – was a fallacy (Walters, 1978: 23-27). Attempting to engineer full employment, they argued, was a fundamental mistake since growth generated in expansionary programmes is ultimately transient while the inflationary structures and psychology that it embeds are less so (Friedman, 1975: 11-16; 1976: 10-16; Jay, 1976: 14-21). Stagflation resulted, as the economy perpetually returned to its 'natural' rate of unemployment while the demand promoted through stimulus realised both price and wage inflation (Friedman, 1968; 1980: 309-329; Mishra, 1988: 44-45).

A Structural Explanation of the Crisis in Fordism

Over-accumulation in the core

Post-War hegemony was based on a series of important contradictions. First, the Fordist tendency toward technological innovation (albeit over what now appears to have been the long-term) and rationalisation began to lower 'effective demand' toward the end of the boom period as the increasing organic composition of capital relative to labour and limits to market size took hold. The reconstruction of Western Europe and Japan increased intra-capitalist competition, added to global pressures of over-accumulation and limited the partial spatial-fix embodied in US FDI into Europe. The effect of this was felt as over-capacity, undermining the advantages of economies of scale, which Fordist production depended on (IMF, 1973:8). It was also felt as a developing inability to deal with the inbuilt tendency toward inflation, which had previously been offset by market expansion. Second, this competition began to highlight the rigidity of Fordist product specialisation as long-term fixed capital investment precluded dynamic alterations in product specification to meet differentiated market demand. Gamble and Walton (1976:152-74) highlight the incapacity of governance at the level of the international system – particularly international financial and monetary regulation – and the state to effectively overcome these crisis tendencies, at least in the middle of the 1970s.

Crisis of Legitimacy and Class Antagonism

The decreasing capacity to absorb internal inflationary pressures through external market expansion was of particular importance because it highlighted the class dynamics of the crisis. What would later be called "structural rigidities of an economic and social character" (IMF, 1980:1) posed a barrier to the maintenance of growth as organised labour continued to demand high wage rates and government expenditure (Hoogvelt, 1997:46). In this context, the state effectively became trapped by the pressure to maintain legitimacy and its inability to expand its fiscal base. Inter-capitalist and gradually also inter-state competition necessitated a confrontation with labour, but in many cases labour's institutionalised position at the heart of the historic bloc made this politically unfeasible within the parameters of the hegemonic system. Where confronting labour was not possible, the only solution left for the state was to print money. Actual responses, especially in the UK and US oscillated between the two strategies. For instance, when Heath's government attempted to confront organised labour in the form of the Industrial Relations Act, and to restructure the state–capital-labour relationship through policies for competitiveness, it precipitated a major radicalisation of the debate and was ultimately defeated, principally by the actions of the National Union of Mineworkers (NUM) (Overbeek, 1990:157-166; Hanson, 1973; *The Times*, 1974; 1974a; Chalfont, 1974). The result was a return to inflationary policies in an attempt to boost growth (Gamble, 1990:121-126). Thus 'stagflation', entered the vocabulary as under-capacity in production and the resulting high unit costs were passed on to consumers (World Bank, 1984:12; 1980:372-433; Gamble and Walton, 1976:1-33). Organised labour was pushed out of its position of accommodating corporatism as the benefits of compromise with capital evaporated (Gamble and Walton, 1976:169). The foundations of the post-war historic bloc were thus undermined from all sides and legitimacy crumbled. Writing in the mid-1970s Gamble and Walton (Ibid:174) concluded that "It is a crisis of the whole post-war mixed economy, a crisis of the welfare consensus, an impasse that only fundamental political changes can overcome".

An Emerging Spatial Fix to the Crisis in the Core

In the initial absence of a clearly defined political solution to the problem of stalling accumulation, an organic 'spatial fix' began to develop from the late 1960s onward through the gradual transnationalisation of production and an increasingly integrated global division of labour (Mittelman, 1997:77-103). This enabled industrial and corporate capital to bypass the wage and employment expectations of embedded structures in the core and initially allowed US corporations to maintain their competitiveness in conditions of European and Japanese recovery. This was followed by increasing reliance on more sophisticated automation in production techniques to both increase the rate of surplus value and bypass labour altogether and particularly to reduce the reliance on skilled labour which had historically been able to hold up technological innovation (Aglietta, 1987:122-130; *The Daily Express*, 1979).

The necessary parallel liberalisation of the credit system was characteristic of the crumbling historic bloc. Paradoxically however, the desire to uphold and insulate the class compromise and to stave-off Triffin-like convertibility problems were both partially responsible for state action in this regard. Liberalisation of the credit system in this early period was principally authored by the UK and US through the establishment of denationalised or 'offshore' financial markets. The resulting 'Euromarket' (Strange, 1986; 1998:1-9) offered the US the advantage of financing its external deficit by maintaining the dollar's central role, by circumventing the capital and interest controls that otherwise made dollar holdings unattractive (Mustow, 1998:22-23). The UK hoped to reinvigorate the position of the City of London and secure domestic policy autonomy by allowing the dealing of dollar denominated accounts and allowing the limited evasion of domestic capital controls (Helleiner, 1994:83-91; 1994a:165-174; 1995).

The beginnings of financial liberalisation also revealed the emerging class dynamics of the organic (and later more directed) spatial-fix. Large scale industrial corporations began to see an interest in the liberalisation of financial markets due to the changing needs created by transnationalisation. A corollary of this was the gradual decline in the coincidence of interest between industrial capital and organised labour in the core.

The Rise and Fall of Developing World Solidarity: Buying-off Militancy and Finding a home for Surplus Capital

The contradictions of the post-war accumulation system were reflected in the relationship between core and periphery. Despite Keynes' recognition that international demand stimulus should be supported by development in the periphery (Ansari and Singer, 1988:3-20), the early post-colonial period was characterised by generally low levels of international attention to this issue. Instead, a relatively simplistic model of elite cooption was pursued (Zartman, 1976:326) in which a controlled process of decolonisation was to provide continued access to raw materials and (to a lesser extent) markets for finished goods (Hoogvelt, 1997:47-8).

The result was a failure to fully secure the support of newly independent nations for the existing international system. An emerging critique of neo-colonialism was provided by third-world leaders like Nkrumah (1965:x). Successive waves of 'third-world' revolutions, many of which (China, North Korea, Cuba, Guatemala, Chile[18]) were avowedly socialist and many others at least claimed some sort of anti-capitalist character (Cammack, 1997:10-11). These nationalist movements were spurred by the emergence of alternative understandings of the global economy as encapsulated by critiques of dependency and uneven development (Villamil, 1977; Dos Santos, 1970; Gunder-Frank, 2000; Cardoso, 2000). Such ideas were influential in the formation of several 'third-world' alliances which challenged the legitimacy of the existing international economy and were institutionalised in the form of the Non Aligned Movement (NAM), the Group of 77 (G77) and within the UN system itself in the United Nations Conference on Trade and Development (UNCTAD). Within these organisations, alternative approaches to development, collective self reliance and 'de-linking' from the global economy were discussed and promoted as realistic options (Hoogvelt, 1982, Geldart and Lyon, 1981). This culminated in a strong challenge to developed states in the form of demands for a New International Economic Order (NIEO) articulated through the United Nations at the high-point of weakness in global capitalist hegemony in the mid to late-1970s (UN, 1974).

Third-world collectivism and debates over resource sovereignty also played a part in the pivotal oil price crisis of 1973/4. The actions of the Nixon administration had huge implications for those developing states whose currency had been pegged to the dollar or were reliant on primary commodities denominated in dollars, particularly oil. In response, the OPEC cartel quadrupled oil prices, sending shock-waves through the global economy as core countries were brought to a standstill and inflation soared (*The Times, 1973*; *The Times Europa* Supplement, 1973). This had both positive and negative effects for the emerging third-world alliance. It both reinforced arguments about the potential leverage offered by radical approaches to resource sovereignty and strengthened the bargaining position of developing states and contained the seeds of the coming debt crisis.

The OPEC states chose to invest their dollar surpluses in the emerging Euromarkets (strengthening their position as international finance centres and shifting the source of global liquidity) (Hoogvelt, 1982:45-56; IMF, 1984:66; Griffith-Jones and Rodriguez, 1988:355-60). While some of this liquidity was absorbed in the core, boosting inflationary pressures there (Kaldor, 1983), a general surplus of capital was available. This meant that some LDCs were able to borrow at very

[18] The revolutions in Chile and Guatemala were forcibly reversed by counter-revolutions covertly sponsored and directed by the US government.

low, and sometimes even negative, rates of interest, allowing them for the first time to escape the constraints of political conditionality (All Party UK Parliamentary Group on Development, 1987:13). The availability of this loan capital seemed to offer solutions to all sides:

> "For the banks, the loans to developing countries were a profitable way to diversify their risks geographically. Recession damped the demand for loans in industrial countries, deposits taken from OPEC increased their capacity to lend, and the developing countries proved willing borrowers. High commodity prices in 1973, probably partially as a result of excessively expansionary policy in certain core states[19] had bolstered the usual measures of creditworthiness for some developing countries, and some bankers apparently believed that countries could not fail to repay.
>
> Industrial country governments and international institutions unofficially encouraged recycling of OPEC surpluses by commercial banks. They did not have their own mechanisms for absorbing the windfall surpluses and recycling to LDCs represented a 'market solution'." (Ibid).

This freedom opened up new possibilities for third-world states, particularly in Latin America, to pursue, dependency-inspired developmental strategies such as import-substitution and the nationalisation of MNC assets (Hoogvelt, 1997: 49-50; Griffith-Jones and Rodriguez, 1988:352-355).

However, this strategy had marked draw-backs. First, it allowed MNCs to excuse themselves from many tasks attendant to the realisation of surplus value (labour relations, risk of enterprise failure, efficiency and quality assurance), these tasks largely passing to indigenous elites. Second, it did not involve a corresponding shift in control, with MNCs adopting the use of licensing, patenting and pushing for the strengthening of supportive regulatory systems on copy-right and intellectual property. Moreover, they were able to use selective demand mechanisms and competition between arms-length suppliers to drive down costs, successfully externalising the difficulties associated with this. MNCs were free to concentrate their own actions on high-value aspects of production such as research and design, financing and marketing. Third, the transfer of technology embodied in some FDI dried up, accentuating technological dependence (IMF, 1985:1-17; Hoogvelt, 1982:66-72). Finally, the shift from FDI to debt financed industrialisation exaggerated the risks to developing countries of market slow-down (Faulwetter, 1988:151-79; IMF, 1985:1), enhancing their vulnerability to fluctuations in international capital markets.

Table 6: Developing Countries Composition of Financing Flows (1979-83) (US $bn)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983

[19] E.g. the UK and the US, See Mustow (1998), Keegan (1985).

Non-Oil LDCs											
Current Account Deficit	10.9	37.1	46.3	31.7	30.4	42.9	63.3	88.7	108.5	85.9	52.6
Reserve Accumulation	9.7	1.7	-1.7	14.4	11.6	16.3	11.7	4.4	3.7	-4.7	10.0
Financing[1]	20.6	38.8	44.6	46.1	42.0	59.2	75.0	93.1	112.2	81.2	62.6
Direct Investment (Net)	4.2	5.1	5.3	5.3	5.3	7.2	9.4	8.9	13.1	12.6	9.3
Official Transfers	5.5	8.8	7.1	7.4	8.2	8.2	11.5	12.5	13.1	12.5	12.0
Long-term Official Borrowing (Net)	5.7	7.8	11.8	12.8	12.7	13.7	16.9	19.4	24.3	23.5	24.5
External Private Borrowing	5.7	16.5	22.2	18.6	18.6	32.4	36.9	58.1	66.4	37.1	18.4
Other Sources[2]	-0.5	0.6	-1.8	2.0	-2.8	-2.3	0.3	-5.8	-4.7	-4.5	-1.6

IMF (1985) [1]Current Account Deficit plus Reserve Accumulation. [2] Includes errors and omissions.

In South East Asia an alternative strategy was pursued, based not only on equity investment but openness to FDI, especially through close linkages with the Japanese *Keiritsu* system. The different organisational culture and long-term perspectives prominent in these large MNC groups meant that industrialisation in South East Asia was more inter-dependently integrated into the global economy, and in particular was export-orientated (IMF, 1985:6). US Majority Owned Foreign Affiliates in Latin America exported only 6% of total sales between 1966 and 76 while in Asia the figure was 24% and still higher for Japanese owned affiliates (Ibid).

Even accounting for differences in developmental strategy, access to international capital markets presented a highly differentiated experience for LDCs (WB, 1978:11; 1984:23-33), with private credit being largely limited to middle and upper-income LDCs. Only a small number of Newly Industrialising Countries (NICs) in East Asia and Latin America were able to benefit substantially from this source of funding (UNCTAD, 1981:102; Liepitz, 1984: 71-88). In fact only four NICs (Mexico, Brazil, S.Korea, Philippines) accounted for over 60% of outstanding non-OPEC and non-OECD debt (Griffith-Jones and Rodriguez, 1988:357). The expansionary policies of these countries were in stark contrast to those in the core who adopted expenditure cuts and poorer LDCs who were forced to seek external assistance to finance increasingly expensive imports, particularly oil. Thus the debt profile of African, Latin American and South East Asian states was markedly different, with the former being owed to multi-lateral institutions and core governments and the latter two being overwhelmingly private (All Party UK Parliamentary Group on Overseas Development, 1987:21-8). These different experiences had the effect of fracturing the nascent Third-World alliance and even the NIEO ultimately represented a de-radicalisation of calls for change (Cox, 1979).

The Debt Crisis

There were important limits to the sustainability of reliance on external finance, either in the form of private credit or multilateral assistance. First, continued stagnation in the core created increased competition and undermined export markets for LDCs (WB, 1984:26-30; IMF, 1984:9-12; 1986:59; Goldstein and Khan, 1982). Second, inflation, especially in oil prices after 1978/9, further increased the cost of LDC imports (IMF, 1979:2) by $18bn in 1979/80 alone (IMF, 1986:58). Third, changing macroeconomic orthodoxy in the core led to rising interest rates marked by the appointment of Paul Vockler to the US Federal Reserve, the IMF annual meeting in Belgrade, the election of Margarat Thatcher in the UK; all in 1979 and the Reagan Presidency of 1981 onwards (Thatcher, 1979; *The New York Times*, 1979; 1980).

Rising interest rates were particularly important for several reasons. The gradual appreciation of the dollar created increased turbulence and led to rising debt ratios (IMF, 1983:48; 1984:18, All Party UK Parliamentary Group on Overseas Development, 1987:14-15). Rising interest rates were also significant because the loans secured through the Euromarkets included technical innovations such as variable interest roll-overs attached to the London LIBOR and US Prime Rate, and syndicated loans. Taken together, the weakness in foreign exchange earnings, rising indebtedness, and rising interest rates, further compounded the problem through capital flight back to the core (IMF, 1984:9; All Party UK Parliamentary Group on Overseas Development, 1987:17,26-8).

In this context, the external debt of non-oil developing countries rose from US $395bn in 1979 to $633bn in 1982 and $669bn in 1983, the slowdown between 1982 and 1983 reflecting the contraction of credit lines, meaning that these rises were simultaneous to the reduction of new borrowing by nearly 50% between 1981 and 1982. The rising proportion of GDP devoted to debt servicing, on top of other enforced cuts in imports further eroded long-term debt servicing:

> "A common result [of increased debt service obligations] has been sharp reductions in imports, through controls and fall in demand, and in public and private investment as governments cut back spending and channelled foreign exchange into debt service. Both reduce their long-term ability to service their debts. Lower imports of intermediate products and inputs prevent them from using their existing production capacity fully, and, in particular from shifting to commodities with better export prospects or goods that substitute for imports" (Ibid:18).

The trend toward regional integration within the developing world, particularly in Latin America (partially inspired by calls for collective self-reliance) also increased the vulnerability of the group because as imports were curbed to off-set oil and debt repayments, export earnings also suffered (WB, 1984:33). Debts on this scale constituted a huge threat to the world monetary and financial system (Cheru and Gill, 1997:141-145).

2.5 Resolving the Global Crisis in Post-War Hegemony: First-Phase Neo-Liberal Restructuring

Dismantling the Ideological Hegemony of Fordism and Keynesianism

The full frontal assault on post-war hegemony took shape during the 1970s, the decade in which Hayek, Friedman and Mydral all won Nobel prizes for their work. Institutions such as the international Mont Pelerin Society, the Trilateral Commission, Institute for Economic Affairs and Centre for Policy Studies were at the forefront of this assault, especially in the UK (Overbeek, 1990:161-5; Sklar, 1980). Friedman’s critique of monetary policy and inflation management dovetailed with a wider neo-liberal philosophy. Both Friedman and Nozick argued that state intervention in the economy constrained individual freedom (Friedman and Friedman, 1980; Nozick, 1974; Mishra, 1988:26-53). The barriers to resolving the crisis were thus ‘structural rigidities’ such as organised labour, legal and regulatory restrictions on free trade and capital movements (Barran et al, 1969). The workers that had been at the heart of the Post-War historic bloc were now conceptualised as part of the problem (IMF, 1980:1; OECD, 1986; Joseph, 1979; Hayek, 1984).

More specifically, the institutions of democracy themselves were targeted for too easily translating working class calls for expansion into policy (Jay, 1976; Buchanan, 1978; 1997; Walters, 1978:29-31). For instance, Buchanan’s (1997) endorsement of the desirability of a distinction between ‘constitutional’ politics and a more accessible everyday politics was significant because it created the space for important aspects of economic and social management to be placed beyond the scope of normal debate, in constitutionally embedded policy rules (Gill, 2002). The disorder created by attacks on strategically important sections of the working class such as Miners and Newsprint workers in the UK and the problems created by high youth unemployment were manipulated to appear as if these were the origin of the threat to the hard won prosperity of the working class throughout the boom period. The challenge to domestic competitiveness and jobs was similarly manipulated to generate nationalist and xenophobic reactions, fracturing class alliances (Rupert, 1995:174-207; OECD, 1992:10; 1984). For instance, the revival of the puritan work ethic, combating rising crime, immigration, disorder and 'welfare state scroungers' were all highlighted in the Thatcher government's policy programme (Galbraith, 1981; The Conservative Party, 1979; *The Daily Express*, 1979a; 1979b).

Dismantling the Institutions and Class Compromise of Post-War Hegemony

Despite a radical election manifesto (Labour Party, 1974) and initial subservience to the wage demands of organised labour, the Labour government which came to power after the failed attempt of the Conservatives under Heath to impose even limited austerity, eventually succumbed to the ascendant international discipline of monetarism, especially after the negotiation of an IMF loan in 1976 (Overbeek, 1990:169-75; *The Times* 1976; 1976a). The adoption of neo-liberal monetary policies was then accompanied by more active restructuring of the labour market and the state itself after the election of ideologically committed neo-liberal governments in both the UK and the US. It was these two countries that led neo-liberal restructuring in the core, although comprehensive neo-liberal policy frameworks had been 'tried' under Pinochet in Chile (Jilberto, 1993:58-78) and were implemented concomitantly in New Zealand (Standing, 1999:75-6).

The Thatcher government came to power espousing a radical economic solution to stagflation (Conservative Party, 1979). While its roots were in the 1973-4 difficulties of the Conservative government, *Thatcherism* was to continue developing throughout the 1980s and it largely shaped the macro and microeconomic debates in Europe into the next millennium. The primary aim of the Thatcher government was to dismantle the central pillars of Post-War hegemony, principally organised labour, through creating unemployment via monetary and fiscal tightness (the famed 'cold bath'), undermining their legal base through repressive legislation (Gamble, 1990:198) and through strategically planned outright confrontation with the strongest and most radical of the Trade Unions (and the historical enemy of the Conservative Party): the NUM. The defeat of the NUM in the year long and often openly violent Miners Strike was of massive significance (*The Daily Mirror*, 1985; 1985a; *The Daily Mail*, 1985; 1985a; 1985b). The singling out of particularly resistant or militant sections of the labour force has also been witnessed elsewhere, for instance in sanitary services in the US, steelworkers in France, car workers in Italy and construction labourers in Australia (Lewin, 1992:211-12; Overbeek and van der Pijl, 1993:17; Kaptein, 1993:101-2).

The state was to be 'rolled back', initially by privatising state enterprises and then through 'contracting out' state supplied services to the private sector. The sale of state industry both contributed to the macroeconomic aim of reducing state borrowing and was a major element of the 'cold bath' as industries set for privatisation underwent massive rationalisation to make them attractive to private investment. During the 1990s contracting-out carried the Thatcherite ideological commitment to the extension of the market principle to all areas of the state and was generalised throughout the core (Whitefield, 1992; 2001; Dunleavy and Hood, 1994). Industrial policy followed a similar trajectory, being subjected to market discipline. While portrayed as reducing interventionism, in reality interventions have been reoriented to providing the conditions to attract internationally mobile capital rather than providing jobs. The result of 'cold bath' policies was a rapid increase in unemployment, undermining inflationary social structures and precipitating a shift away from permanent and full-time to increasingly flexible and part-time employment which perfectly suited the development of new organisational patterns in production (Standing, 1999:101-124; Harvey, 1990:147-57).

The Thatcher government also hit on a novel way of combining the privatisation programme with providing concessions to sub-ordinate groups in the strategic class alliance, by making wide public share offers in these companies, with preferential options for employees. This helped to legitimise the process as millions of new share owners benefited from the initially low offer price of the shares to either make a quick profit in an immediate resale of the shares to large scale investors (average discounts were estimated at 26%) or to have a reasonably sound investment in the short to medium-term (IMF, 1988:7). This strategy to create a property owning democracy was significantly augmented through the sale of Council housing to tenants through the 'Right to Buy' scheme (Lamont, 1989:15-17). Privatisation was thus presented as a means of empowering individuals as both owners and consumers (Moore, 1992:14-34).

Promoting individualised consciousness was also a part of the process of financialisation (the popular consumption of financial services including share dealing, credit cards, bank loans, mortgages and private pension and insurance services) which is still more prevalent in the heart-lands of Anglo-American capitalism than elsewhere in the global economy (Coggan, 2001; Hooper, 2001). The consumption of such products, especially private pensions, have been promoted by state policies of cutting back on welfare provision and public property disbursement through privatisation initiatives. The significance of this is important because financialisation and property ownership have provided an additional disciplinary pressure on the working-class in the core and it has also helped to legitimate the withdrawal of the state from long-term welfare provision (Gill, 1997:51-73; 1993:98), while giving parts of the secure global working class a stake in continued global accumulation (Whitfield, 2001:22-4).

The second legitimising feature of financialisation transferred surpluses generated through transnational production to the core in order to cement the geo-political elements of the emerging neo-liberal historic bloc. The Thatcher and Reagan governments aggressively pursued this objective attempting to position their economies in the service sector of the evolving global division of labour and enacting sweeping liberalisation policies. Moreover, the decision to let financial markets operate unhindered led to a denationalisation of the industrial base, helping to cement a more truly transnational capitalist class engaged in accumulation through global enterprise rather than national industrial production (Overbeek, 1990:196-202; Overbeek and van der Pijl, 1993; Sklair, 2001; Jessop, 1991:154-160).

Dismantling Fordist Production: Technological and Organisational Development

The emerging transnationalisation of production was augmented by the adoption of new organisational and production techniques, originally pioneered by Toyota and effectively copied throughout Japan, South East Asia (Bernard, 1994:216-229) and partially throughout the rest of the world (Womack and Roos, 1990:82-88, 235-75). These included machine and tool flexibility, modified assembly line practices, high quality assurance, outsourcing, sub-contracting and flexible 'just-in-time' production (Monden, 1998; Koshiro, 1992:121-122). These developments allowed a higher rate of surplus value extraction (directly) through enhanced labour productivity, and (indirectly) through efficiency, market responsiveness and speeding the circulation of capital (Aglietta, 1987:122-30; Womack et al, 1990:48-62; Harvey, 1990:Chs 14,15,17; Hoogvelt, 2001:118-9). Moreover, the adoption of new technology and organisational techniques, like sub-contracting, substantially changed the nature of transnationalisation from one of bureaucratic multinational production to one resting on decentralised production chains relying on a centralised control structure of capital allocation and highly integrated capital markets (van der Pijl, 1993:29-31). Technological development also led to new 'hi-tech' and 'knowledge-based' products, helping to further quicken turnover time by reducing product-life both through reduced durability and through ever quickening innovation and obscelence, accentuated by aggressive marketing techniques.[20]

In this context, some elements of outdated Fordist production practices were transferred to the periphery (where cheaper labour costs, as well as efficiency gains in the Fordist mode itself, could help to offset decreasing competitiveness) in support of intensive restructuring in the core (Hoogvelt, 2001). This restructuring has depended upon the development of an intensified global division of labour (Mittelman, 1997:77-103). The highly complex integration of production networks has been heavily mediated through regional processes and agreements especially in Europe and East Asia but the essential effects have been to lower the costs of production. Thus the global division of labour has helped to overcome the crisis tendencies emergent in Post-War hegemony by subjecting labour to an increasingly global competitive discipline, undermining the embedded wage and cost structures of organised labour and full employment. Problems of over-accumulation were overcome by the devaluation of fixed capital (partially exported to the periphery) and thereafter the utilisation of spare capacity and excess labour power through renewed FDI. The combined effect of these twin developments has been to produce an even more complex global division of labour, especially where core labour forces were so cheapened as to make primitive accumulation possible even when situated in core economies, especially where combined with 'cheap' immigrant labour seeking a foothold in capitalist development (Harvey, 1990:152-3).

The 'Soft' Spread of Neo-Liberal Growth Strategies

The various aspects of first-phase neo-liberal restructuring have been generalised throughout the core (OECD, 1986a; 1996; Parker, 1998), under the logic of state competition to attract investment in the context of the real and latent potential for the spatial reallocation of capital (Cerny, 2000:301-5). This significantly augmented the structural power of capital and a truly general capital perspective through the operation of global financial markets (Gill, 1993a:262). Those seeking

[20] See Salmi (2000:8) and Harvey (1990:156-7).

to fulfil the role of organic intellectuals and cadre's of neo-liberal hegemony have acted through a variety of organisations, institutions and forums (notably right wing think-tanks, the Tri-lateral Commission[21], the Mont Pelerin Society and the World Economic Forum in Davos, the OECD, the World Bank and IMF) to promote the ideology of neo-liberal reform as well as providing handy technical expertise, 'how-to' guides and manuals[22] (van der Pijl, 1998:129-135). These pressures have been substantially increased by the operation of the 'new global constitutionalism'.

The Global Constitution of Neo-Liberal Hegemony

An increasingly transnational capitalist class competing on an increasingly global scale to exploit an increasingly global division of labour has spurred the development of global institutions. Over the period of first-phase restructuring, these institutions were shaped in particular by the building neo-liberal consensus, beginning with the institutionalisation of a revised financial and monetary system.

Institutionalising a Pure Dollar Standard and Floating Rates

After the Nixon shocks, a number of initiatives were launched to re-instate a system of fixed or regulated exchange rates, as was required by the IMF's Articles of Agreement. First, a multilateral effort was launched to establish a system of par-values, ultimately achieved in the Smithsonian agreement of December 1971 (Williamson, 1977:53-61). Further reform was attempted by the specially established Committee of 20 (C20),[23] though this proved harder to achieve as a result of disagreements and tension between European states and the US. Ultimately, the outcome of the C20 negotiations, especially in the context of the collapse of the Smithsonian Agreement, and return to floating rates, was to approve no reform, choosing instead simply to alter the IMF's Articles of Agreement to legalise the "non-system that had evolved out of a mixture of custom and practice over the preceding years" (Ibid:73).

Strange (1986:5-23) has argued that Williamson's characterisation of the outcome of this process as being a 'failure' and 'non-system' is misleading and that the C20 itself merely represented a 'cynical pantomime'. She argues that the US preferred this option as a 'super-exorbitant' exemption from bearing the internal costs of adjustment. Likewise, the UK was content with the burgeoning rate of trading in

[21] See Gill (1990) and Sklar (1980);

[22] See Heald (1988), Moore (1992), Beesley (1992), Lal (1997), Collier (1998), Butler and Pirie (1989) and the OECD, IMF and World Bank websites.

[23] Formally the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues.

London's foreign exchange markets. As such, the institutionalisation of floating rates is seen by Strange to be a desired outcome for these two leadership states in the construction of a financial and monetary system to suit the needs of transnational production, particularly to 'hedge' against currency fluctuations. Support for Strange's argument comes from analyses of political will inside the Nixon administration (Mustow, 1998:117-181, 234-7). Ultimately the result was to institutionalise a pure Dollar, rather than Dollar-gold, standard in which the US was able to retain the advantages of seignorage while being exempted from the attendant costs of adjustment associated with maintaining the relationship between gold and the dollar. The US was thus free to print dollars to finance domestic consumption.

Institutionalising Monetarism

As the 1970s progressed, monetarism was gradually accepted in policy making circles. This process was replicated, even led, by the IMF. In 1971 the IMF (1971:3-7) was still advocating prices and incomes policies as the major policy tools to control inflation. By 1973 these were to be supported by fiscal and monetary policies (IMF, 1973:14-15). By 1974 inflation was "the most serious problem of economic policy" and to be dealt with by "a clear cut strategy" including spending cuts, fiscal slackening and monetary tightness, combined with an explicit declaration that these policies would involve a reversal of the social stabilisation aims of the Post-War era in favour of "controlling inflation and maintaining a climate of financial stability". This focus was also contained in the C20 Communiqué of January 1974 (IMF, 1974:8-13). During 1976 this was further underlined in the conditionality and debate surrounding IMF assistance to the UK. However, the Fund's 1979 annual report complained that attention to inflation control had been insufficient and in particular that the "overall rate of monetary expansion in the industrial countries had not come down" and reductions in the fiscal burden had been "neither sustained nor particularly marked". This was to change. At the 1978 IMF annual meeting in Belgrade, finance ministers and central bankers agreed to adopt a united monetarist front against inflation. Indeed Paul Volcker, then Chair of the US Federal Reserve, left the meeting early so that he could return home to raise interest rates (*The New York Times*, 1979; *Washington Post*, 1979:A23). This new emphasis was lent weight by the subsequent election of both Thatcher and Reagan.

Institutionalising Transnational Production

The development of global constitutionalism has also included important linkages between the supra-national and state level, especially in regard to securing the conditions for transnational production, through strengthening property rights and legal protection for capital, particularly in the context of previous nationalisations of MNC assets. The 1985 WDR underlined the point:

> "As direct investment is long-term and usually takes the form of plant and machinery, it is exposed to political risk – the threat of expropriation, blocked currency, war, revolution or insurrection. To reassure actual and potential investors, many developing countries have passed laws protecting them against expropriation; some have embodied the protection in their constitutions. Governments in industrial and developing countries have concluded some 200 bilateral treaties on investment protection" (WB, 1985:131).

Developing countries also instituted national investment guarantee schemes to insure investors against the threat of political risk and companies took up private insurance which by 1985 totalled US$8bn. The WB incorporated the International Centre for the Settlement of Investment Disputes which was to "improve the framework for direct investment by providing acceptable procedures for the settlement of disputes between foreign investors and their host countries", and its management was central in the establishment of a Multilateral Investment Guarantee Agency (MIGA) incorporating 21 developed and 128 developing countries. The MIGA was to guarantee investment (particularly private) against 'non-commercial' risks in the interests of "supplementing the activities" of the WB in promoting FDI (MIGA, 1985). Coverage was against losses arising from currency transfer (restrictions preventing transfer of resources out of the country via conversion of local currency), war or civil disobedience, expropriation and breach of contract by host governments for up to 20 years (MIGA, 1998). The agency was also to prevent problems by encouraging members to incorporate protection of investment into their legal structures.

Flexible production rests on the ability of capital to secure its rights within arms-length and decentralised relationships in the production process. As such, global constitutionalism has included the creation of an international legal framework of intellectual property rights, including patenting, copy-right and licensing, all of which facilitate sub-contracting and arms-length control These have been advanced in the work of several institutional structures including the World Intellectual Property Organisation (WIPO) which was established in 1970 and subsequently strengthened as it was incorporated into the United Nations and later the WTO (WIPO, 1979). The WIPO has had an expanding number of member states and produced a steadily increasing number of treaties and agreements on international intellectual property such as the Patent Cooperation Treaty of 1970. Since 1994 the WIPO has also incorporated an Arbitration and Mediation Centre to settle disputes over intellectual property.[24] This legal framework has allowed capital to retain the benefits of control while jettisoning the responsibilities and risks of long-term investment and production.

Institutionalising Trade and Capital Liberalisation

The institutionalisation of trade regulation at the global level, has lagged other elements of the new constitutionalism. For instance, an international trade organisation to complement the IMF and WB as part of the post-war settlement was initially planned but failed (Wilkinson, 2000:11-20). The creation of a global trade organisation as part of first-phase restructuring also lagged other elements of the strategy, only coming about with the establishment of the WTO in Marakesh in 1994 (WTO, 1994).

The initial creation of the WTO then was firmly part of the first-phase assault on the post-war compromise. For instance, as Wilkinson and Hughes (2000) note, the inclusion of social clauses within the structure of WTO agreements has only arisen as a matter of debate since the organisation has been in existence. It also continued and institutionalised efforts, that had been ongoing throughout the lifetime of the GATT, to extend international trade regulation to a host of areas, such as intellectual property, services, investment flows and textiles (WTO, 1994a:85-115). It was also initially charged with anchoring a greater coherence amongst the various aspects of global economic governance, particularly with the IMF and WB (WTO, 1994b). This process of broadening international trade regulation has been complemented by a concomitant deepening of the anchorage of these rules, as witnessed not only in the level of regulatory detail but also in the removal of opaque barriers to trade through the conversion of non-tariff boundaries to more transparent versions. Added to this, is the legal authority and political leverage of the WTO (Wilkinson, 2000:56-61) and its all-powerful Dispute Settlement Mechanism with the power to impose punitive sanctions on errant states (Ibid:115-136; Qureshi, 1996:97-106; Hoekman and Kostecki, 1997:44-50).

The broadening agenda has been witnessed in the extended GATT to cover a greater volume of trade between a greater number of states (WTO, 1994c:23-42). The *General Agreement on Trade in Services* (GATS) (WTO, 1994d:283-317) has

[24] See http://arbiter.wipo.int/center/index.html.

drawn services, perhaps now the most traded ‘commodities’ and vital for advanced industrial economies, into the global regulatory framework for the first time. The *Agreement on Trade Related Intellectual Property Rights* (TRIPS) has incorporated some of the major agreements of the WIPO and has made intellectual property one of the central pillars of the multilateral trading system (WTO, 1994e: 319-351). *The Agreement on Trade Related Investment Measures* (TRIMs) has contributed to the freeing of investment and capital flows which is complementary to the intended free movement of goods and services (WTO, 1994f: 139-143).

Within the expanding trade agenda, the issue of investment liberalisation has been particularly controversial, first in the form of the OECD’s failed Multi-lateral Agreement on Investment (MAI) and more latterly in the form of the GATS. The creation of these agreements and progressive liberalisation through them is firmly biased in favour of the interests of global capital and indeed the agreement has been strongly linked with the lobbying capacity of influential business groups like the LOTIS, the Transnational Business Dialogue and the European Round Table of Industrialists.

The New Constitutionalism and Market Discipline

Symbolic Market Discipline in the Core

There were two particular instances of the institutionalisation of the extension of market discipline over governments in the core, the significance of which far outweighs their number and indeed their direct material effects. The first of these occurred in 1976 when the UK government was forced to ask both the G10 and the IMF for assistance after a run against the pound (Westlake, 1976; Jay, 1976a). The significance of this event was not merely that the UK government had been forced by the power of the markets to ask for international help, itself a notable event, but that the advocated solution was to apply the policy prescriptions of austerity-based restructuring and monetarism enforced by the IMF and US Treasury. Specifically, neo-liberal reform was to be prioritised over the achievement of social aims (Vogel, 1976).[25] Moreover, senior Labour politicians like Callaghan and Healey became, if only on a short-term tactical basis, evangelical monetarists and presented the monetarist case as the only alternative (Keegan, 1985:87-94).

[25] Reporting the IMF loan agreement, *The Times* front page declared “Industry Must Come Before Social Aims – Mr Callaghan” (Wood, 1976).

This experience was reinforced by that of France in 1982/3 which was forced to turn away from the expansionary and socially embedded policies of the socialist Mitterand government and to adopt monetarist austerity by the prospect of currency speculation and capital flight (Hall, 1985). Although this was informal discipline through the exchange market, rather than formal through the IMF, the message was clear: international capital accumulation was to take precedence over the lives and expectations of labour in the core.

Dealing with the Debt Crisis: Enforcing Structural Adjustment in the Periphery

The measures employed to deal with the debt crisis were significant in a number of ways. First, was the one sided multilateralism employed. While creditors, both official (governments and multilateral agencies) and unofficial (private banks), clubbed together in the Paris Club of official creditors or the OECD, debtors had to deal with their problems individually, despite the obvious commonality in their positions. The justification of this approach was revealing in itself:

> "it helped to ensure broadly comparable treatment was accorded to all creditors…the co-operative approach provided assurance that a debtor would not negotiate its debt in widely divergent terms with its various creditors, an eventuality that the latter would not have found acceptable…the multilateral framework provided a mechanism by which the creditors could be assured that an adequate adjustment effort was being undertaken by the debtor country to restore the viability of its external economic position" (IMF,1983a:9).

This multilateralism not only included private creditors but also representatives from the IMF, WB, UNCTAD, OECD and European Commission (Ibid:9-28). This strategy helped to ensure the rights of capital and prevent the development of alternative strategies, including the potential for collective default. The overall thrust of debt negotiations was to ensure that there was no bankruptcy option for states, debt restructuring and additional lending was to secure continued repayments (Ibid:9), though the maintenance of private flows proved difficult to achieve. The counterpart to continued access to capital markets and official assistance was the acceptance of market discipline, surveillance and IMF adjustment programmes (Ibid:26; IMF, 1985a:4, Appendix IV;WB, 1985:123). Private debt restructuring also contained an interest rate between and 1 and 2.5% above the already high US (prime rate) and UK (LIBOR) rates and restructuring charges of up to 1.5% (IMF, 1985:48-62,Table 17).

The incorporation of the BWIs into the debt process was also significant in terms of the gradual evolution of a constitutional framework for neo-liberalism. This signalled a change in their primary role and (especially in the case of the IMF whose *raison d'etre* had been undermined in the Nixon shocks). These institutions became responsible for co-ordinating 'adjustment' on the part of debtor states. Part of the justification for this involved ensuring that the explanation for the debt crisis focused not on the international environment and the obvious 'exogenous' shocks but on the short-comings of domestic development strategies (IMF, 1983a:9). Thus an IMF authored Structural Adjustment Programme (SAPs) would typically consist of:

> "fiscal measures, such as reductions in government expenditures and increases in domestic interest rates and producer prices to realistic levels, policies to raise investment and improve its efficiency, trade liberalisation, and wage restraint". (IMF, 1985b:2).

Domestic 'austerity' was to be combined with a significant attempt to integrate more effectively in the world economy through encouraging direct investment in export-oriented industrialisation (IMF, 1985) with public expenditure focusing on this objective (Selowsky, 1987:3). Thus structural adjustment was a "process of resource allocation" away from the goals of social stability and nation building to supporting the transnationalisation of production (Ibid). This shift then automatically exposed the population of developing countries to market discipline as the need to attract investment (and often – especially in sub-Saharan Africa – the failure to so) disciplined workers to make themselves more attractive in an expanding world market for labour, and declining government spending reduced the insulating capacity of state institutions.

In some analyses it is even accepted that significant social costs are necessary to prove that reform is genuine:

> "A Reforming Government needs to *signal* that it is genuine about its declarations by undertaking actions which clearly distinguish it from phoney reformers making the same promises. It can reinforce signalling by taking actions which *lock in* its reforms, increasing the political costs of their reversal...The point about signalling is that it has to hurt. A reforming government that wishes to distinguish itself from a phoney reformer must undertake reforms which are sufficiently deep, swift and painful that the phoney reformer would find them too difficult to imitate" (Collier, 1998:25).

The combined 'typical' package of reforms promoted by the Bank and Fund has been summed up by the term: "Washington Consensus" (Williamson, 1990).

Triumphal Neo-Liberalism and the Transition to Market Capitalism

Structural Adjustment was also rapidly extended to the economies of Eastern Europe and the former Soviet Union after the 'triumph' of liberal capitalism in 1989/90. The remarkable collapse of the communist bloc intensified the problems of these economies as the demand generated in the CMEA system evaporated. In this context, the IMF and WB as well as the major G7 governments and regional organisations, rushed to offer assistance to speed the transition to market capitalism. The OECD created the Centre for Cooperation with the Economies in Transition (CCET),[26] the EU created the European Bank for Reconstruction and Development (EBRD) and offered technical advice and enthusiastic support for accelerated transition programmes (EC, 1992; 1992a). UN agencies devoted weighty volumes to the task of transition and integration into the world economy (UNIDO, 1991; 1992). The 1991 WDR *The Challenge of Development,* set out to define the elements of successful economic growth in a manner which presented neo-liberal structural reform as the only realistic alternative for all states (WB, 1991:1). The report went on to detail 'efficient' and 'effective' reform proposals for neo-liberal development in a host of different circumstances. Such reform was to be designed around the principles of inflation containment, price and external financial and trade liberalisation, the promotion of entrepreneurship and privatisation. These were to be supplemented by institutional and legal reforms centred on property ownership and contract law that would facilitate market development (IMF, 1991:25-9; 1992:26-33; 1993:22-3,46-52; Lipton and Sachs, 1990:75-145).

Early attempts at designing transition rested on 'shock therapy' where those states that proved enthusiastic, particularly Poland, would receive "the exceptional support of the international community" (WB, 1991:27):

> "Rapid action can improve the political sustainability of reform if it prevents a joint assault by special interest groups…Bold Changes are especially necessary if a government lacks credibility…A conclusive reform can help to reshape expectations about the governments commitment and so contribute to its success…adjustment usually occurs in a time of crisis. Governments do well to capitalise on the broad, potentially short lived mandate for reform that crisis confers by front loading the reform program" (Ibid:117,box 6.2).

Thus the WB wished to use the crisis engendered by austerity to secure the rights of capital and embed 'realistic' expectations of the state over the long-term. The European Commission (1992:8) was even more explicit:

> "Protracted and endemic shortages, inflation and hyperinflation are a great problem but also mollify the population and reduce popular resistance to shock therapy…unpopular measures should not be spread over time but taken as quickly as possible".

[26] The CCET was later merged with other OECD departments to create the Centre for Cooperation with Non-Members (CCNM) but retained a Transition Economies Programme (TEP), which provides specific "advice on the formulation and implementation of policies and policy dialogue". The Czech Republic, Hungary and Poland all later became OECD member countries. See http://www.oecd.org/sge/ccnm/about/transition.htm.

2.6 Summary and Conclusion

This chapter has discussed the emergence of crisis tendencies in the historical development of capitalism and how these have impacted on the evolution of models of governance, particularly the role that these play within the construction of capitalist hegemony in the 20th Century. The shifting patterns of global governance in the 20th Century have been shaped by the need to offset and contain the crisis tendencies within capitalist development. In each case, crisis was not simply one of accumulation but of capitalist hegemony in both its specific and, to a greater or lesser extent, general form, and contained the three elements of over-accumulation, reproduction and legitimacy outlined in the previous chapter. In either case, changes in the characteristics, scope and form of political authority were required to manage the different elements of the crisis, and to broker a revised strategic class alliance between blocs of capital and between capital and labour.

The discussion of the role of political authority in this process is illuminating for the debate over contemporary changes in global governance. In particular, the discussion highlights the inadequacies of traditional assumptions about state sovereignty. In both cases of crisis, state power was both required and failed to adequately manage financial and currency markets. In both the cases outlined in this chapter, states underwent profound internal re-organisation, altering not only the shape and functions of political authority through the state, but also its underlying social and economic purpose to suit the requirements of a revised strategic alliance. These revised strategic alliances were partially forged through the (attempted or actual) transfer of parts of sovereignty to the supra-national level. This suggests a process of adjustment using the capacity of political authority to meet the revised demands placed upon it by the need to sustain accumulation.

The discussion of the role of the state in relation to financial and currency markets further demonstrates the inadequacies of traditional assumptions about the role of sovereignty. In both cases, political authority over the operation of markets was necessary but lacking, states sought to create sources of supra-national political authority to manage elements of capitalist social relations, and in doing so attempted to contain and overcome class antagonism and to restart accumulation.

In the earlier period of crisis and restructuring, changing patterns of governance, at state and supra-state levels, fulfilled the function of establishing and servicing a revised historic bloc, broadened to incorporate industrial capital and organised labour and to facilitate continued accumulation by absorbing surplus capital and granting real concessions to subordinate social groups. In the second period of crisis, patterns of global governance were reordered to facilitate the ascendant power of international finance and to undermine and discipline the structural power of organised labour and the collective challenge of the 'third world'.

However, the shift in patterns of governance to secure this revised historic bloc were incomplete and marked only the 'first-phase' in constructing neo-liberal hegemony. As the next three chapters will show, there were in-built crisis tendencies in these first-phase strategies, which have subsequently been cast as the central problematic for a 'second-phase' of strategies of socialisation and 'locking-in' to embed and secure neo-liberal hegemony over the long-term.

3 THE NEW LABOUR PROJECT

"The key to New Labour economics is the recognition that Britain…[has] to compete in an increasingly international market place…Today's Labour Party, New Labour, is the political embodiment of the changed world – the new challenges, the new economics and the new politics" Tony Blair, speech to the Bundersverband des Deutschen Industrie Bonn, Germany, June 1996. (Quoted in Hay and Rosamond 2002:152).

3.1 Introduction

This chapter relates to the state and sub-state levels in the analytical matrix established in chapter one and is structured around the different facets in the matrix. It considers the emergence of an archetypal second-phase state level project of reform, designed to address and contain the crisis tendencies resulting from first-phase restructuring. The New Labour Project (NLP) in the UK emerged from an analysis of these structural weaknesses in neo-liberal hegemony. Barriers to institutional reform, high unemployment, low productivity growth, social fragmentation and the inability to maintain a stream of material gains to those at the centre of the Thatcherite historic bloc all shaped the development of the project to embed and secure neo-liberal hegemony. New Labour's response was neither to abandon the project in favour of the party's traditional social democratic politics or to attempt a 'sticking plaster' solution through piecemeal reform. Rather, it was to construct a far reaching and strategic project of social and institutional transformation intended to 'lock-in' neo-liberal hegemony for the long-term, in which the role and function of governance has been radically reconstituted to fit within these aims.

The NLP has wider significance too. After many years as the 'basket case' of the G7, the UK economy is now seen as an exemplar throughout the core of the global economy. Further, key individuals at the heart of the NLP have sought to expand its central policy prescriptions on a world scale, acting as part of a bid for leadership within a macro-regional and global project of second-phase locking-in.

At the same time as demonstrating some of the trends identified by global governance theorists – particularly the emergence of patterns of governance below and above the state – the chapter argues that this in itself does not signify a weakening of the state. On the contrary, it is argued that the contemporary UK state has consciously brokered significant autonomy from the structural power of capital and has used this to implement a thoroughgoing transformation using revised and decentralised patterns of governance. While the rhetoric is very much of the devolution of power from the state to public sector managers, local politicians and to communities, the actuality has been a very tight control through the use of legacy structures of the NPM, particularly performance management and strategic alignment of plans. From the beginning, the NLP has also exercised control through ideology and as the party has become more secure in the knowledge of widespread social and institutional coherence with this, it has been able to relax formal controls. In this sense, the NLP has also generated an approximation of Cox's *nébuleuse* at state and sub-state level.

3.2 New Labour: Architect or Product of Globalisation

This chapter draws extensively, and critically, on a primary and policy-based literature supportive of the NLP to reveal its underlying dynamics. Before doing so, it is useful to position the argument in relation to a number of other critical interpretations. A debate between Coates and Hay is a useful point of entry. Coates argues that the NLP is constrained by contemporary globalisation which limits the space for an already reluctant labour party to develop a genuinely social democratic alternative to neo-liberalism (Coates, 2001:299-304). Hay counters that Coates is excessively pessimistic and that more scope for 'alternatives' exists than either Coates or new Labour would have us believe. The NLP then, reflects a strategic choice made by key agents in the reformation of the party. Differing conceptions of the potential for policy autonomy are portrayed depending on the audience and context. Thus a logic of no alternatives is mobilised at home in contrast to a logic of humane globalisation in an international development context. Specifically, Hay argues that the material reality of globalisation is overplayed and that greater scope for transformative change exists, particularly at a macro-regional level (Hay, 2002:452-462).

Echoing Winston Churchill, Gamble (2003) argues that the strategic context for 'English' domestic and foreign policy has been shaped throughout modern history by relationships with the other parts of the United Kingdom, the Empire, America and Europe. With the decline of Empire and the emerging constitutional settlement within the UK, that context now and in the near future is increasingly set by the tense relationship with the US on the one hand and Europe on the other. This is not a straightforward choice between choosing a 'European' or 'American' way, principally because one other key choice, and that he argues is currently preferred by the NLP under Blair, is to act as a bridge for the Americanisation of Europe. What is particularly interesting about Gamble's account is the identification of deep rooted patterns of change and persistence and how these become embedded in social practices and institutional structures.

However, none of these accounts, though revealing some of the dynamics of the NLP, fully grasp its significance. In large part, this is due to a failure to appropriately locate the project in an analysis of globalisation. In particular, both Coates and Hay see globalisation as a fixed and external context rather than mutating, evolving and iterative. For instance, Coates highlights the existing position of the UK economy in the structure of globalisation as largely defined by low wages and productivity with competitiveness defined by low-cost comparative advantage inside the European market (Coates, 2001:303). Similarly, Hay notes the importance of the EU market to the UK economy but sees the development and deepening of the European trade base as evidence of 'deglobalisation' (Hay, 2002:458-460). Both these accounts are misleading for globalisation is not static, external or in opposition to European expansion and integration, as the wider development of this thesis demonstrates.

Where all are correct is that the project displays both a continuation and a break with first-phase restructuring. The political basis of the project is ultimately the same: to lock-in the hegemony of capital over labour in ways that are specific to neo-liberal accumulation. Where the NLP differs from the reforms of the Thatcher period (though not, as Coates observes, so starkly with the immediately previous Major government) is that they were shaped by the social effects thrown up by prior reform and which threatened to undermine neo-liberal hegemony. A key example highlighted by both Coates and Hay is the position of the UK in relation to the global economy and EU. The continuing transnationalisation of production, the extension and deepening of complementary markets in labour, capital and services, alongside a later process of EU expansion means that continued reliance on comparative cost advantages in the EU market was no longer a competitive option. The surplus generated by such a model was not capable of sustaining neo-liberal hegemony in the UK and key individuals in the NLP recognised this. The argument has been advanced by Porter, proponent and doyen of cluster theory:

> "As nations develop, they progress in terms of their characteristic competitive advantages and modes of competing. This process can be described as a sequence of stages, each with a different set of economic characteristics and challenges. The first stage is the *Factor-Driven Stage,* in which competitive advantage is based exclusively on endowments of labour and natural resources. This supports only relatively low wages. In the *Investment-Driven Stage,* efficiency in producing standard products and services becomes the dominant source of competitive advantage…In the *Innovation-*

> *Driven Stage* the ability to produce innovative products and services at the global technology frontier using the most advanced methods becomes the dominant source of competitive advantage." (Porter and Ketels, 2003:43).

Porter's argument has been influential in shaping government policy. Indeed, the quotation is taken from a government publication.

The shift in emphasis in strategy identified here is driven by several crisis tendencies in neo-liberal accumulation. Indeed the NLP is almost entirely defined by its engagement with these crisis pressures, resulting in a far sighted and strategic programme of reform, which belies both Hay and Coates' depiction of the policy agenda as one of (more or less willingly) giving-in to the disciplinary power of markets and Gamble's image of a choice between varieties of American or European capitalism/democracy. The NLP is no such abdication of leadership. Rather it is a heavily interventionist and politically determined approach to embedding neo-liberal hegemony, which is articulated with a degree of independence from any other external alternatives. The project is then not defensive but offensive, not passive but active in the contemporary locking-in of capitalist hegemony at a domestic, European and global level.

3.3 Identification of Crisis Tendencies

> "The limitations of Thatcherism are clear. The claims of an economic miracle have evaporated. Society is divided. The people are insecure. The public is once again ready to listen to notions associated with the left." (Blair, 1994:2).
>
> "It is a feature of modern living that the majority enjoy a prosperity their grandparents would have thought impossible. Yet at the same time this economic well being is increasingly threatened by social disintegration. Crime, high structural levels of unemployment, serious poverty and the collapse of family and community stability; these are the hallmarks of society today, no less than the mortgage and personal pension. If our social fabric is torn in this way, we undermine our capacity to act and think as one country. We deprive ourselves of the necessary sense of purpose essential to any decent civilised nation." (Blair, 1994a).

By the late 1980s and early 1990s a number of negative implications of Thatcherite neo-liberalism were clearly apparent and it was still commonplace in academic, official and popular literature to speak of the UK economy as being in decline (Coates, 2000:43-52; Hutton, 1995). In 1992 this was graphically illustrated in the European Exchange Rate Mechanism crisis despite massive interest rate changes and billions in gold reserves spent defending sterling.

Underlying this highly visible sign of failure in neo-liberal reform were the symptoms of crisis: unemployment, low productivity growth, rising income inequality, failing infrastructure, a loss of faith in social policy and rising crime and fear of crime, accompanied by straightforward financial loss for those negatively affected by volatile property prices and high interest rates. As the sympathetic

New Labour think tank, the IPPR, put it the weakness of the UK economy was manifest in:

> "too many inefficient and poorly run companies, too many underachieving people, too little investment in research, innovation and physical capital and too frequent shifts in government policy" (IPPR, 1997, quoted in Coates, 2000:47).

As Gamble argues:

> "the Thatcherite project proposed only a limited modernisation…The industrial power of the British working class was contained and its political influence was marginalised, but little was done to remedy the cycle of low pay, low skill, low investment and low productivity in which many sectors had become caught".

As Figure 4 and Figure 5 show, unemployment, which had been purposefully engineered as part of structural adjustment of the early 1980s, reappeared in 'structural' form. The rate of unemployment which had remained well below 6% for the whole of the 1970s, doubled by the early 1980s, fell back in the mid-1980s (but was always above 6%) before rising again in the early 1990s. The trend was even more pronounced for male unemployment which quadrupled from less than 3% in 1974 to 12% in 1984. It remained high (above 7%) and by 1992 was climbing back up to 12% (Lindsay and Doyle, 2003). As Figure 6 and Figure 7 show, the structure of employment was also revealing with female employment rising in prominence and part-time and temporary work rising in proportion to full-time permanent work. Figure 11 shows that whole economy productivity also suffered, with even negative growth rates during 1989. Figure 14 demonstrates a lack of investment in the physical infrastructure leading to crumbling schools, hospitals and transport systems.

Figure 8, Figure 9 and Figure 12 show that high inflation and the high interest rates that accompanied them punished the very group – of new property owners – which had been at the centre of Thatcher's attempted strategic alliance with rapidly raising mortgage repayments and rising episodes of repossession:

> "two thirds of families who own their homes have suffered a massive increase in insecurity over the last decade, with record mortgage arrears, record negative equity and record repossessions." (Labour Party, 1997).

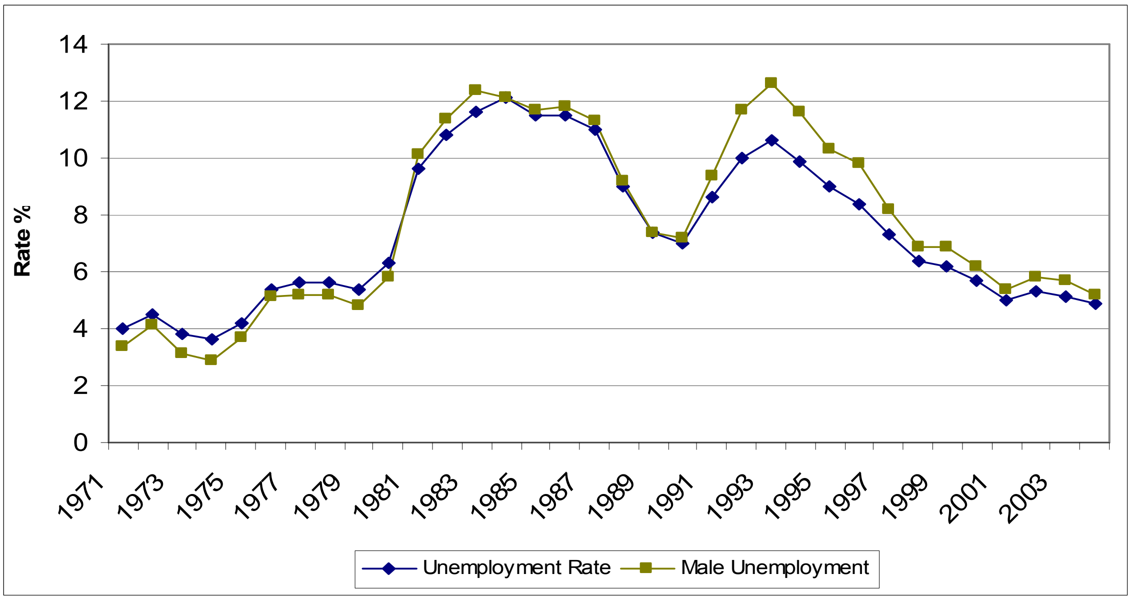
Figure 13 shows rising crime as social cohesion faltered, resulting also in the emergence of a significant underclass marked by high rates of serious illegal drug use and homelessness. Institutional reform faltered as public sector managers and professionals began to side with workers against the "long march through the institutions" (Gamble, 2003:184) characterised by attacks on public sector pay, professional autonomy (Whitfield, 1992; 2001) and the application of the NPM (OECD, 1994a; Dunleavy and Hood, 1994).

Taken together these trends provided evidence of a broad based crisis in accumulation, reproduction and legitimacy. High unemployment, low skills, low pay and low productivity, in comparative terms, were linked together by key individuals and organisations at the heart of the emerging NLP in an analysis of failure in material practices. Low investment in education, skills and the physical infrastructure were taken as evidence of policy and institutional failure. The mortgages and property market crisis, alongside increasing homelessness, crime and associated social anxieties represented fracture in the core of Thatcher's strategic alliance.

In a number of publications the same range of issues were highlighted over and again: economic stability, stable and high levels of employment, productivity and higher wages set against a context of global competition for labour, securing investment in infrastructure and building social cohesion through tackling issues like crime and anti-social behaviour (Blair, 1994, 1994a; 1995; Brown, 1994; IPPR, 1993). These concerns continue to appear in White Papers, strategic plans and form the subject matter for government policy reviews. Indeed the Cabinet Office Strategy Unit has been tasked with charting future structural problems, contradictions and crisis tendencies in hegemony (Cabinet Office, 2003), demonstrating the reflective nature of constructing hegemony as a practical political project.

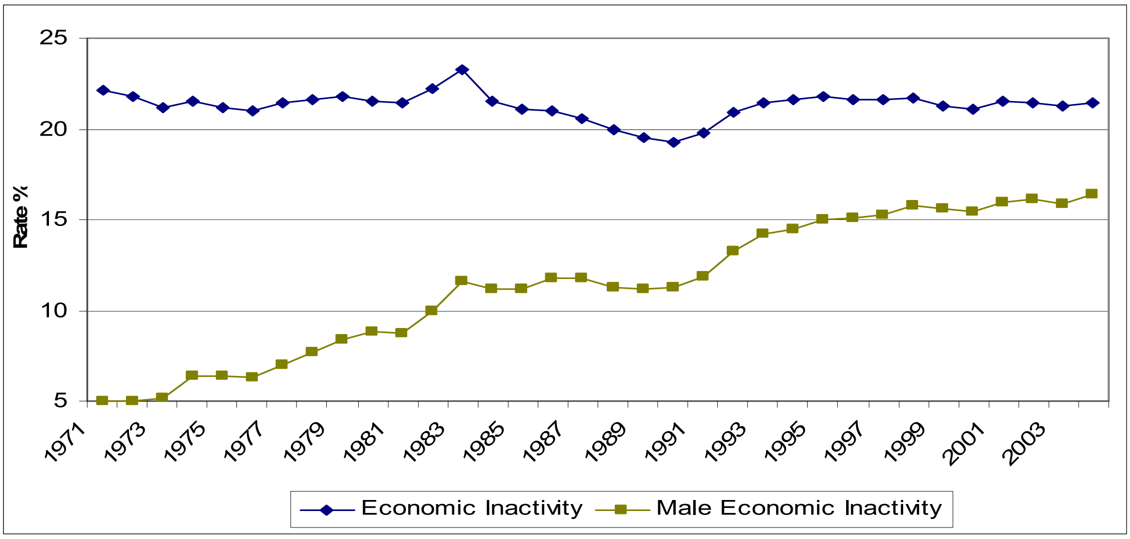
Crisis Pressures arising from First-Phase Restructuring

Figure 4: Working Age* Unemployment (1971-2004)



ONS (accessed January 2005), Labour Market Statistics, LFS Time Series Data. Series: YBTI, YBTJ. Notes: Seasonally Adjusted. * Working age is 16-59/64.

Figure 5: Working Age* Economic Inactivity (1971-2004)

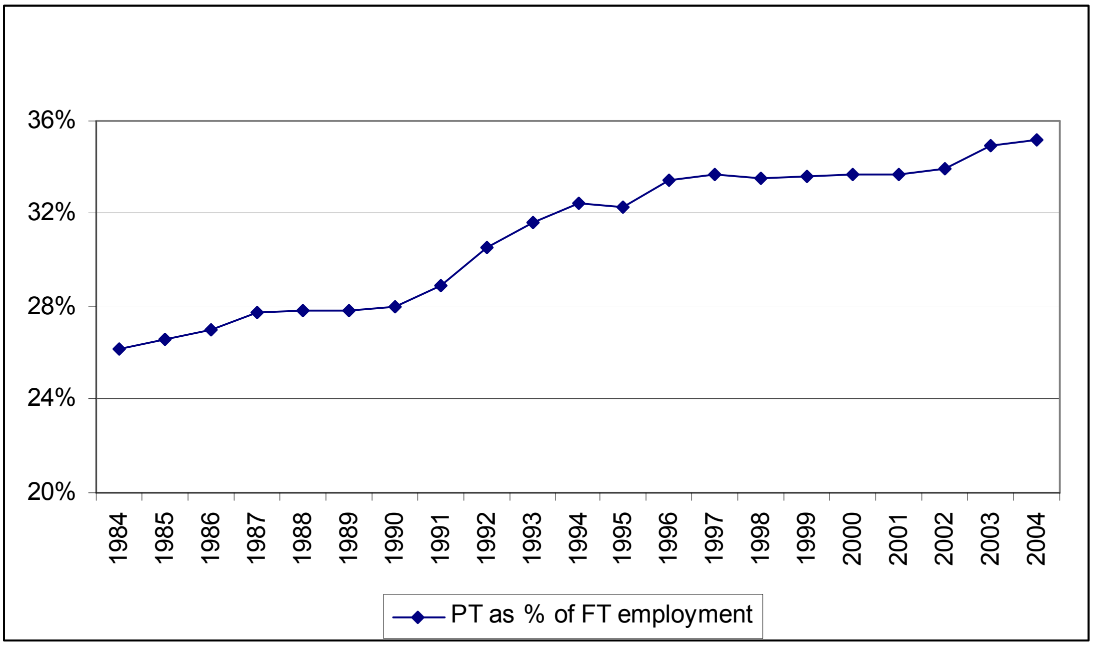


ONS (accessed January 2005), Labour Market Statistics, LFS Time Series Data. Series: YBTL, YBTM. Notes: Seasonally Adjusted. * Working age is 16-59/64.

Figure 6: Female Employment Rate (1971-2004)

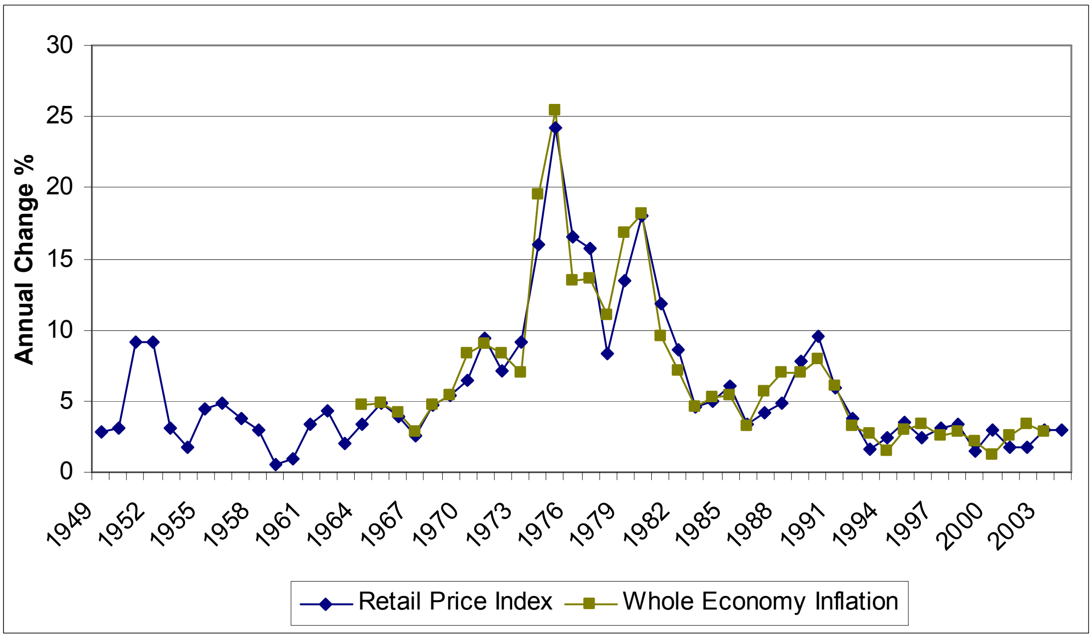
ONS (accessed January 2005), Labour Market Statistics, LFS Time Series Data. Series: MGSW.

Figure 7: Part Time as a % of Full Time Employment (1984-2004)



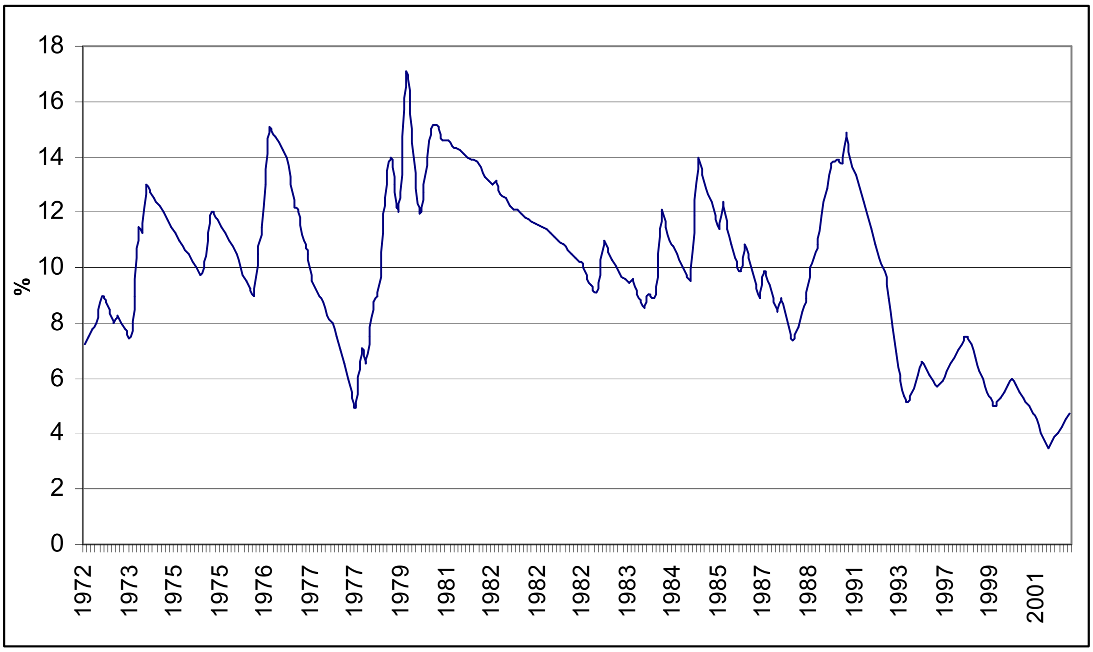
ONS (accessed January 2005), Labour Market Statistics, LFS Time Series Data. Series: YCBH, YCBE.

Figure 8: Inflation (1949-2004)



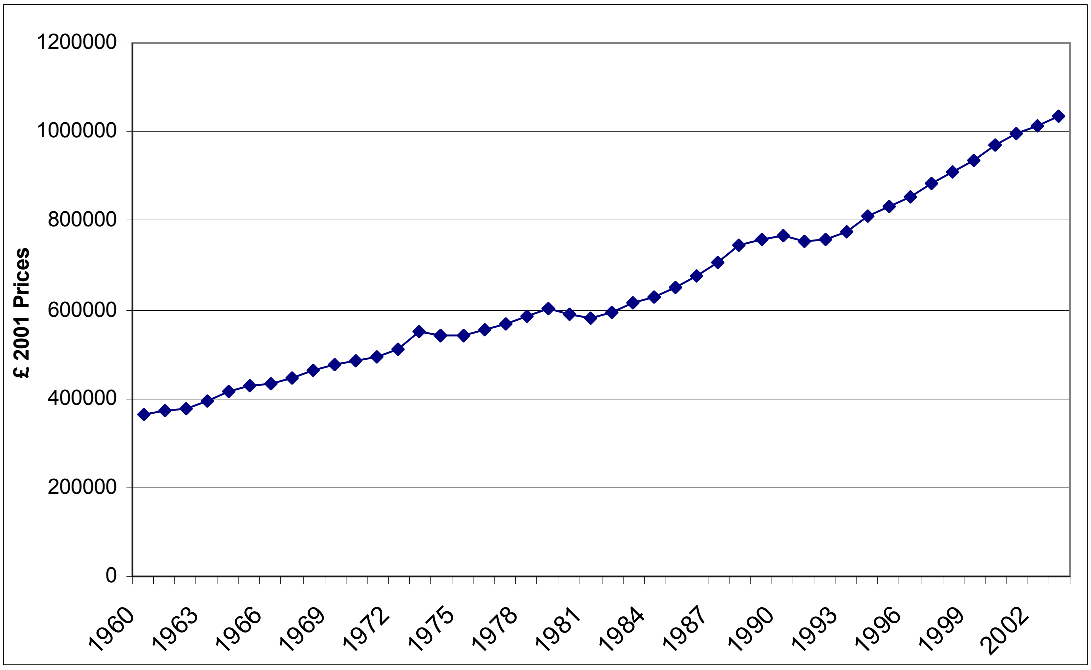
ONS (accessed January 2005), National Accounts, Retail Price Index. Series: CZBH; HM Treasury (accessed January 2005), Economic Data, GDP Deflator.

Figure 9: Bank of England Base Rate (1972-2004)



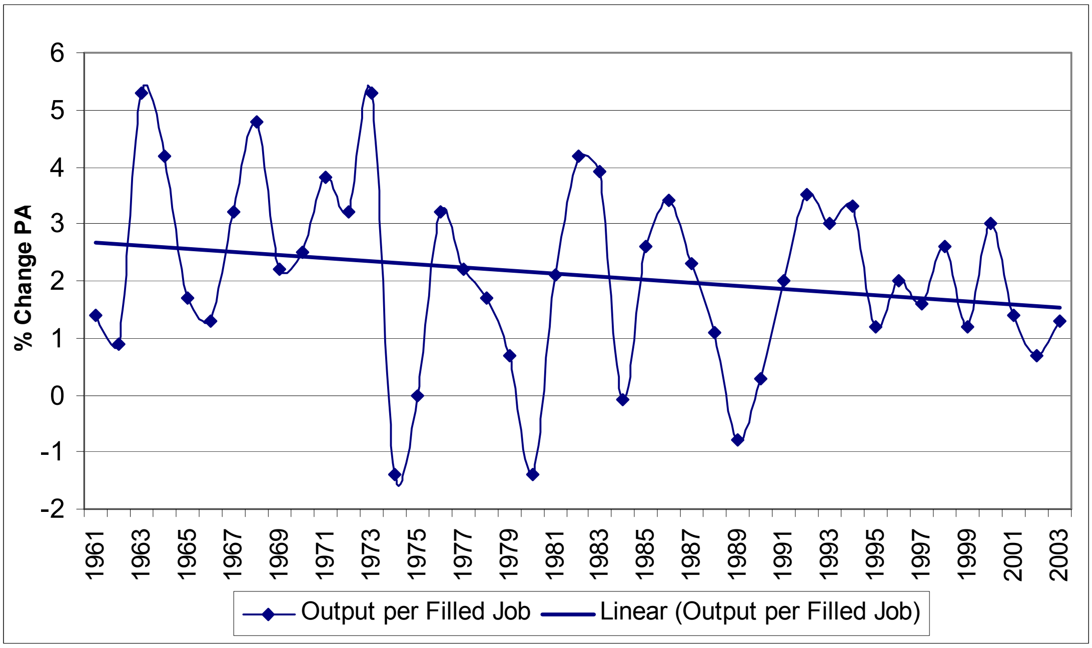
Bank of England (2004), Bank of England Base Rate, London: Bank of England

Figure 10: GDP Growth (1960-2003) in 2001 Constant Prices



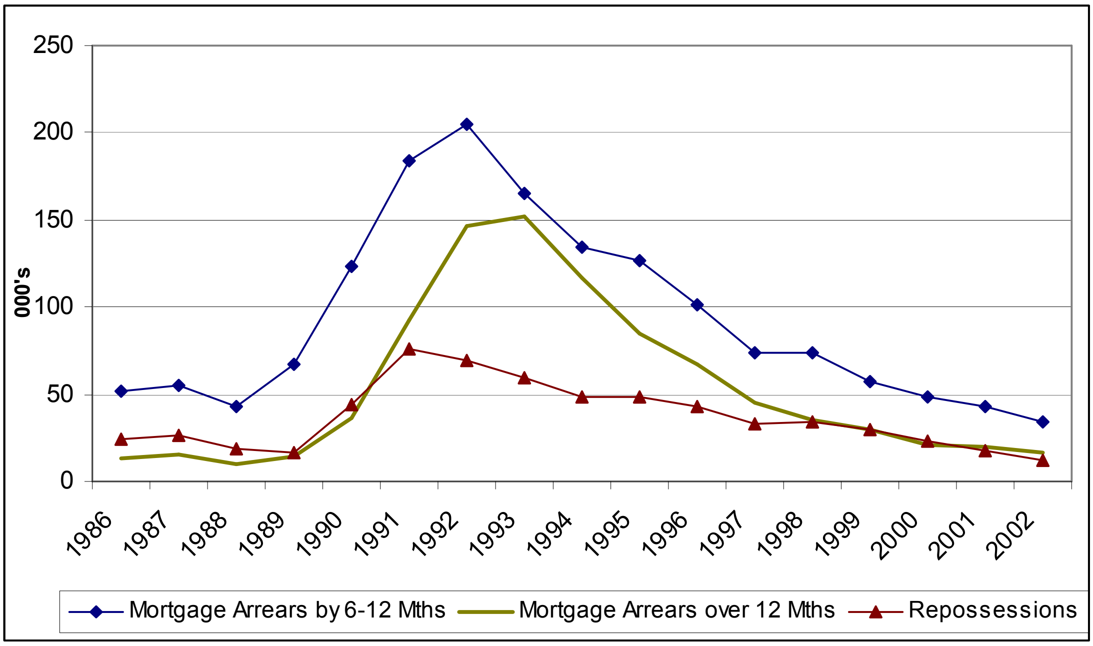
ONS (accessed January 2005), National Economic Accounts, Time Series Data, Series: ABMI, Constant Prices (2001). Chained Volume Measures.

Figure 11: Labour Productivity (1961-2003)



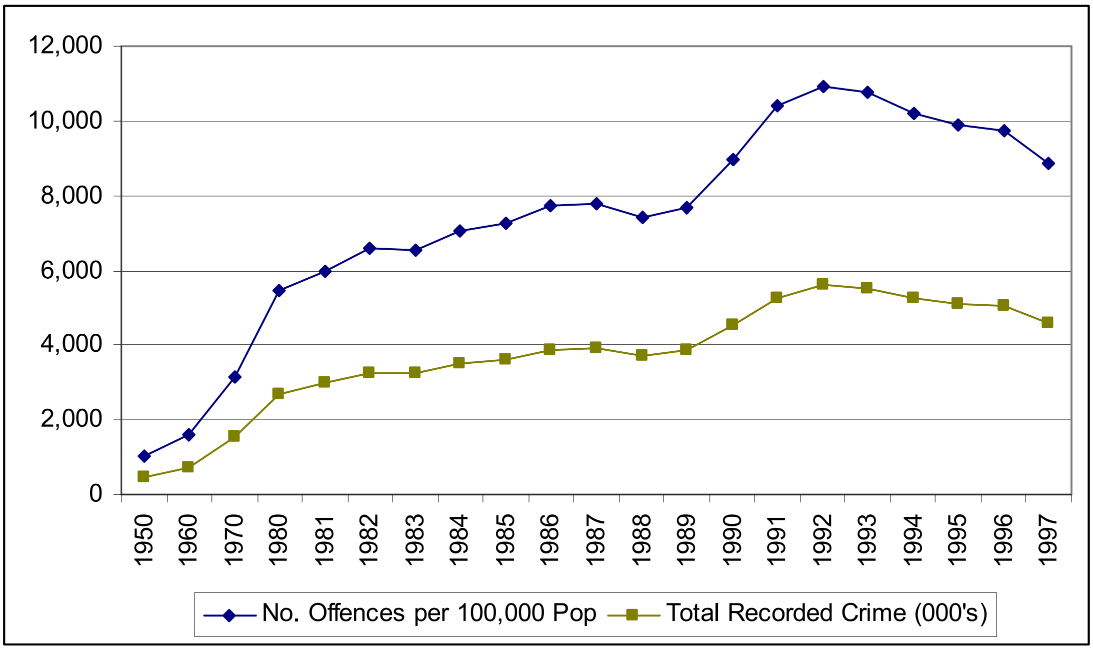
ONS (accessed January 2005), National Economic Accounts, Productivity: Output per-Filled Job, Time Series Data, Series: LNNP.

Figure 12: Mortgage Arrears and Repossessions (1986-2002)



ONS (2004), Social Trends, 34, http://www.statistics.gov.uk/statbase/Product.asp?vlnk=5748.

Figure 13: Crime and Recorded Crime Rate (1950-1997)



Home Office (2004), Crime in England and Wales 2003/2004, Home Office Statistical Bulletin, London: Home Office (July).

3.4 Constructing Hegemony: Locking-in the New Labour Project

While the NLP has and continues to be framed in the language and rhetoric of social democracy this disguises its central economic, social and political purpose: to justify, protect, advance and embed the structural power of capital, ‘locking-in’ the specific requirements of neo-liberal hegemony.

Ideological Locking-in

Ideologically, the NLP is commonly associated with the academic work of Giddens, principally his articulation of the ‘Third Way’. However, the broad vision was set out earlier by key ‘organic intellectuals’ in the UK and US.

Before considering a small number of these in depth, it is worth noting that the Labour party had been moving toward the central positions of the Third Way for several years prior to Tony Blair becoming leader in 1994. After the election defeat of 1987, the party instituted a ‘Policy Review’ process which resulted in ending its commitment to unilateral nuclear disarmament, strongly redistributive taxation and nationalisation (Labour Party, 1989). By 1995, with reform of the party well underway, Clause 4 repealed and changes to the structure of the party to hand more power to the centre, the notion of central bank independence was introduced and globalisation was accepted uncritically as fact and a platform of individualised competitiveness and industrial change was endorsed:

> 'In this new global economy, one thing is certain: where technologies, raw materials and capital can be bought from just about anywhere by just about anyone, it is the level of skills in a company that makes the difference between success and failure. For this reason, a policy of national economic renewal must mean enhancing individual economic potential as the route to rebuilding the industrial base' Labour Party, *A New Economic Future for Britain,* quoted in Arnold (2000).

Before his death John Smith, then leader of the party, had established a Commission on Social Justice which resulted in the publication by the IPPR (1993) of *Social Justice in a Changing World* which elaborated a remarkably Third Way social, economic and welfare agenda.

Meanwhile, across the Atlantic a significant part of the Democratic party was also embarking on a similar transition. A group which would gain the title of the New Democrats began analysing the reasons for the electoral defeats of the 1980s. In terms remarkably similar to those which formed the basis for the NLP, these were cast primarily in a failure to adapt to a changed electorate, particularly as a result of the expansion of the new ‘middle-classes’. They also featured an analytical backdrop of globalisation, industrial change and the recession of the early 1990s which brought into question the future life chances of that new middle-class and their security from unemployment, crime and the opportunities open to their children, particularly with regard to education (Clinton, 1991a; 1991b; 1991c). The prescription was to “recast the basic commitments of the Democratic Party in themes and programmes that can bring support from a sustainable majority” (Galston and Kamark, 1989:18). The early culmination of this debate was the New Orleans (DLC, 1990) and Ohio Declarations (DLC, 1991) of 1990 and 91 respectively by the Democratic Leadership Council (DLC).

These statements embraced many of the central tenets of the emerging Third Way, such as enabling the individual (particularly on skills) to compete rather than protecting communities from the market, a minimum income guarantee and other measures to make work pay and reduce welfare dependency, a strong commitment to individual responsibilities as a corrorally of individual rights, a focus on tackling crime couched in conservative overtones and an open ideological commitment to manage a neo-liberal market economy rather than rely on laissez-faire. This declaration would provide the philosophical foundation for the successful 1992 Clinton Presidential campaign and in 1996 this was crystallised around three principles: equality of opportunity, mutual responsibility and self government, under the banner of a ‘New Progressive Politics’ (DLC, 1996). More recent declarations continue in the same vein (DLC, 2000; *Blueprint*, 27 July 2003).

Building on the success of Clinton and the New Democrats, the ideological trajectory of the NLP was laid out by the future Prime Minister and Chancellor of the Exchequer in the early part of the 1990s in a small series of Fabian Society pamphlets: *Socialism* (Blair, 1994), *Let Us Face the Future*[27] (Blair, 1995), *The Third Way* (Blair, 1998) and *Fair is Efficient* (Brown, 1994). The core ideas set out in them were later codified in more complete form by Giddens (1998; 2000; 2001). Common to all of these is an expository method which begins by positioning the Third Way against two artificially caricatured binary opposites: Thatcherite neo-liberalism on the one hand and ‘traditional’ social democracy on the other. Each is grossly simplified in order to provide first the rationale for the Third Way and to present it as having a new relevance to the political, economic and social challenges faced in the 21st Century, and second to allow the underlying agenda to be obscured from view.

[27] mimicking the title of the party’s 1945 election manifesto (Labour Party, 1945).

Thatcherite neo-liberalism is caricatured as complete abdication of political authority in favour of free market fundamentalism (Cammack, 2004). That neo-liberalism in Thatcherite guise, or any other, never fully endorsed this view, except in rhetoric is purposefully left unsaid and the complexities of market management and the interests that lay behind it are ignored. Defined in this way neo-liberalism can be decried as simplistic, zany and out of date:

> "Third Way politics is not a continuation of neoliberalism, but an alternative political philosophy to it…the neoliberal idea that markets should almost everywhere stand in place is ridiculous. Neoliberalism is a deeply flawed approach to politics, because it supposes that no responsibility needs to be taken for the social consequences of market-based decisions" (Giddens, 2000:32-33).

For its part, 'traditional' social democracy is caricatured as statist, overly concerned with a totalising and rigid approach to economic development, unable to cope with the historical development of capitalism in globalised markets, politics and culture. Marxist and radical variants of socialist thought are presented as largely irrelevant, associated almost exclusively with the historical reality of the Soviet Union and its collapse (Ibid:34-5; Blair, 1994:3). With these caricatures in place, the conceptual space for the Third Way to occupy is cleared (Blair, 1994:5).

Conveniently ignoring the significant prior debates around alternative modernisation strategies (Gamble, 1990:157-85), Blair and Giddens set about redefining socialism as a set of values and principles fit for tackling the central problems facing a medium sized economy and society in an era of globalisation, technological change, flexible labour markets and de-industrialisation. The IPPR described these as three revolutions:

> "The economic revolution is a global revolution of skill, technology and competition that is transforming the nature and supply of work; The social revolution is a revolution of women's life chances, of family structures and demography, but it is also a revolution of citizens' and consumers' expectations; The political revolution is a challenge to the assumptions of Parliamentary sovereignty and government power; it involves a fundamental re-orientation of the relationship between those who govern and those who are governed" (IPPR, 1993:7).

Revealingly, each of these are left unchallenged, rather than contested as concepts and practices related to a balance of social forces and class struggle. The internal logic of the competition state is accepted and endorsed, not merely in an analytical sense, but in a normative sense too (Blair, 1994). The Third Way, therefore explicitly becomes an ideology *for* neo-liberal globalisation and the social forces and classes that promote and benefit from it, rather than an up-to-date definition of social democracy tailored to a project of limiting the disciplinary power of capital (Cammack, 2004).

Blair (1994), hoping to claim the heritage of the post-war Labour government that created the welfare state and post-war consensus, suggests that the central principles of this new approach to "social-ism" are in line with that heritage. Giddens, develops this further, in an operation of discourse redefinition, taking in turn a range of principles which had been central to social democracy and adding a fresh interpretation to them to fit the political purposes of the Third Way. As Cammack shows in some detail, in doing so, Giddens subverts their political and social content providing a language of social and institutional reform for the NLP which obscures its real purpose:

> "Casting himself in the role of Blair's Minister of Truth, Giddens offers New Labour a set of slogans tailored to the needs of the age: individualism is solidarity; responsibility is emancipation; risk is security; enterprise is community; opportunity is redistribution; inclusion is equality; self-help is welfare." (Cammack, 2004).

The principles of economic policy are also set by the Third Way framework. With the power and legitimacy of global markets and the concept of the Competition State accepted, the role of economic policy is to allow the domestic economy to attract high levels of investment and to boost output. However, having accepted the legitimacy of the de-nationalisation of capital as a social force and the spatially concentrated 'market failures' induced by a strategy of cheapening labour relative to returns to capital, the challenge for economic growth and national competitiveness was to adopt a strategy of simultaneously securing primitive accumulation and boosting labour productivity. Thus macro-policy must accommodate the demands of globally mobile capital; structural policy providing the appropriate social and institutional framework for expanded accumulation and capitalist development; and microeconomic and competition policy securing the environment within which firms can compete effectively with one another and innovate.

An important feature of the NLP is a rejection of 'ideology' in favour of an appeal to enlightenment rationality (Sanderson, 2002), most visible in Blair's frequent statement that there are "no ideological bars" to the shape of reform and that "what matters is what works". This is most often associated with private sector involvement in public services but the appeal to rational thought and empiricism goes much further, with 'evidence-based policy making' permeating every area of government. In economic policy, complex analytical tests were used and published to justify the decision not to adopt the Euro, and Treasury publications are peppered with references to academic sources and include detailed expositions of economic thought. Public service reform was guided first by the

Best Value regime with its focus on the four “C’s” of challenging whether the service should be delivered, comparing it with like services, competing with other services and consulting with service users and others. More recently the Comprehensive Performance Assessment (CPA) for local government has applied complex analysis of statistical performance indicators and highly structured inspection judgements (with accompanying criteria and decision rules), drawn from organisational theory. Policy development typically involves piloting, evaluation and then full roll-out and an entire industry of public policy analysts and evaluators has grown up, with the Cabinet Office publishing detailed guidelines on the standards that qualitative policy-based research should aspire to (Spencer et al, 2003). However, despite the claim to ideological neutrality, this empirical approach is circumscribed by the overall policy goals, with evaluation judgements typically limited to the efficiency and effectiveness of a particular policy or initiative at achieving them, rather than a judgement of the social basis of the goals themselves (Martin and Sanderson, 1999).

The Third-Way economic project has relied on the insights of ‘New – post-Keynesian’ and Schumpeterian - Growth Theories (Treasury, 2000). These approaches posit that some of the traditional assumptions of classical and neo-classical economics – that growth rates reduce and converge over time, that markets clear at equilibrium prices and that prices find equilibrium – do not hold true. For instance, growth can be sustained because of the accumulation of knowledge (Romer, 1986)[28] and ‘endogenous’ technical change, resulting from the intentional investment decisions of rational actors receiving appropriate market incentives (Romer, 1990). Romer argues that knowledge is separable from labour power in that it is both non-rivalrous, and only partially excludable (for instance through patent law). Labour power is both rivalrous and excludable because it is firmly attached to the individual and cannot be used in two places at the same time. Differences in growth can be attributed therefore to the extent to which innovation, the generalisation of that innovation and its successful uptake in new products or processes are embedded spatially and approximate to Schumpetarian ‘creative destruction’ (Aghion and Howitt, 1992; Romer, 1994; Grossman and Helpman, 1994). The policy implications are that governments should accentuate market incentives to research and development and the development of human capital (labour power) to generate competitive economic change. Integration in

[28] Implying a theory of learning, see Arrow (1962) and Argyris and Schon (1978), Senge (1997).

world markets is also desirable because it facilitates access to knowledge and innovation produced elsewhere.

Markets may be prevented from clearing at equilibrium prices for a whole array of reasons. For instance, Stiglitz's (2002b) 'efficiency wage theory' may allow market equilibriums to coexist with distributions in wages, while informational problems (asymmetries) may prevent capital and labour from coming together at equilibrium prices. The result of this is that surplus capital can coexist with surplus labour, even in conditions of general growth and without market distortions.

Cammack's highlighting of the treatment of risk is highly relevant because it is the key to understanding the social basis of the NLP. In place of protection from the market, the NLP promotes the partial transfer of social risk to individuals, families and communities who are to be 'enabled' by the state to compete more effectively. This philosophy of self help then refers the focus of state policies to the provision of a range of responsive services that can equip individuals to better compete to assist in the process of attracting and valorising capital (Giddens, 2000:55-85; Brown, 1994:10-14; IPPR, 1993:25-26), which in turn requires internal competition to produce an enhanced material and social bargaining position for capital. Foremost in this enabling role is education and skills development which needs to concentrate on developing flexible workers and enabling them to retrain in response to market change throughout their lifetime (Nunn, 2002; Centre for Public Services, 2003:4-7).

Thus the treatment of risk provides the unifying framework for the redefinition of equality, welfare and social justice. Equality becomes tied up with the process of enabling individuals to compete and is therefore almost solely related to opportunity rather than outcome, for the latter would distort the market (Blair, 1994; Giddens, 2000), and the enabling role of welfare provision in that context. Welfare is thus no longer about protection from the market but a pathway into it. Social justice becomes concerned with the concept of social inclusion defined itself by participation in paid employment (Brown, 1994:9-11; IPPR, 1993:23).

The IPPR (1993:22-31) document *Social Justice in a Changing World*, underlined this model, setting out ten key propositions of social justice: (1) Social justice is a broad concept which encapsulates more than poverty and therefore applies more broadly than to the 'minority who are poor' to a politics of identity as much as to a politics of class; (2) paid employment is the key to social inclusion and protection from poverty; (3) Redistribution is an important means rather than an end, but the scope for redistribution is limited on practical (wealth generation) and moral grounds; (4) The state should equip its citizens to cope with economic and social change rather than protect them from it; (5) "Social justice requires a widening of access to wealth"; (6) "Public investment must become a catalyst for wealth creation"; (7) Strong families and strong communities go hand in hand and public policy interventions should support family stability for the benefit of future generations; (8) Social cohesion and community power are economically and socially advantageous (9) Rights require complementary responsibilities; (10) Britain should lead in the development of social and economic orthodoxy at a European level.

By the time of the 1997 general election, the new Labour manifesto set out a complete vision for the NLP, fully in tune with this neo-liberal synthesis, based on making 'education the number one priority', 'personal prosperity for all', creating 'successful and profitable businesses', getting the 'unemployed from welfare to work', 'saving the NHS', being 'tough on crime and tough on the causes of crime' and 'strengthening family life' (Labour Party, 1997). These philosophical moves and agenda for government laid the ground work for the practical establishment of the competition State in which the role of the state may have been reconceived but neo-liberal globalisation remained unchallenged.

Institutional Locking-in

The basis of institutional change has been in macro-economic reform and the 'modernisation' of the institutional capacity and mechanisms of the state. Macro-economic reform has been firmly rooted in the new-constitutionalism with the establishment of policy rules in order to secure market credibility, which can then be used to broker relative autonomy. The increased investment enabled by this has been accompanied by a comprehensive agenda for reform.

Institutionalising Macro-Economic Reform

Echoing the themes of the new Constitutionalism, the new Chancellor of the Exchequer Gordon Brown immediately argued that the macro-economic policy framework should be based upon the notion of policy consistency and "constrained discretion" (Balls, 1997) to gain credibility in the eyes of investors and markets:

> "Governments are in theory free to run the economy as they see fit. They have, in theory, unfettered discretion. And it is not only the fact that they have this unfettered discretion but the suspicion they might abuse it that leads to market distrust and thus to higher long term interest rates. That is why governments have sought to limit their discretion through rules … stability requires the discipline of a long term institutional

> framework… Governments which lack credibility-which are pursuing policies which are not seen to be sustainable- are punished not only more swiftly than in the past but more severely and at a greater cost to their future credibility. The British experience of the 1990s is a case in point. It shows that once targets are breached it is hard to rebuild credibility by setting new targets. Credibility, once lost, is hard to regain. The economy then pays the price in higher long term interest rates and slower growth. On the other hand governments which pursue, and are judged by the markets to be pursuing sound monetary and fiscal policies, can attract inflows of investment capital more quickly, in greater volume and at a lower cost than even ten years ago. The gain is even greater than that. If governments are judged to be pursuing sound, long-term policies, then they will also be trusted to do what is essential- to respond flexibly to the unexpected economic events." (Brown, 1999).

This contextual analysis is further developed in four propositions about the basis of macro-economic policy. The first is that "because there is no long term trade-off between inflation and unemployment, demand management alone cannot deliver high and stable levels of employment". Second, "in an open economy rigid monetary rules that assume a fixed relationship between money and inflation do not produce reliable targets for policy". Third, "the discretion necessary for effective economic policy is possible only within a framework that commands market credibility and public trust". Fourth "that credibility depends upon clearly defined long-term policy objectives, maximum openness and transparency, and clear and accountable divisions of responsibility" (Ibid; Brown, 2000). These propositions have therefore duly been given life in a macro-economic policy framework based on rules and targets, but significantly these rules are often substantially less binding than they might at first appear.

The NLP monetary policy framework took shape days after coming to power. The manifesto promise to "reform the Bank of England to ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation" (Labour Party, 1997) was immediately carried out with the granting of its independence (Brown, 1997) in a symbolic move designed to signal the intent of the incoming administration:

> "We needed a policy framework in which the government's commitment to long-term stability - low inflation and sound public finances - commanded trust from the public, business and markets. For a new government, especially for a left of centre government out of power for twenty years, establishing credibility was a must." (Balls, 2001).

Central Bank independence was accompanied by a series of monetary policy rules based on inflation targeting as opposed to monetary or exchange rate targeting (Brown, 1999; 2000) to secure discipline in monetary policy making by insulating it from democratic pressure:

> "My intention is to lock into our policy making system a commitment to consistently low inflation in the long term. The real stability that we need will be achieved not when we

meet the inflation target one or two months in succession but when we can confidently expect inflation to remain low and stable for a long period of time." (Brown, 2004).

Monetary policy was to have two objectives: "to maintain price stability, and subject to that, to support the economic policy of Her Majesty's Government, including its objectives for growth and employment" (Bank of England Act 1998: Part 2:11,(a), (b)). However, the 'independence' of the Bank is overplayed. The government sets the definition of price stability, the measure of inflation and the numerical target, appoints the members of the MPC as well as having a degree of certainty over how they will act in given circumstances (because of their high profile prior reputations). The result is a framework which builds credibility but in doing so allows room for manoeuvre – Balls' "constrained discretion", or relative autonomy.

Following similar themes, the fiscal policy framework is based upon the principles of stability promoted by transparency, credibility, responsibility (in 'prudent' spending policies), efficiency and, again, constrained discretion (Treasury, 1998:Ch3). The framework was implemented in a number of reforms and innovations and explicitly justified as dealing with past failures to 'manage' the economic cycle, provide sufficient information to markets, to provide sufficiently robust economic analysis, and low levels of capital investment (Treasury, 1997; 1998a).

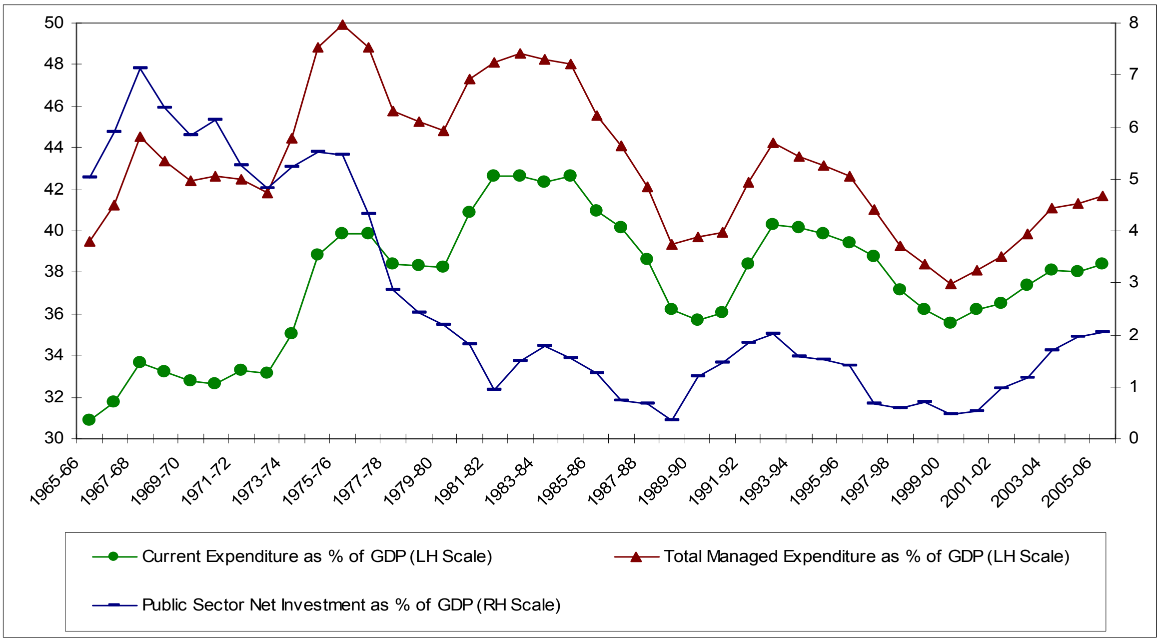
First, the *Code For Fiscal Stability* (Treasury, 1998b), intends to lock-in the principles above, in addition to a claimed principle of 'fairness', into the fiscal policy making process, with the clear intention that they will be difficult to reverse, not just in dealing with short-term pressures but also into the future, effectively binding the hands of future governments (Balls, 1997). The Code sets out the various mechanisms for fiscal policy making such as the requirement for the annual publication of Pre Budget Reports, Budget Reports, Fiscal Strategy Reports, Debt Management Reports and detailed requirements for the publication of economic and revenue collection forecasts and projections, all of which are to be subject to verification and assessment by the National Audit Office and the House of Commons Treasury Select Committee (Treasury, 1998b). The Code also set out the transition to Resource Accounting methods, based on a series of accounting conventions that enforce a rigid distinction between current and capital expenditure and tend to prioritise leasing, renting and contracting over directly buying, building or providing and thus fits with the enabling model.

Second, two fiscal rules were established. The first – Golden – rule is that the government will only borrow to invest and not to support current spending. The second – Sustainable Investment – rule is that net public debt as a proportion of GDP will be held over the economic cycle at a 'stable' and 'prudent' level, presently defined as 40% of GDP. These rules are promoted as committing the government in a very public way to fiscal discipline. However, they also allow some flexibility and are less rigid than the requirements of the Stability and Growth Pact which operates in a similar fashion in the Euro-area. Specifically, the UK approach places a great deal of emphasis on measuring the economic cycle (Treasury, 1999:11-12). The flexibility in determining the 'cycle' and how the rule is measured offers some relative autonomy within a new-constitutionalism type framework.

Other measures have been related to attracting and retaining investment and to channelling investment into infrastructure development. Therefore Corporation and Capital Gains taxes have been cut (Treasury, 2002). Other fiscal incentives have applied directly to the project to modernise the institutions of the state and to micro-economic policies in the project to modernise the industrial base and are dealt with below.

A further part of the macro-economic policy framework is sustained public spending increases, especially to finance infrastructure renewal in transport, education and health (Treasury, 2002; 2003a; 2004). As Figure 14 shows, new Labour stuck to Tory spending plans for the majority of the first term in office, only releasing spending increases in the latter half of the first term. Subsequent spending rises are fully in line with the second-phase project underway, in two main ways. First, public spending in a context of large scale private sector delivery of services either through direct privatisation, contracting or commercialisation has clear benefits to sections of the supportive historic bloc. Second, this spending is channelled primarily to areas of service delivery which are in line with the second phase project, such as the enhancement of labour power.

Figure 14: UK Capital and Current Expenditure as a % of GDP (1955/6-2005/6*)



Treasury (2003). *Projected, CSR 2002.

Public Sector Reform

Public sector reform under the previous government had become stalled[29] by institutional inertia and the alienation of public sector managers and professionals. New Labour have developed a legitimating ideology for institutional reform, based on evidence-based policy making and 'ownership', especially among public sector managers and professionals, locked-in to place by spending increases. Modernisation has been complemented by both formal constitutional reform and devolution, and more informal alterations in the spatial structure of the state.

On coming to power, the new government was faced with a dilemma with regard to public service reform. While there was a need to complete the institutional transformation, begun but not completed by the Conservatives, to make the state more responsive to the needs of neo-liberal accumulation there was an equal need to learn the lessons of first-phase restructuring, especially with regard to crisis tendencies in reproduction and legitimacy. In terms of reproduction this was characterised by the need to build institutional capacity to deliver the conditions suitable for the continuation and expansion of accumulation, especially with regard to deprived areas characterised by a large proportion of de-commodified residual labour. In terms of legitimacy, this was manifest in the need to garner support from public sector workers (and trade unions), professionals and senior managers who needed to be co-opted into the 'cadre' class, and wider local elites.

[29] Notwithstanding the privatisation of the Railways and establishment of the NHS internal market.

Public spending increases, provided one part of the solution. In addition, new Labour developed the ‘modernisation agenda’ to provide both legitimisation and a combination of incentives and discipline for public sector managers and staff. ‘Modernisation’ was to be based on four principles of reform: national standards, devolution, flexibility and choice. Oft repeated in White Papers and ministerial speeches, they have also become closely associated with the Prime Minister himself (Blair, 2002; OPSR, 2002).

‘High national standards’ are synonymous with performance management and centralised control, presented in de-politicised terms as technical and managerial, directed not by politicians but by ‘experts’ in inspection agencies like the Audit Commission, the Office for Standards in Education (OFSTED), the Healthcare Commission and a plethora of other sectoral bodies. ‘Devolution’ in this context refers to the delegation of powers and freedom to public sector managers. The third principle – ‘flexibility’ appeals both to notions of responsive services and to greater management freedom. Together they thus provide the incentive for successful managers within a framework of centralised control, made possible through the link with national standards, inspection and monitoring initiatives. In this system, managers and organisations ‘successfully’ implementing centrally designed modernisation gain ‘earned autonomy’: additional institutional freedoms, for instance from detailed financial regulations, to vary staff terms and conditions, or the range of service provision. Such freedoms are available for instance to Foundation Hospitals (DoH, 2003), City Academies (Education Act 2002 Part 5; Centre for Public Services, 2003) and local government (Local Government Act (2003)).

The fourth principle – ‘choice’ – explicitly extends rational choice theory as a mechanism for securing institutional efficiency and overcoming ‘producer interests’ (Brown, 2003). Continuing the central themes of the NPM, it is thus promoted as generalising the advantages available to the affluent in terms of choice of provider (OPSR, 2002:24). The massive amount of information produced by inspection and performance management is to be made available to the public, better enabling ‘consumers’ to make informed market choices between schools (DfES, 2004a), clinicians and hospitals (DoH, 2003a). As the introduction of market related ‘top-up’ fees in higher education shows, choice may also pave the way for the modern form of voucherisation (DfES, 2003; DfES, 2004; Higher Education Bill (2004)). This then formed the main basis of the pseudo-debate between the main electoral parties in the 2005 General Election with each claiming greater credibility for their model of delivering it, though the Conservative option fails to fully reflect the transition from first to second-phase hegemony (Labour Party, 2005; Conservative Party, 2005).

Taken together, these four principles provide the framework for breaking up ‘monopolistic’ public sector provision, creating market opportunities for capital. Even where public provision remains, it is to be within competitive structures which ape market conditions. In education, a variety of initiatives have undermined the role of the Local Education Authority, giving more scope for individual schools to be run independently and in competition with one another (DfES, 2000; Education Act (2002); Centre for Public Services, 2003). In health, regulatory reform promotes the transfer of some aspects of secondary care to the private sector (DoH, 2001; 2003a), and hospitals with Foundation Status can vary the services they offer, dispose of assets and borrow from the capital markets (DoH, 2003). GPs operating under the new GP contract can also vary the services they offer. In social care, a massive transfer of care provision, has seen the proportion of social care provided directly by the public sector fall from nearly 100% in the early 1990s to 12% in 2002 (DoH, 2003b). Public housing has already, or is in the process of being, transferred to Registered Social Landlords or new arms length management organisations (ALMOs) (Centre for Public Services, 2003a: 2004).

The Community and Voluntary sectors are also increasingly encouraged to takeover responsibility for public service delivery. The slow transition from grant funded ‘additionality’ to competitive contracting to replace mainstream services has been accelerated and codified by the Treasury and Home Office in their *Future Builders* programme (Treasury, 2003) and the DTI’s *Social Enterprise Strategy* (DTI, 2002). The aim to secure primitive accumulation on an expanded scale is clearly evident throughout.

The desire to both build support and discipline reluctant reformers has been amply demonstrated throughout. For instance, steps have been taken to provide minimal protection for staff transferring to the private sector (Cabinet Office, 2000; UNISON, 2003; ODPM, 2002c). Senior managers in high performing local authorities have seen pay rise dramatically, additional funding increases are available through the ‘earned autonomy’ route, as well as professional prestige, with a whole cadre of managers specialising in the management of ‘change’. Equally, however, discipline has also been wielded. For instance on coming to power, poor-performing schools were shut down, reluctant LEAs were transferred to the private sector and some councils had private sector managers introduced (Centre for Public Services, 2003; Whitfield, 2001). In addition, all public bodies were swamped with detailed statistical performance targets, with the threat of intervention if ‘continuous improvement’ was not secured (Education Act (2002)); ODPM, 2002d).

Many of these initiatives partially demonstrate the apparent shift to poly-centric governance as public sector delivery is transferred to arms-length structures, each with their own individual governance frameworks, whether through ombudsmen, independent regulators or with complicated webs of accountability to local and national levels. For instance, Foundation Hospitals have their own independent governance arrangements with several levels of patient, staff, local community and management representatives. In addition, they are also to be accountable to Primary Care Trusts (who themselves have independent boards) and ultimately to individual (prospective) patients in a market/consumer mechanism and to separate patients forums. Finally, through national standards and performance management they are accountable also to the Department of Health, the Secretary of State and ultimately the government. However, in such a complicated web of accountability, it is difficult to see where true power lies. It is too early to make empirical judgments but Foundation Status itself is a gift in the power of the government, which must be gained by the hospital’s management demonstrating coherence with the government’s agenda. Such local flexibility as there is, must therefore be set within the framework of the NLP. Decentralisation and poly-centrism are then heavily constrained.

Poly-centric management and delivery is also more heavily concentrated on deprived areas which tend to be the focus of new institutional structures like Area Based Initiatives (ABIs), neighbourhood management and area forums, designed not only to facilitate competitiveness but to secure ownership and commitment to it. There are now more than 52 types of ABI, including: Sure Start, New Deal for Communities, Education, Health, Employment and Sports Action Zones. The majority of these are focused on deprived areas and to a greater or lesser extent stand outside mainstream services or aim to coordinate existing services in new and innovative ways. While such zonal policies have been used before, the scale of their operation under new Labour is unprecedented, particularly around the themes of ‘social inclusion’, ‘regeneration’ and ‘neighbourhood management’.

Whitfield (2001:105-110) has argued that such zonal initiatives focus on the technical place-based problems of governance in capitalism, are based on competition for state funding to embed a market mentality, tend to offer new opportunities for capital to influence public policy and often operate as 'pilots' for wider assaults on the bargaining positions of public sector workers. More recently they have also been connected to 'regeneration' which has taken on a central part in the new Labour project. In this fashion they are to establish institutional transformation in support of social adjustment, the inculcation of primitive accumulation and capitalist development, while securing continued legitimacy by drawing-in excluded groups into the formal capitalist economy and promoting an image of this as a participatory process.

This technique of fragmentation of formal organisational and institutional structures does though create problems for the implementation at the local level of the desired social transformation. The Audit Commission (2004:10) has referred to these problems as "the Humpty Dumpty" effect, with local elites strained by the efforts of drawing these disparate strands together to achieve local competitiveness. As such, a number of policies and reforms have aimed to join up these poly-centric tendencies at a local and community level with a layer of multi-levelled governance. These have included the creation of Local Strategic Partnerships (LSPs) which are to facilitate local partnership working between local authorities, health, police and other statutory agencies alongside community and voluntary sector partners and the private sector (DTLR, 2000). Specifically, they were to achieve this by drawing up *Community Strategies*, broad based plans for local renewal, which are to be established via widespread local participation and are notionally to reflect a balance between local and national priorities. However, these strategies were to be drawn up in line with extensive guidance and to receive accreditation from central government. Mechanisms for community involvement are opaque and promote the inclusion of 'representative' local organisations that are increasingly drawn within the local policy making process rather than being independent community activists or representatives.

While much attention has been paid to the local level, in the development of these new decentralised governance frameworks, there has also been a functional recognition that certain tasks in supporting capitalist development require a broader spatial remit. Thus significant policy responsibility has been transferred, first to the devolved governments of Scotland, Northern Ireland and Wales and second to London and the English regions (ODPM, 2002).

This devolution is uneven with much greater powers and responsibilities being devolved to Scotland than to Wales or the (now suspended) Northern Ireland Assembly. The powers and responsibilities of the Greater London Assembly are still less comprehensive. Nevertheless this programme clearly marks a major change in the spatial organisation of governance and it is clear that institutions with such devolved responsibilities will seek to extend their remit over time.

Within the English regions, the programme for strengthening democratic devolution has been far outpaced by the decentralisation of aspects of decision making and implementation through the Government Offices for the Regions (GORs), RDAs, and the Regional Chambers (usually referred to as Regional Assemblies, though they are entirely appointed) (Regional Development Agencies Act (1998)). GORs now represent ten central government departments in the regions (up from three in 2000). RDAs are charged with designing and implementing Regional Economic Strategies (RESs). Regional Chambers prepare Regional Planning Guidance (now Regional Spatial Strategies), and transport strategies. Collectively these regional institutions now deliver large and increasing parts of rural policy (see Haskins, 2003), housing investment (ODPM, 2003), regeneration, planning and transport policies and public health policy. GORs also coordinate some of the activity within Area Based Initiatives (ABIs) (RCU, 2003). The transfer of these policy areas to regional level is regardless of the devolution of democratic accountability.

Underlying these, and other, initiatives is an attempt to inculcate and institutionalise spatial competition at a variety of sub-state levels. Regions are exhorted to compete via their RESs. The Competitive Cities (Parkinson et al, 2004; ODPM, 2004b; 2003a) programme embeds the notion of competition between cities and ‘city regions’. Even local neighbourhoods are encouraged to become competitive with a special focus on ‘deprived areas’ where the specific problems of exclusion from the market had become apparent. Everywhere competitiveness is mapped and measured in statistical terms (ODPM, 2002b; Association of Regional Observatories, 2003; DTI, 2004b) including a marked drive to map deprivation – read lack of competitiveness – down to street and post-code level (ODPM, 2004a).

There is strong grounds to suggest then that far from marking a hollowing-out of the state, these new governance structures are actually part of an elaborate state directed strategy to construct a deeply embedded neo-liberal capitalist hegemony.

Social Locking-in

These changes in the mechanisms of governance, are shaped by the aims of social adjustment: to lock-in and expand primitive accumulation, to lever-up labour productivity and to secure continued legitimacy, social order and the sanctity of capital as property. These aims are addressed through supply-side labour market adjustment, education and training and initiatives to secure social order.

Supply Side Labour Market Adjustment

Supply-side labour market reform is based around an analysis of the challenges posed by globalisation, trade liberalisation, technological changes in production and working practices and demographic changes in labour supply, particularly changing household composition and increased female participation in the labour market (Treasury, 1998d). This analysis, published in a series of documents by the Treasury[30], the DTI[31], the DWP[32] and the DfES (DfEE 1998; DfEE 2001; DfES 2001; DfES 2003; 2003a) identified a range of implications arising from these changes such as low productivity, persistently high levels of unemployment, low paid work and large (and growing) inequality in incomes with large sections of the population in relative poverty and experiencing long-term exclusion from the labour market (DWP, 2003; 2004). Specific social groups were identified as being ‘at risk’, such as families with children, lone parents, younger people with low skills and older people (particularly men) with low skills (Treasury, 1998d; 2001; DWP, 2003). These problems were seen to further underlie issues of health inequalities and the costs to society and the economy of ill-health (Acheson, 1998) and poverty related crime and anti-social behaviour.

The solution to these perceived problems in the operation of labour markets was articulated in strongly pro-market terms. The answer to unemployment and low pay was not therefore protection from the operation of global markets but exposure to them and increased flexibility to cope with rapid change:

> “Government has a responsibility to serve as an enabling force, providing the right support for businesses and individuals to achieve success and prosperity - and in so doing widening the circle of winners in all regions and communities. Its role is to identify

[30] Ten documents in the *Modernisation of Tax and Benefits* series.

[31] In a series of papers on employment and industrial relations, full employment and work-life balance.

[32] In the annual *Households Below Average Income* series and other documents on employment and the changing welfare state.

> and anticipate the forces that are transforming the world we live in and to help people to respond to them…It is not the Government's role to try to resist the profound structural changes affecting businesses and individuals, or to intervene by trying to pick winners. But equally, Government cannot stand aside and retreat from any active role in promoting security and prosperity" (DfEE and DTI, 2001).

Increased labour market flexibility, it was argued, could provide the structural conditions for long-term stable growth, and an end to cyclical patterns of boom and bust (Treasury, 1998d). Both the Phillips curve and the NAIRU could also be rejected (Finn, 2003:711), and a "modern definition of full employment" adopted to extend the *opportunity* if not the *reality* of paid employment to all. This reflected the acceptance of a heterogeneous internal labour market structure ranging from relative security to precarious employment or even just the potential for work:

> "The Government's aim is employment opportunity for all, the modern definition of full employment. In the dynamic, modern labour market, this cannot be delivered through jobs for life, but rather through ensuring job opportunities for all throughout their working lives." (Treasury, 2000:4).

The basis for this definition of full employment is that the discipline of unemployment is only operable where there is *potential* for entry, but not where there is long-term exclusion. In particular, the negative effects of structural unemployment (lack of labour utilisation) were contrasted with the useful effects of short-term unemployment (discipline and flexibility) (Grover, 2003; Dickens et al, 2000). Thus government intervention was to simultaneously facilitate both flexibility and wider participation by overcoming the structural barriers faced by 'excluded' or low paid groups. Again, with an eye on in-built crisis tendencies, flexibility has been placed within limits, by policies to 'make work pay', thus preventing labour market discipline from recreating the problem of long-term exclusion and under-utilisation. Skills development too is part of this approach, which, combined with micro-economic intervention in the industrial base, is intended to solve the policy dilemma posed by globalisation and the comparative labour cost advantages of developing and transition economies.

Widening participation in the labour market has been advanced through a range of 'active labour market' policies (ALMPs) (Treasury, 1999). Such 'welfare to work' policies, already implemented by the Clinton administration in the US by 1997 (Crine, 1994), have included the New Deal, targeted initially at younger people. The New Deal includes tight discipline and work-focused assistance for key groups of unemployed combined with training provision as a pre-requisite of accessing benefits (Finn, 2003:712-3).

However, as the employment rate has risen, there has been an increasing focus on the need to expand the available workforce, particularly through drawing various excluded groups (representing long-term 'useless' unemployment) into the labour market (SSDA, 2003:7; Dickens et al, 2000). Thus the New Deal and other ALMPs have increasingly been targeted at groups beyond young people, in recognition of the need for an increasing pool of available labour (DTI and Treasury, 2003):

> "as the rate of growth of the working age population continues to slow, effectively utilising the skills of employees with caring responsibilities has become a business imperative. To do this, businesses need to turn to more flexible management practices that enable parents to balance better their work and family lives. (18)

Specific measures have included the expansion of the New Deal to Lone Parents, the Disabled, 25 and 50 plus; the introduction of increased support for childcare costs and public sector investment to increase provision (Cabinet Office Strategy Unit, 2002; Treasury, 2002a, Finn, 2003:712) as well as regulation to facilitate greater 'flexible working' (DTI and Treasury, 2003). These measures are often justified in the context of expanding rights. For instance, as the labour market has become tighter, the government has become more interested in strengthening the rights of older people but only in so far as they relate to employment and work-based training, while refusing to extend protection with regard to access to goods and services (Centre for Public Services, 2004c). The DWP has a headline Public Service Agreement (PSA) target to "Work to improve the rights of disabled people and to remove barriers to their participation in society", but measurement of the target relates solely to the employment rate for disabled people rather than other measures of rights and participation (DWP, 2003b).

ABI programmes such as Action Teams for Jobs, Employment Zones, New Deal for Communities and now the 'Working Neighbourhoods' pilots also aim to widen the penetration of the labour market in defined spatial pockets of unemployment and economic inactivity which is reinforced by additional efforts to identify these pockets at ever smaller scale (ODPM, 2004a).

Set against an analysis of various labour market failures (unemployment and poverty traps) (Treasury, 1998e:29-36), the government has also introduced a number of measures designed to 'make work pay'. These include the introduction of a National Minimum Wage (NMW) (Low Pay Commission, 1998) and an increasingly complicated system of in-work benefits, again linked to widening the labour market in targeted groups, particularly families. The Family Credit system has been reformed several times to become Working and Child Tax credits, which can offer substantial premiums to low paid workers with families, and which offer support for childcare expenses, deliberately designed to assist women in entering the labour market (Treasury, 2002; 2002a) as well as plugging market failures in the provision of childcare. The specific targeting of efforts to expand the remit of the labour market to include women and younger people also provides additional discipline, particularly where it results in the displacement of or competition with traditional older male employees. For instance, the NMW legitimates differentiated minimum pay between younger and older workers (DTI, 2004).

Widening participation and ‘making work pay’ are also elements in the much vaunted strategy to eliminate child poverty by 2020. The focus of interventions has been on tackling issues of unemployment and exclusion on a household basis, with targets set for the achievement of this. In addition, attention has been focused on inter-generational exclusion and developing the ideal-type flexible worker to reach children at ever earlier ages. In the first instance, this project is defensive in nature. Building on evidence that children from workless or deprived households are more likely themselves to be excluded or exist in a precarious relationship to the formal labour market, interventions are designed to secure the participation of children over the longer-term, thereby containing some of the negative effects of labour commodification and flexibilisation. The project is also offensive in that it aims, over the long-term, to raise the quality (and potential quality) of labour inputs by generating the conditions by which children will be encouraged to absorb positive messages about work. Over the long-term this is intended to enable them to better adapt to the challenges of flexible employment and to be more productive by facilitating their ability to learn and apply their skills.

The defensive aspect of the project has also been taken forward in specialist children’s services, brokered through the Sure Start initiative and now children’s centres, and targeted at deprived localities where children are statistically more likely to suffer deprivation and exclusion. Further, novel education initiatives, such as EAZs, Excellence in Cities and now the roll-out of City Academy programmes have aimed to target educational investment and improvement in deprived areas. Important in this strategy has been the attempt to build support for it from the private, voluntary and community sectors. EAZs and City Academies are to secure funding and active managerial support from these groups (Centre for

Public Services, 2003e; House of Commons Work and Pensions Committee, 2004).

More recently the more offensive strategy has risen in prominence. Children's Centre's are to be rolled out to localities outside of the most deprived areas and the City Academy programme is to be massively expanded (Treasury, 2004a). Tensions remain, however, between widening the labour market and making work pay, especially with regard to achieving the (recently revised) child poverty targets, and the need to increase the pay and incomes of the poorest families further, if the targets are to be met (LGIU, 2004:8; House of Commons Work and Pensions Committee, 2004).

Education, skills and lifelong learning for the competitive labour force

> "A generation ago Britain tolerated an education system with a long tail of poor achievement because there was a plentiful supply of unskilled and semi-skilled jobs. This is no longer the case…To prosper in the 21st Century competitive global economy, Britain must transform the knowledge and skills of its population. Every child, whatever their circumstances, requires an education that equips them for work" (DfES, 2001:5).

> "British businesses can no longer compete on the basis of low cost, low value added activity. To be successful, it is even more important for businesses and individuals to learn new skills, be more creative and innovative and use their knowledge to produce higher value added goods and services." (DfEE and DTI, 2001).

These quotations spell out the programme of action to satisfy the needs of capital for specific skills and to 'adjust' society and the labour market to the 'reality' of the global economy. Massively increased spending on education reflects the level of commitment to this programme and has been accompanied by radical reform. The curriculum has been more tightly focused on basic and transferable skills, through the literacy and numeracy strategy and through the introduction of the Citizenship curriculum which ironically is heavily reliant on business leadership and sponsorship of materials (Centre for Public Services, 2003:33). Business support has been brokered, though not necessarily successfully, in special initiatives like EAZs Excellence in Cities and City Academies programmes (Nunn, 2003:21-4).

These measures were supported in 2002 in a report commissioned by the Chancellor from Howard Davies (former the Chairman of the FSA, now Director of the LSE) into the inclusion of enterprise in the school curriculum. Specific recommendations were to expand the Young Enterprise Scheme to try to develop more entrepreneurs against an analysis of the inability of the Comprehensive system to provide the flexible competitive labour force and business leaders of the future:

> "The world of work is changing fast. Over the last two decades the number of people working in small firms or who are self-employed has grown sharply, while jobs in the

public sector and large firms have been cut back. These trends, at least in the private sector, seem set to continue. Looking forward, therefore, young people seeking work in the future are likely to need to be more flexible and entrepreneurial in their attitudes. Even in larger firms and in the public and voluntary sectors entrepreneurial skills are more highly valued than they were in the past." (Davies, 2002:7).

The increased opportunities for capital to become involved in the formal education system are unabashedly touted to businesses as offering "an opportunity to influence the curriculum", "ensure that new recruits come through with the right skills and attitudes", "find that the company's reputation in the local economy is enhanced", "reduce training costs", and "experience increased employee loyalty".[33] The overall agenda is clear and aims to increasingly redefine education as training for work to enable higher productivity through the inculcation of more flexible, pliant and risk taking workers.

That the skills needs of business are at the forefront of government thinking is demonstrated by the vast array of skills studies and strategies being produced at national (eg SSDA, 2003; 2003a, DfES, 2003a; LSC, 2003) regional and local level. The creation first of the Learning and Skills Council (LSC), a national organisation of forty-nine local LSCs and then of twenty four separate Sector Skills Councils under the umbrella of the SSDA with the aim of satisfying the skills needs of capital to meet the 'productivity challenge' are also evidence of this (SSDA, 2003):

"By the end of this decade employers should no longer say that the system of education and training does not meet their needs. It does. The competitiveness and productivity gap between the UK and other countries has narrowed significantly and in some sectors there is no gap, as business performance surpasses the rest of the world. This is the determined focus of our first Strategic Plan. We are committed to working with employers to ensure they acquire the skills they need. And through Skills for Business, making a real difference to levels of individual and company performance." (Chair, Sector Skills Development Agency, 2003a).

The link between educational investment and the politics of spatial regeneration in 'pockets of deprivation' is clear. With the market in school admissions already well established with vastly inflated house prices in the catchment areas of schools which are perceived to be successful, many of the targeted initiatives recognise the need to attract middleclass families to blighted areas to correct housing market failures. Apeing the experience of 'magnet' schools in US cities, these newly recreated schools in the City Academy, Fresh Start and now Building Schools for the Future (BSF) programmes aim first to demonstrate a clear break with the previous school (Centre for Public Services, 2003). However, there is the potential

[33] DfES Standards Website www.standards.dfes.gov.uk.

that these new schools are highly differentiated in their impact. Some are likely to be part of a strategy of gentrification with the existing population largely moved on in large scale population clearances. Others, however, are likely to be more firmly linked to the local labour market.

The differentiation of education provision for hierarchically organised labour markets is clear also in Higher Education (HE) policy. Under the banner of 'Widening Participation', and appealing to a politics of social inclusion by flooding the elite institutions of learning with the children of the proletariat, the government has set out in the 2003 White Paper *The Future of Higher Education* (DfES, 2003) a clear strategy to break up the system which was ironically unified and expanded by Thatcher. A small number of institutions are to be increasingly tailored toward a global managerial class, focusing on research and offering a traditional academic degree or business focused MBA. The majority of the rest are to increasingly surrender their efforts at leading edge research, focus on the dissemination of ideas and technologies with the potential to increase productivity in their local labour market and offer teaching that increasingly looks like further education (or more vocationally focused training). The spatial dynamics of this process are also clear with the former group increasingly expected to attract students (or customers) from a wide international or global geographical base, both directly and through new forms of e-learning and the latter group more firmly rooted to the local labour market (Centre for Public Services, 2003).

These institutions along with others, fostered through the Skills Councils, the University for Industry and various electronic universities (Nunn, 2002), are able to offer lifelong-learning, better understood as lifelong access to training. Schemes, like the failed Individual Learning Account initiative are intended to assist individuals, families and communities to access training and re-skilling, enabling them to cope with periods of rapid change in the labour market, and reflecting the prognosis that such periods of change are not only part and parcel of 'reality' but should be embraced as a part of flexibility and competitiveness (Ibid).

The logic here is interesting because the locking-in process clearly goes beyond policy and institutional lock-in. By redefining first social inclusion in terms of participation in the formal labour market and second full employment as opportunities for employment, the social role of the individual is defined by their competitiveness as a flexible or relatively secure skilled worker, or in terms of their relationship to increasingly globalised class structures. The broad hegemony of capital over labour is being augmented by its specifically neo-liberal form in which values like competitiveness, flexibility, speed of social and technological change and a subservience to a general capital perspective are central.

Securing Social Order

The NLP has also aggressively addressed issues of social order. In opposition, Blair tapped into the anxieties identified by focus groups regarding rising crime levels and promised to "be tough on crime and tough on the causes of crime". In government, the focus has been both traditional – additional legislation, more police – and novel with a specific emphasis on social order. Examples of such novel initiatives has been the introduction of a variety of quasi-police forces in the form of (different types of) Neighbourhood Wardens, City Centre Wardens, Police Community Support officers, and a heavy reliance on new legal powers in the form of Anti-Social Behaviour Orders (ASBOs). ASBOs are specially tailored pieces of legislation created by civil courts[34] to apply conditions on individuals, for instance curfews, restrictions on movements or clothes to be worn. ASBOs can also be applied to entire areas, for instance placing age or time related curfews and restrictions on public association. Other focuses have been on social disorder related to alcohol and drug abuse (BBC, 2004). ABIs, (like New Deal for Communities) typically 'buy-in' additional policing, Closed Circuit Television and improved street lighting to improve 'liveability' (Shaw et al, 2004).

Redesigning the Land Use and Spatial Dynamics of Capitalism

Part and parcel of the required social adjustment is an attempt to rework land-use, infrastructure and spatial demography to suit neo-liberal accumulation through 'regeneration' projects which replicate the NLP in concentrated form at local level. Mobilised through new and more flexible organisational structures (such as ABIs), regeneration projects typically focus on infrastructural renewal ('Housing Market Renewal Pathfinders'), employability initiatives (e.g. 'Working Neighbourhood Pilots', 'Employment Zones') and skills improvements ('EAZs', 'City Academies', 'Fresh Start', 'BSF') and aim to make these areas competitive business districts or efficient feeders of the local labour market. Because of the heavy focus on physical improvement, they tend also to visibly represent the transition to fully embedded neo-liberal hegemony erasing redundant Fordist land-use structures, replacing them with call centres, shopping malls and business parks. Mass public housing estates are replaced with smaller, 'mixed communities' (with different

[34] the significance of which is that the burden of proof of having 'caused an offence' is on the balance of probability rather than being 'beyond reasonable doubt'.

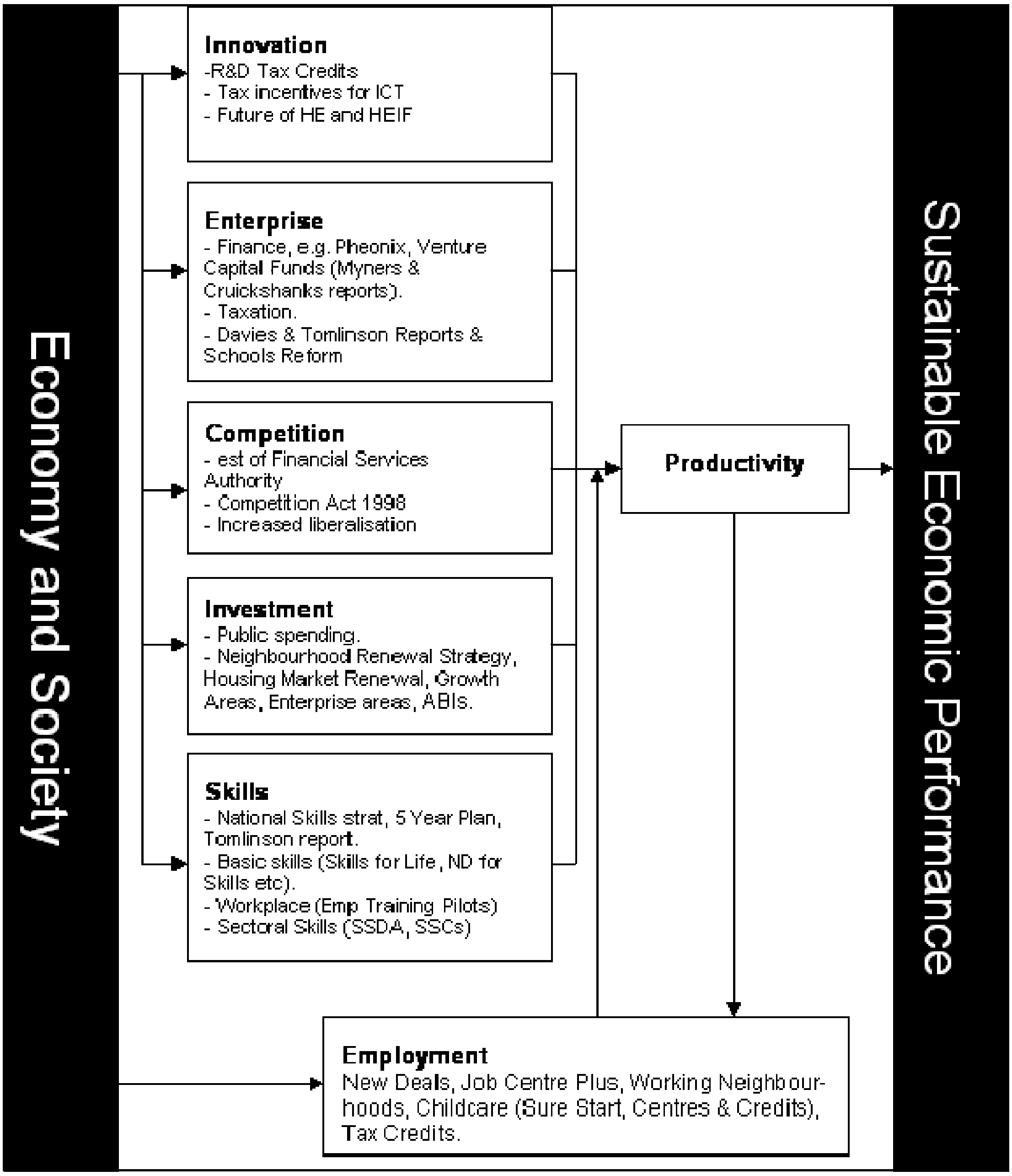
forms of marketised tenure) utilising post-modern design ideas. At the same time, some pre-Fordist and Fordist structures have been retained as fetishised and re-commodified desirable residences in dock developments and city centre flats in disused warehouses and mills. Such regeneration is also targeted at securing social order through clearance of pockets of severe social dislocation, such as the Housing Market Renewal project focused on Burnley, the site of race-riots in 2001 and which were openly cast as reactions to the loss of Fordist employment and a lack of competitiveness among communities that had been dependant on this (Burnley Task Force, 2001; Elevate, 2004; Home Office, 2002). Even in this highly interventionist process, capital is engaged in 'partnership' with the state to deliver capital or skills projects in regeneration programmes or to take ownership of previously public sector assets (such as in housing transfer to RSLs and Compulsory Purchase Orders).

Material Lockin-in

> "Firm and plant level analysis reveals a wide distribution of productivity among UK firms. The most productive have productivity levels that are comparable with the best in the world. However, lagging behind the leaders in each sector is a long tail of firms, which are substantially less productive". (Treasury, 2000:19).

Intervention in the industrial base is intended to create the conditions for flexibility and competitiveness at firm level and has four discernible interrelated elements which augment social adjustment. The first is the setting of the micro-economic policy environment through macro-economic policy, regulation and labour market reform to create competitiveness and flexibility. A second category of measures are designed to promote modernisation and investment in the fixed capital stock. A third set of measures aim to develop, apply and disseminate new production and product technologies and practices, guided by theories of endogenous growth. Fourth, is the encouragement and fostering of enterprise, as defined by entrepreneurial activity and business start ups. This model of economic growth is set out in Figure 15.

Figure 15: UK Government Economic Growth Model



Micro-economic environment

There is a clear relationship between the macro-economic policy framework and its intended micro-economic impact: flexibility, competitiveness and productivity growth. Enterprise policy aims to encourage productivity growth through 'productivity churn' initiated by a regulatory environment designed to let older less productive firms either leave the market quickly to be replaced by newer more productive firms or to innovate (Treasury, 2002b:25). In line with the tenets of endogenous growth theory, innovation is seen not just to lead to increased productivity at firm level but to 'spill-over' across entire sectors and the wider economy (Romer, 1994).

To achieve these aims, Corporation Tax has been cut across the board and exemptions increased for small companies and for certain types of revenue and investment in larger companies. Capital Gains Tax has been reduced and exemptions increased (Treasury, 2002; 2003a; 2004; Inland Revenue, 2002). VAT exemptions have also been expanded (Treasury, 2003).

Regulation to promote competitive practices has been strengthened through the 1998 Competition Act granting increased powers to the Office for Fair Trading and the establishment of the FSA was intended to promote increased competition, access and transparency in financial services (Finance Services and Markets Act, (2000)). National planning guidance has been reformed, particularly with reference to placing a greater emphasis on releasing land for economic development (ODPM, 2002a; 2004).

A key part of this approach has been a recognition that there is increased scope for aggregate productivity rises through addressing areas of slow growth with supply-side reform, particularly because of the relative abundance of unemployed, underemployed or decommodified labour in these areas. Therefore, social adjustment in these areas has been matched by measures to generate business growth and development. The most deprived localities have been designated as Enterprise Areas with reduced (in many cases to 0%) Stamp Duty on property and land transactions, and measures to improve access to business finance, particularly for excluded ethnic groups and community/social enterprise (Treasury, 2002b).

Infrastructure and Fixed Capital Investment

Modernisation of the social infrastructure has been complemented by a more modest programme of renewal of the physical infrastructure (Treasury, 2003c: 41;

DETR, 1998; 2000). Private sector investment has been marshalled for this purpose both through the Private Finance Initiative (PFI) and through tax concessions on private donations to infrastructure development vehicles such as Urban Development Companies and Urban Regeneration Companies. The net flow of resources may be away from the tax payer to the shareholder but the clear aim is to tie a range of 'partners' together in support of investment and infrastructural renewal, helping not only to shape material practices in the private sector but also to build a comprehensive historic bloc in support of the NLP.

Increased investment in the public and shared infrastructure has been accompanied by a desire to promote a greater level of business investment in the fixed capital stock and to channel this into areas that the government thinks will yield long-term gains in productivity. A variety of reviews of the banking system and access to business finance have been undertaken (Cruickshanks, 2000; Myners, 2001) to identify market failures in terms of access to SME finance and to overcome informational problems (SBS, 2003; 2003a) particularly for SMEs and entrepreneurs in deprived areas. These measures include a plethora of business funding streams, venture capital funds (Venture Capital Trusts, Venture Capital Funds, Pheonix Fund, Regional Venture Funds) and tax incentives to encourage wealthy individuals (business angels) to contribute personal wealth into such funds, many of which are managed or administered through the new RDAs (Treasury, 2002b:45-60; 2003), in addition to the vast array of tax cuts and simplification measures.

Technology, Innovation and Dissemination

> "Innovation and technological progress are important factors in determining economic growth. Productivity growth relies on a continual stream of inventions and innovations of both new technologies and improved working practices. New ways of working provide a source of efficiency gains, enabling workers to operate more effectively and providing firms with greater opportunities to use labour and capital inputs in ways which maximise their productive potential." (Treasury, 2000:12).

A whole range of policy papers, proposals and reforms have aimed first at developing new products, technologies and production practices, second making them commercially viable and third disseminating them throughout the industrial base to raise labour productivity.

A vast range of tax incentives have been introduced, such as the introduction and subsequent expansion of the Research and Development Tax Credits programme which offers tax exemptions to SMEs and large corporations for investment in research and development. Similar tax incentives apply to small business investment in ICT and the government, through the Small Business Service, Business Links and the RDAs has attempted to spread the use of broadband and e-commerce in small businesses. Investment in IT, in R&D, the number and density of businesses who use new technology or create new products, profits from new products and a range of other related data are collected not only in the UK but are benchmarked between the regions of the UK and between EU states in an attempt not just to monitor innovation but to leverage public sector support for it (DTI, 2001; CEC, 2001; ODPM, 2002b).

The regional tier has been particularly important also for promoting business development in new high productivity sectors with the adoption of Porter's influential approach to 'clusters'. Porter argues that competitive (as distinct from comparative) advantage can assist in the realisation of high productivity growth to retain employment in the context of globalisation. Countering the logic of comparative advantage, he argues that by co-locating similar companies and by providing high quality inputs (e.g. high skilled labour) and physical infrastructure (transport, telecommunications) clusters of similar firms can generate productivity gains through highly localised factors such as personal knowledge and social networks which promote the spill-over of innovation, increased competition and access to high quality and secure inputs (Porter, 1998a; 1998b). Thus a great many initiatives have been located at regional level to take advantage of these 'local factors'. For instance, high technology business incubators have been a prominent feature of RDA strategies. The Regional Centres for Manufacturing Excellence aim to generalise and promote flexible management practices and production techniques have also come under the remit of RDAs.

Universities too are increasingly encouraged to play their part in disseminating new technologies, practices and processes. Increased investment in scientific and engineering research has aimed to generate a greater level of commercially exploitable research (DTI, DfES and Treasury, 2002). Various initiatives and funding streams have been used to assist in this, including the Higher Education Reach Out to Business and Community (HEROBC) scheme (Nunn, 2002), the Science Enterprise Challenge and the University Challenge Fund (Treasury, 2001a; DTI, 2000:28). The 2003 White Paper (DfES, 2003), was equally unambiguous that there was to be a clear role for higher education institutions in addressing productivity. The White Paper envisaged focusing the majority of funding for research and development in a small core of leading institutions and departments, with the rest tasked to disseminate research findings, practices and technologies throughout their local economy through collaborations with local businesses. Skills development for the uptake of new technology and production practices in the workforce has been the subject of a number of initiatives within the workplace, such as the Trade Union Learning Fund, a government funded 'partnership' project between the Trade Union Congress (TUC) and the Confederation of British Industry (CBI).

Strategic Alliance Building

> "We are a national party, supported today by people from all walks of life, from the successful businessman or woman to the pensioner on a council estate. Young people have flooded in to join us in what is the fastest growing youth section of any political party in the western world. We are a broad-based movement for progress and justice. New Labour is the political arm of none other than the British people as a whole. Our values are the same: the equal worth of all, with no one cast aside; fairness and justice within strong communities." Tony Blair (Labour Party, 1997).

The NLP has received much attention for its grounding in an electoral strategy of winning a 'middle England' consisting of various alliterated ideal-types such as 'Mondeo Man', 'Worcestershire woman' or 'Pebbledash people' (Wainwright, 2001; Hinslif, 2003). While the electoral appeal has been somewhat over emphasised because of the collapse of the other major electoral party, new Labour clearly appealed to the core concerns of Thatcher's crumbling historic bloc. A range of policy agendas have been consciously tailored to soothing the social anxieties of this group. For instance, the promise of a stable economy with low interest rates and relatively low taxation reflected this groups' desire for mortgage and taxation stability (and predictability), the crime and anti-social behaviour stance aimed to soothe worries about rising crime. Public sector reform, particularly in health and education aimed at easing middleclass worries about the future of their children.

In addition to this broad based electoral strategy, has been a more complex strategic alliance. At the top lies a small layer of organic intellectuals in the form of key individuals and organisations which produce relentless papers justifying existing policy or generating new (sometimes marginally critical) policy ideas, but safely within the confines of the overall political-economy perspective. These include the Third Way chronicler Giddens and a range of other academics at the LSE. In the Treasury, Ed Balls and Ed Milliband have laid the theoretical basis for macro-economic stability and micro-economic reform. In Downing Street, Andrew Adonis author of *A Class Act: The Myth of Britain's Classless Society* and former

Director of the Downing Street Policy Unit (Blair's own in-house think tank)[35] and of course former ministers such as Stephen Byers, Alan Milburn and Peter Mandelson regularly shout encouragement from the sidelines. Outside government, a number of organisations also regularly produce a stream of justificatory research and evidence in broad support of the project. These include organisations (and key individuals within them) such as the IPPR (Matthew Taylor, now Director of the Downing Street Policy Unit), the New Local Government Network (Dan Corry, Gerry Stoker) and the New Economics Foundation (Ed Mayo).

Below this, a broader and more materially based alliance rests on 'partnership' and institutional reform. This is a well embedded material structure which Whitfield (2001:157) calls the Corporate Welfare Complex with at least three broad elements: "a contract services system which includes (1) a shared client/contractor ideology, value system and vested interests in which the state outsources an increasing range of services and functions; (2) an owner operator infrastructure industry; and (3) a system of tax relief, subsidies and concessions to business" (Whitfield, 2001:157; Centre for Public Services, 2002). The role of this Corporate Welfare Complex is significant, not only in the way that it grants special benefits to capital, but in the way that it has been used in the NLP to build a wide supportive base (extending beyond electoral support) for a hegemonic doctrine of modernisation, economic development and social order.

A relatively small number of consultancy firms and a larger number of consultancy units in universities are increasingly commissioned to provide the intellectual basis for organisational, development, reform or strategy under the guise of 'evidence based policy making'. A crucial feature of many of these university units is that they were often responsible for critical research about Thatcherite restructuring. In that context, the several million pounds a year spent on securing their support through tying them in to relatively bounded evaluations and policy research commissioned by the various elements of government might appear to be good value. At a local level a wider range of other consultancy organisations are also heavily involved in local and regional government (e.g. Pion economics, SQW Consulting, DTZ Pieda). Van der Pijl (1998:160-1) notes that this group are central to the cadre function of the hegemonic class. They perform the role of transmission belt for the prescriptions of the higher level organic intellectuals to be

[35] And now an education minister.

implemented at a local, regional and institutional level. They are thus central to anchoring the politics of productivity in local and regional labour markets and in institutional reform of the local, regional and national state.

Additional to this, are an increasingly embedded web of institutional linkages between the state and capital. The privatisation of state and public service functions provides one arena for this. Again, as Whitfield (2004) has noted, there are a multitude of different types of privatisation which go beyond the asset sales of the early privatisation period. Increasingly, in the use of the PFI a wide range of business sectors (if not always a wide range of businesses) are tied into the functioning of key aspects of the state (in particular health and education design and even delivery). For instance, a traditional PFI contract typically includes design, build, finance and operate functions, with each of these performed by at least one private sector partner in a complex and long-term contract between the state and a consortium of capital. These relationships are long-term with some of the ‘partners’ being involved in this contractual relationship for twenty-five to thirty years. The new wave of PFI schemes such as the Local Improvement Finance Trust (LIFT) or Building Schools for the Future (BSF) programme involve even more complex relationships between consortia at a national and local level.

Such deeply entwined relationships are being created in poly-centric governance structures too, with increased opportunities to bind the state, capital and civil society together in webs of formal and informal governance in regulatory bodies, Local Strategic Partnerships, Inward Investment agencies, regional institutions, local forums and Area Based Initiatives. These relationships assist in the development of strategic alliances which embed the logic of the NLP especially as these governance and delivery structures interact with the structure of knowledge production and dissemination which extends between the leading edge organic intellectuals at the heart of the project and the cadre consultants and managers who reproduce it at local and institutional level.

These processes are augmented by increasing mechanisms for community ‘participation’ in a multitude of different and disparate mechanisms, often without actual power or where the scope for exercising it is heavily constrained and limited to choosing from a menu of options or by the boundaries placed by hegemonic ideologies and perpetuated through advice disseminated by public managers, government organised conferences and management consultants. For instance, the liveability and local participation agendas stress the need for communities to have an increasing role in local governance but are highly restrictive over the extent and remit of this (Centre for Public Services, 2003d). The role of these structures is clear – to spread an ever wider net to draw in support and community ‘ownership’ of the NLP at a local and community level.

Underneath these institutional linkages are a range of material practices which further extend this strategic alliance. Reform of the welfare system provides concessions to key groups, particularly families, women and the working poor. Other groups also see their life chances as improved by increased access to work and regeneration schemes which directly benefit some of the most deprived areas. Asset-based welfare schemes such as baby bonds or stakeholder pensions schemes offer incentives to tie individuals into the market from ‘cradle to grave’. The continuation of Right to Buy schemes in housing ties families to the credit system in the same way.

3.5 Expanding the NLP

The NLP is also explicitly expansionist. The project has both acted as exemplar, praised by the OECD (2004) and IMF (2004i) as a best practice example of institutional, social and economic reform and has sought, largely through the efforts of Gordon Brown as Chair of the IMFC to re-shape the global economic architecture. New Labour has therefore repeatedly promoted the international adoption of the new constitutionalism, debt reduction and sovereign bankruptcy, a phased approach to capital market liberalisation and increased transparency and surveillance (Treasury, 2001b; 2002c; Brown, 2001). The publication of two international development White Papers set out the new government’s plans for leadership of, and commitment to, the nascent global poverty-reduction agenda (DfID, 1998; 2000). The White Papers contain a ringing endorsement of both neo-liberal globalisation and the WB’s emerging poverty reduction agenda. A focus on trade and capital liberalisation is therefore combined with an advocated domestic development agenda of building human capital through the provision of universal education and health care and a commitment to gender equality and sustainable development. In fact, together they advocate the adoption of the NLP on a global scale. This agenda has been aggressively pursued since. A survey of WB poverty reduction papers reveals support from DfID for a wide range of projects. The UK plans to use the G7/8 presidency in 2005 to promote more rapid action on debt relief and both Tony Blair and Gordon Brown have been instrumental in establishing the Prime Minister’s Commission for Africa to broker support for the

G8's Africa Plan and the New Partnership for African Development (Brown, 2005). New Labour have also consistently supported and advocated neo-liberal reform throughout the EU and have sought to use the Lisbon Strategy as a vehicle to achieve this (Treasury, 2001c; 2004b) as the next chapter will demonstrate.

3.6 Conclusion: Locking-in the New Labour Project

The NLP is an aggressive reform strategy based on simultaneously embedding and extending commodification, while generating increased legitimacy for the project. It is grounded in implementing the profound social and institutional transformation that was left incomplete by the previous period of first-phase restructuring, and shaped by some of the crisis tendencies generated by it. Investment in the social infrastructure, regenerating deprived neighbourhoods, expanding training and employment and limited back-door redistribution to working families with children all aim to shore-up and expand the neo-liberal historic bloc at the same time as bringing labour and capital together to secure expanded accumulation. Skills development and restructuring the industrial base with a heavy emphasis on innovation provide the basis for raising the rate of relative surplus value.

In developing this project, new Labour has utilised a new constitutionalist approach to build credibility with financial markets which has subsequently been used to broker relative autonomy, an aim furthered also by the development of deep institutional, and material, linkages with strategically placed blocs of capital. Important too have been a relatively small number of 'organic intellectuals' who have helped to generate a legitimating and mystificatory ideology in support of the project and an expanded cadre layer based in public institutions (the modernising managers), consultants and evidence-based consultancy institutes in universities. Electorally, the dissatisfaction with the previous government, particularly over its confrontational stance vis-à-vis public institutions, the economic collapse of the early 1990s (especially in property markets) allowed new Labour to expand its base to include 'middle England': the relatively secure and upwardly mobile consumerist 'middleclass' that was divorced from its historical roots in the working class, during the Thatcher period.

This project is neither 'warmed-over' Thatcherism (the wolf in 'social democratic clothing') nor is it a significant return to social democracy. Rather it represents both a continuity and break with first-phase restructuring, and is clearly part of the same project to establish neo-liberal hegemony. The Thatcher period was marked by a project to de-construct legacy social and institutional structures, while promoting the strategic ascendancy of (particularly finance) capital in relation to labour. By contrast, the NLP has aimed at engineering the social and institutional transformation necessary to 'lock-in' that hegemony over the long-term, a key element of which has been to contain crisis tendencies of over-accumulation, of reproduction and of the potential for working class organisation to re-emerge as a serious political threat to capitalist hegemony.

In doing so, the NLP has fostered many of the governance patterns associated with the erosion of state power. The state itself has been bound to policy rules which suggest a deference to international capital markets. The institutions of the state and public service delivery have been radically overhauled, the NPM strengthened and a significant programme of decentralisation and devolution begun. However, to read these changing organisational and institutional forms as a surrender of power is misleading. The NLP has in fact significantly augmented the power of the UK state, that in the 1970s succumbed both to trade union power and the discipline of international markets. Today, the balance of power rests firmly with the state, within the boundaries of the structural power of capital. Through seeking an 'appropriate' social transformation for neo-liberal accumulation, the NLP has been able to attempt and achieve significant autonomy from both international and domestic pressures, including those associated with globalisation. The NLP then is the example par excellence of second-phase locking-in at the domestic level in each of the facets described in the analytical matrix.

4 Contemporary Locking-in at the Macro-Regional Level: EU Policy Convergence

4.1 Introduction

This chapter considers the development of policy convergence within the EU over the last decade. It argues that though clearly a-typical in terms of other nascent macro-regional integration projects, the EU nonetheless represents an ideal type neo-liberal model. This is despite past resistance to neo-liberal reform and adherence to the much vaunted 'European Social Model' (ESM) in many member-states. The chapter argues that like in the UK, second-phase locking-in was preceded by the identification of crisis in Euro-capitalism, centred on high levels of unemployment, concerns over long-term disengagement from the labour market by significant social groups and a sense of long-term vulnerability in the ESM itself. However, unlike the UK, for many member-states, second-phase locking-in has proceeded without the prior experience of aggressive first-phase restructuring. As such, the project to simultaneously secure macro-economic policy discipline through new constitutionalism and comprehensive social reform signifies a concurrent articulation of first and second-phase strategies. Though the detailed implementation issues within individual member-states are beyond the scope of the chapter, country specific issues are raised with regard to the operation of key EU-wide strategies. Space constraints also mean that the chapter selectively focuses on the legal integration project, the macro-economic convergence project and Internal Market Strategy (IMS), the Lisbon Strategy (LS), European Employment Strategy (EES), and Social Strategy (SS).

This chapter is again aligned with the analytical matrix established in chapter one. The content of the chapter considers locking-in at the macro-regional level and is structured around the facets of locking-in. The political economy themes considered are in line with the layer of capitalist hegemony currently under construction in second-phase strategies.

4.2 The EU and Globalisation

There is considerable debate about the nature of the EU project. A series of articles, the product of a major three year ESRC funded research project on the nature of EU integration, is a point of reference. The major findings from this project are useful, particularly in the way that they relate the EU integration project, reform of the ESM and domestic political strategies to drive and legitimate such reform, to both 'neo-liberalism' and 'globalisation'. Their findings suggested that (1) consideration of empirical evidence suggested that the EU is characteristic of de-globalisation with retrenchment, for instance, in FDI flows; (2) competition between states within the EU has led to significant barriers to the completion of financial liberalisation; (3) "the term globalisation does not well describe either the condition or the trajectory of economic integration (of trade, foreign direct investment, or finance) in contemporary Europe"; (4) EU integration rather than globalisation is the external causal factor behind social and labour-market reforms in member-states; (5) it is misleading to think in terms of a single ESM and there is little evidence of convergence (6) ideas related to globalisation as an inexorable external context outweigh their veracity but nevertheless do shape policy-making in ways that reinforce globalising trends; (7) the likelihood of appealing strategically to globalisation to justify domestic reform is shaped by a complex list of criteria which provide the social and political context for domestic policy-making (Hay et al, 1999; 2002; Hay and Rosamond, 2002).

The approach of Hay, Rosamond and their associates, while revealing some important dynamics, is misleading in several respects. They are clearly correct to highlight the exaggeration of claims about the in-exorability of globalisation, resulting policy constraints and that politicians strategically and tactically appeal to such processes to justify what would otherwise be unpopular reform. Likewise they suggest that in other places European integration provides the same politically useful external context (Hay and Rosamond, 2002). They also argue that the European integration project, in reality as opposed to rhetoric, is more directly influential than globalisation in driving domestic reform (Hay et al, 1999).

However, there are also significant weaknesses in their arguments. For instance, in rejecting the case that globalisation leads to competition between states Hay and Rosamond (2002:148-9) rely on a lack of evidence of a 'race to the bottom' in terms of corporate taxation. However, this is not the only competitive strategy available to developed states in a context of globalisation. Also the attention given in policy making circles to national competitiveness since the early 1980s is presented as if it were separate from globalisation:

> "An initial survey indicates that, as a source of perceived economic imperatives, notions of competitiveness predate those of globalisation (though invariably invoking similar assumptions as to the operation of the global political economy). The former feature prominently in popular debate and public policy making from the early 1980s in the US." (Hay et al, 1999:8).

Globalisation is also distinctly separated from the EU integration project, rather than being an iteratively constituted context (Ibid:5). However, European integration has been a dynamic process driven by different political and economic trends over time, including global processes of political and economic change. The argument that politicians over-egg claims about capital mobility or that states shape the process does not lie in any tension with these dynamic processes. The European integration project, spanning fifty years, has quite clearly been influenced at different times by changing orthodoxies about the production and (re-) distribution of economic resources and the underlying social conflicts associated with these. The historical development of capitalism on a domestic and international scale is mediated through relatively autonomous political authority at and above the level of the state and so both global and macro-regional processes are shaped both on the way up and on the way down by state level decision-making. Indeed, as Strange (1996, 1998) amply demonstrated, key state decisions were at the heart of the complex range of changes to the political-economy context that are commonly associated with 'globalisation' (capital mobility, financial liberalisation, transnational production, trade liberalisation etc) from the 1950s onwards. As Gilpin (1976) argued at the time, these decisions, and state level strategic orientations also created mutually reinforcing processes. As such, 'globalisation' formed the context for debates about competitiveness and national decline that subsequently shaped the uptake of aggressive strategies for national comparative and competitive advantage (pursued concomitantly through heterogeneous domestic labour markets) which were emergent from the 1980s onwards and also significantly shaped the trajectory of European integration from the beginning of the 1990s.

Thus contemporary European integration cannot be separated from 'globalisation', even given the important qualifications that Hay offers. Claims that in places the EU is portrayed as a defensive mechanism against the imperatives and social implications of global competition in no way contradict this. Appeals to preserve the ESM (and, taking the point, the variety of different ESMs) against the imperatives of globalisation and to make the EU characteristic of a competitive strategy to avoid social costs of 'losing' at the 'globalisation game' are both entirely consistent with politically mobilised notions of the EU as a defensive space.

For its part, neo-liberalism is often identified narrowly, with a particular set of ideas relating to macro-economic and structural policy. Noting the difficulty in determining whether the gradual shift toward market preferences in policy-making represents the adoption of neo-liberalism, Wincott (2003:542) says:

> "…a good deal hinges on how neoliberalism is defined. If it amounts to an overwhelming preference for market-based solutions and a confidence in the ability of markets to clear, then active labour market policy is hard to reconcile with neoliberalism. Such policies imply an ongoing state responsibility for social and economic outcomes combined with the continuing commitment to intervention and the assumption that labour markets do not clear (in an acceptable manner)".

However, this is not the definition of neo-liberalism used here. It is not even an adequate description of neo-classical economics. Rather, neo-liberal hegemony is related to the emergence of a historic bloc dominated by the interests of finance capital but where supportivestrategic alliances have been frged with subordinate classes and class factions over time. In this process, changing policy prescriptions have underscored an attempt to secure this hegemony and broker these supportive strategic alliances and to contain resulting crisis tendencies. As such, it is perfectly possible for key EU strategies to reflect, and contain, different levels and types of intervention at the same time, some strongly pro-market and some strongly market-correcting. What makes them neo-liberal in character is the extent to which they are enacted to secure the neo-liberal historic bloc. What makes them characteristic of second-phase locking-in, is the extent to which they move beyond mere discipline and restructuring to complete an institutional and social transformation designed to subject labour to commodification, discipline and crucially to hold it in place, rather than allowing it to 'drop-out' of the reach of commodification.

The argument here is that contemporary developments in core EU strategies, and in the legally binding integration process, reflect the pursuit of institutional and social transformation and restructuring of capital which is entirely consistent with neo-liberal hegemony, and advocated in particular by the European Commission. The particular class and state level alliances that have promoted this are left largely un-described, as beyond the scope of the chapter, but it is noted that the contemporary project is highly consistent with that described in the previous chapter.

4.3 The Political Economy of European Integration from Maastricht on

The Treaty of the European Union (TEU) or Maastricht Treaty, signed in 1992 marked a watershed for the European integration project, laying down the trajectory toward "creating an ever closer union among the peoples of Europe" (TEU:Introduction of Signatories). The TEU was largely concerned with institutional matters, reorienting the relationship between existing institutions and creating several new ones, most notably the EU itself. The Treaty also established a three stage timetable for Economic and Monetary Union (EMU), creation of a European Central Bank (ECB) and European System of Central Banks (ESCB). Involved in this was the general forward plan for increased long-term legal and constitutional constraints upon member state economic policy autonomy and the complete removal of autonomy from monetary policy in the move to monetary union. The Treaty also moved to establish a single European market to allow free movement of labour, capital and goods within the EU.

Economic policies were to be regarded as “a matter of common concern” (TEU:Title 2:Article G:C25,103). The European Council was enabled to “formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community”. The principle of multilateral surveillance was at the forefront and the key principles of neo-liberal macro-economic orthodoxy were firmly entrenched in enforceable rules regarding the permissible size of government deficits (TEU:Title 2:Article G:C25,104c). Where member-states exceeded permissible deficits the Council was to be empowered to suggest remedial action and to take other disciplinary measures such as enforcing enhanced surveillance and transparency, suspending lending privileges with the European Investment Bank (EIB) and even imposing fines (TEU,Title 2:Article G:C25,104c).

These institutional moves constitutionally embedded the core neo-liberal principles of price stability and fiscal discipline. These were augmented by further commitments to internal liberalisation, monetary union, macro-economic convergence and an avowedly anti-inflationary stance (TEU,Title 2: ArticleG:B2,2). The creation of the ESCB committed participating member-states to an independent central bank and constitutionally determined that the goals of these must be ‘price stability’ “in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources” (TEU,Title 2:ArticleG:C25,105). The Treaty also established the grounds for full monetary union and convergence on the basis of price stability, government finances and deficits, exchange rates, interest rates and two additional criteria of balance of payments position and unit labour costs (TEU,Title 2:ArticleG:C25,109j; Protocol on Convergence Criteria).

The Treaty went further still, to facilitate industrial change and flexibility, for instance in establishing the European Social Fund (ESF):

> "to render the employment of workers easier and to increase their geographical and occupational mobility within the Community, and to facilitate their adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining" (TEU,Title 2:Article G:C34:123).

In addition, other Structural Funds (including the ESF) but specifically the European Regional Development Funds (ERDF) would be used to address regional imbalances in growth and enable the

> "structural adjustments of regions whose development is lagging behind and in the conversion of declining industrial regions" (TEU,Title 2:Article G:D38:130a-c).

The Treaty also suggested that there should be Europe-wide vocational training policy to

> "facilitate adaptation to industrial changes, in particular through vocational training and retraining; improve initial and continuing vocational training in order to facilitate vocational integration and reintegration into the labour market [and] facilitate access to vocational training and encourage mobility of instructors and trainees and particularly young people" (TEU Title 2:Article G:D 36:127).

So the newly established EU was to coordinate and support the actions of member-states in facilitating industrial restructuring in support of an effective industrial shift from declining Fordist industries to newer more flexible ones in line with the requirements of neo-liberal accumulation. Particularly relevant here was the establishment of the concept of a European educational space as part of the single labour market (TEU Title 2:ArticleG:D36:127), with the interchange of educators, students and training establishments being a core part of this.

In addition, there were provisions to bind member-states to:

> "ensure that the conditions necessary for the competitiveness of the Community's industry exist …in accordance with a system of open and competitive markets, their action shall be aimed at:
>
> - speeding up the adjustment of industry to structural changes;
> - encouraging an environment favourable to initiative and to the development of undertakings throughout the Community, particularly small and medium-sized undertakings;
> - encouraging an environment favourable to cooperation between undertakings;
> - fostering better exploitation of the industrial potential of policies of innovation, research and technological development" (TEU Title 2:Article G:D38:130).

Attention was also focused on other areas of infrastructure provision such as Europe-wide transport systems, facilitating trade and movement of raw materials and semi-finished goods between states (TEU Title 2: Article D:C 38:129a-d). Research and Development policies were to be coordinated and aimed at driving innovation and competitive advantage (TEUTitle 2:ArticleD:C38:130f-p).

In other ways, national and sub-national institutions were to be coordinated at a European level. For instance, the central principles of Sustainable Development were cited as justification for the Council to constrain domestic policy autonomy with regard to planning, land-use, waste and water management and energy usage (TEU,Title 2:ArticleG:D38,130r-t). The Committee of the Regions (COR) was also established, providing a mechanism for locking-in between levels.

Maastricht represented the reorientation of the EU integration project as part of a strategy to construct an overall supra-national framework for neo-liberal accumulation, with constitutional status.

4.4 Contemporary Locking-in

Identifying Structural Weaknesses

In the early to mid-1990s the EU, driven largely by the Commission, articulated a remarkably similar analysis of present weaknesses and future crisis tendencies in hegemony to that generated in the UK, though this analysis was shaped against a different background in several important ways. These were integration and convergence within the newly established single market, much more explicit references to the fall of the Soviet Bloc and the potential for enlargement of the European integration project, and without the explicit backdrop of Thatcherism.

Indeed, the expression of crisis in this period was different to that in the UK precisely because of the absence of previous reform. The UK debate focused not only on the continued competitiveness problem but also on the damaging effects of first-phase restructuring. In this sense, the debate within the EU in the early 1990s was not only representative of the need to embed macro-economic adjustment and the social impact of budget cuts (Grahl, 2004), but also to address identified weaknesses in the post-war settlement.

In 1993, then Commission President Jacques Delors, prepared a seminal ‘Green Paper’ for consultation with member-states at the Copenhagen European Council summit. The paper identified the key social and economic challenges facing Europe over the coming generation. Primary among these were unemployment, declining competitiveness in global terms and the need for transition away from Fordist industries. While the need to bolster economic development in the peripheral and less developed regions had been acknowledged in the past, the Green Paper noted that:

> “not only the weaker regions and the traditional sectors are feeling the pressure of competition and economic and social change; increasingly the stronger regions and the heartland of Community industry feel vulnerable” (CEC, 1993:5).

It was explicitly recognised that the challenge involved a need for social as well as industrial adjustment (Ibid:19). The need for the EU to respond strategically to these challenges was accepted at Copenhagen, with the language of social and economic crisis to the fore (European Parliament, 1993).

Box 1: Commission Analysis of Structural Problems Facing the EU, 1993

Over the last twenty years
the European economy's potential rate of growth has shrunk (from around 4% to around 2.5% a year);
unemployment has been steadily rising cycle to cycle;
the investment ratio has fallen by five percentage points;
our competitive position in relation to the United States and Japan has worsened as regards;
employment;
our shares of export markets;
R&D and innovation and its incorporation into goods brought to the market;
the development of new products.

European Commission (1993).

The result was the more developed Commission analysis presented in the (1993) Commission White Paper *Growth, Competitiveness, and Employment* which laid down the challenge of fortifying hegemony in neo-liberal terms. As Box 1 shows, the problems faced by the EU were presented starkly in terms of a lack of competitiveness in a global context. More specifically, the analysis centred on problems of structural and technological unemployment stemming from rigidities in European labour markets, particularly resulting from regulation and welfare systems.

In dealing with these issues the White Paper was upfront in marking out which policy options were not to be considered. Protectionism was dismissed in view of dependence on external trade. Demand-stimulus was dismissed in classic Friedman-esque terms as contributing to structural inflation and unemployment. Mimicking the already unsuccessful attempts of the French government (though, tactfully, the example is not mentioned) of the early 1980s to cut working hours to boost employment, this option was also rejected because of the technical difficulty of matching labour supply and demand. Instead, the paper went on to map out a coordinated strategy to boost labour productivity through radical economic, industrial, social and institutional adjustment and, by so doing, to fundamentally alter the balance of power between capital and labour:

> "…the inflexibility of the labour market, which is responsible for a large part of Europe's structural unemployment can be traced back to specific institutional, legal and

> contractual circumstances in each country. The educational system, labour laws, work contracts, contractual negotiating systems, the social security system, and business management (including internal work management) form the pillars of the 'employment environment' in each Member State and combine to give each of them distinctive appearance. In each case, the entire environment must be mobilised to improve the functioning of the labour market…there is no miracle solution; nothing short of coordinated action by the various players responsible for the components of these environments can effect the necessary transformation" (Ibid).

Labour market flexibility was to be induced by removing protections from the permanently employed and cheapening labour through reducing the social costs attached particularly to low skilled labour, and developing a strategy to expose a greater section of the population to enhanced market discipline. While economic growth was good, it was only sustainable through the commodification of sufficiently large amounts of labour. Raising the proportion of labour to capital in the production process was duly marked out as a prime target. This was stated in a classical demonstration of the problematic presented by Marxist analyses of over-accumulation for relatively autonomous competitive states in the context of an increasingly global market economy. It is thus worth quoting at length:

> "The high level of non-wage labour costs is prejudicial to employment, exerting a dissuasive influence: it encourages the substitution of capital for labour and promotes the parallel economy; it particularly effects employment in SMEs; finally it leads to relocation of investment or activities.
>
> Faced with inadequate demand, firms attempt first and foremost to reduce their costs by laying off workers, labour being the adjustment variable. The rise in unemployment pushes up contributions and reduces the number of contributors; labour costs increase, and so forth; a kind of vicious circle is established. A firm which, by laying off workers, reduces its own costs also passes on the cost of unemployment to other firms in industries which cannot lay off workers as easily, and they too see their situation deteriorate.
>
> Highly labour-intensive firms, whose labour costs and social security budgets are relatively high, are then in turn compelled to lay off workers, to relocate or to resort to the underground economy, either directly or through subcontracting." (Ibid:Ch9).

So to promote higher employment and growth and to prevent dropping out of the formal economy, labour had to be cheaper and market discipline needed to work more efficiently. Long-term structural unemployment was to be replaced with short-term frictional unemployment. State protection of labour was to be replaced with measures to enable labour to compete not just on cost terms but also on skills.

The strategy also aimed to restructure the industrial base from inflexible manufacturing, in which capital intensity could be increased, resulting in 'jobless growth', to more labour intensive service industries. At the same time, differentiation in the labour market was to be created by the uptake of new technologies and increased investment in research and design to generate innovation. The demand created by such high value-added growth, it was hoped, would then ‘trickle down’ the demand chain creating increased growth and employment.

The central strategic thrust of this paper was endorsed at the 1994 Essen conference which set four areas for action. The first was to “increase the employment intensiveness of growth”, through greater labour market flexibility and by securing moderate (i.e. below trend growth) pay increases. Second, was coordinated action on the part of member states, trade unions and employers to reduce non-wage labour costs. Third, was a shift to ALMPs, and welfare reform. Specifically, the Council recommended that member states’ income support measures should encourage participation in paid employment and the application of ‘welfare to work’ schemes. Fourth, ALMPs were to be targeted at specific groups: women, young people and the long-term unemployed. The summit also instituted the principle of Commission surveillance and, through the European Council, a mechanism of peer monitoring of employment policies and trends (CEC, 1994:8-9).

Over subsequent years these ‘crisis’ features have remained an enduring feature of discussions, with proposals from the Commission (EC, 1996; 1996a) recommending the strengthening of the surveillance and monitoring regime through the introduction of a European confidence pact on employment.

Ideological Locking-in

The ideological framework for institutional, social and material reform is established primarily in the TEU and then key overarching reform strategies. For instance, the ideological boundaries for macro-economic policy is established in the monetary and fiscal policy rules in the TEU. Further, the annual Broad Economic Policy Guidelines (BEPGs) add detail to these. For instance, the first in the series, appearing in 1996, were prefixed by a statement of the broad framework to be based on “stability oriented monetary policy; sustained efforts to consolidate public finances; nominal wage trends consistent with the price stability objective” which were to be understood as “below the increase in productivity” (EC, 1996). The document refers several times to its own purpose and that of policy reform as to “reinforce credibility”. In this context, the Commission urged member states to cut spending and taxes, and to channel residual spending into infrastructure development, human capital (education, training) and ALMPs. Member-states who failed to cut budget deficits were admonished. At the outset then, the principles of macro-economic policy apparent in the TEU were to be strengthened. Price stability was augmented with specific recommendations regarding wage rates and measures to increase the average rate of surplus value extraction.

The same themes are continued in later versions. For instance, the 1999 Commission *Recommendations on the Guidelines*[36], began by extolling the virtues of "stability oriented macro-economic growth" (EC, 1999:11) and member states were encouraged to move closer to balance through spending cuts rather than tax rises (Ibid:18-19). More recent reports have continued these themes, with remarkable similarity. For instance, the 2002 *Guidelines* were clear that price stability and moderation in wage demands were the cornerstones of creating an 'investment friendly environment" (EC, 2002:71). The more detailed macro-economic policy framework is laid out under eight headings. One slight change in the framework overtime has been a gradual shift toward more flexibility in the approach to fiscal discipline, which may both reflect the budgetary positions of powerful member states like Germany and France but also the influence of the UK, whose own fiscal and monetary policy framework differs from the Eurozone in precisely this respect.

This ideological macro framework also has more structural implications. Stressing the importance of improving employment, the report moved on to exhort 'flexibility' in product and capital markets, 'stability' and price control in monetary policy and 'responsible behaviour' among social partners (read organised labour) in wage negotiations to boost 'competitiveness' (Ibid:11-16). Internal domestic flexibility is presented as an essential component of a liberalised internal and external market, smoothing the potential costs of adjustment (Ibid:53). The BEPGs have also consistently reinforced the desired relationship between capital and labour, with the message that wage demands are to be kept in line with the objective of non-inflationary growth and below the rate of labour productivity growth. Indeed the 2002 Guidelines lamented stalled growth and sticky inflation, blaming member states for failing to implement structural reform. Thus relative surplus value generation was to be maintained at the same time as expanding absolute surplus value through expanding the remit of the labour market by expanding labour supply, themes developed in the European Employment Strategy (EES).

[36] which are almost verbatim repeated in the Council resolution and fully endorsed by the Parliament.

The broad approach of these Guidelines is to accept and endorse globalisation by adjustment to the needs of neo-liberal accumulation. Country specific recommendations take the overall themes and apply them to national contexts, such as encouraging Denmark to increase labour supply (Ibid:25) and restructuring welfare benefits in Germany to enhance labour market discipline (Ibid:26;60; EC, 2002:90-1; 2003b:72-84; CEC, 2003:19-28). Economies outside the EU are encouraged to adopt similar policy mixes (EC, 1999:16).

The most comprehensive statement of the ideological direction of structural reform is the Lisbon Srategy (LS). The establishment of the LS was presented against this back-drop of a prolonged crisis in competitiveness and meeting the challenges of globalisation. Growth and unemployment in comparison with the US were singled out as key issues of concern. The emphasis on 'under-utilised' labour remained, graphically described in emotive terms:

> "The costs of underemployment, poverty and social exclusion are colossal. The Commission estimates that the under-use of available human resources and the wider costs of wastage in the economy (including ill health, crime, and the related costs) could be between one and two thousand billion €/year (12-20% of GDP). These are cancers at the heart of European society – wasted resources crying out to be more productively used" (EC, 2000:7).

The components of the 'employment deficit' with the US were identified as consisting of six 'employment gaps' in female participation, service sector employment, regional imbalances, long-term structural unemployment, skills and age (EC, 2000:4-5). The importance of structuring reforms to make markets work more efficiently was also underscored in the Commission's identification of the need for pension reform to reduce the future vulnerability of the ESM to demographic trends, by suggesting more pensions be privatised, in the process creating liquidity in capital markets.

Enterprise was to be encouraged in a twin track strategy of building a 'dynamic business environment' and stimulating 'risk-taking'. Promoting female entrepreneurs and relaxed insolvency laws, business incubators and educational initiatives to promote a culture of risk-taking were identified as important policy tools. Creating a European research area was promoted, alongside initiatives which also included channelling risk and venture capital into R&D alongside other investment encouraged through fiscal incentives. Institutional and social reform in the ESM was encouraged as enabling adjustments to meet rapidly developing industrial and market change, through policies to widen the labour market and using education and life-long learning to facilitate the development of the flexible worker (Ibid:17-22). In this context, as in the UK, the concept of social inclusion was redefined as participation in the labour market with institutions and policies designed to meet this objective:

> "the new knowledge based society offers the most promising avenue yet for overcoming exclusion, but it requires social protection systems to become more active, modern and sustainable. They must provide incentives for work, ensure sustainable pension provision within an ageing population and offer a stable environment within which the transition to a knowledge based society can take place" (Ibid:22).

The Commission's position paper at Lisbon removed any sense of ambiguity about the direction of reform, with globalisation no longer seen as a threat to the ESM but an opportunity for its radical renewal. Largely accepting the Commission's prescriptions, the conclusions of the meeting set out the detail of the LS with the overall and oft repeated strategic goal:

> "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (Ibid:2).

The strategy was laid out under three headings: preparing the transition to a knowledge-based economy, modernising the ESM and applying an appropriate macro-economic policy mix. Overall, the strategy aimed at greater liberalisation, particularly in financial services and capital markets, policies to expand the available labour supply, to expand commodification (notably of child care as part of the aim of pushing women into the labour market) and to intervene to assist in realising surplus value by restructuring the industrial base and raising the quality of labour inputs. Finally, the aim was to secure the flexibility and adaptability of the labour market to meet the needs of flexible production.

The ideological framework for second-phase reform has undergone continual development through the LS, with annual meetings often adjusting it at the margins or presenting semantic changes.[37] Perhaps the most significant development in terms of the model itself, as opposed to its implementation, was the inclusion of sustainable development as an integral element of the Lisbon model (CEC, 2001a:27; European Council, 2001:11-12). Over subsequent years a general trend has emerged in these documents. The Commission cites progress, reaffirms the essential validity of its macro-economic policy framework (specifically price stability and public expenditure restraint), highlights failures or intransigence in implementation (CEC, 2002:18-19; European Council, 2002:9; EC, 2003:4) and urges greater commitment from member states for structural reform. In more

[37] For instance, the initial three headline themes were subsequently replaced with ten areas for decision by the Commission and then five headings by the Council. Despite this, the actual substance remains broadly similar (European Council, 2000; 2001; CEC, 2001a).

recent years, the lack of progress in terms of labour utilisation (EC, 2003:3) and productivity (CEC, 2004:7-8) has also been highlighted.

Gradually, greater detail has been added to each of the elements of the overall strategy with the addition of sub-strategy papers in areas such as employment, skills and market integration and the gradual introduction of specific targets and performance indicators (European Council 2001:2; 2003:6 CEC, 2001b; EC, 2003a).

The Commission has also sought to augment the credibility and leverage of the ideological framework through utilising the exemplary commitment of the new member states to adjustment and reform:

> "Through their experience of reform and their desire to pursue this process, these countries will make a valuable contribution to the Lisbon strategy and its political momentum." (CEC, 2004)

Institutional Locking-in

New Constitutionalism

The TEU is clearly characteristic of the new constitutionalism with member-states' policy options being proscribed by supra-national legal and institutional frameworks and a future project of further convergence in macro-economic and social policy. The TEU also established the constitutional legitimacy of supra-national institutions. Politically, the relationships between the European Council, Parliament and the Commission were established and institutionalised. On a macro-economic front, the ECB (Treaty Establishing the European Community [consolidated text] 2002, Chapter 3; Protocol on the Statute of the ESCB and ECB) and the Commission were awarded institutionalised positions at the centre of the policy making process. Judicially, the European Court of Justice (ECJ) was established as the foremost judicial body with legal primacy over domestic courts and transferable citizenship for nationals of all member-states was institutionalised.

The TEU and the Treaty Establishing the European Community are not just supra-national legal agreements of a constitutional nature, but are explicitly neo-liberal in character with certain basic policy components of neo-liberal hegemony 'hardwired' into the text of the treaties. Policy convergence in monetary and fiscal policy, price stability and trade and capital market liberalisation are all central elements. This is enhanced by the issuance of guidelines which further entrench neo-liberal reform agenda into secondary legislation.

These key features have been continued and strengthened in the establishment of a text for a single EU Constitution, agreed in June 2004 at the Brussels Council Summit. This text, which is now subject to ratification by member states, draws together several important documents in the legal framework of the EU, including the TEU the Treaty of the EC and the Charter of Fundamental Human Rights. Despite political denials, the name of the document is apt, bearing as it does, all the hallmarks of a constitution and in important ways, as described above, going beyond this to embody the central elements of the neo-liberalism. Title 1 of the document sets out the core values of the EU as:

> "…respect for human dignity, liberty, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail." (Article I-2, as amended by: Irish Presidency of the EU, 2004).

The specific claims of the new constitutionalism are then evidenced by the objectives set out in Article III-3 of the Constitution which prescribe the broad policy principle by which the values are to be achieved:

> "The Union shall work for sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and with a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance." (Article, III-3 as amended by: Irish Presidency of the EU, 2004).

An internal market where "competition is undistorted is also promised" (Conference of the Representatives of the Member States, 2003). Provisions in the Constitution also lock-in the internal market and principles of non-discrimination between capital of different national origins, further entrenching the general capital perspective at the heart of the EU's legal framework. The SGP is also enshrined within the Constitution, formally institutionalising the status of budgetary and fiscal discipline and price stability (Irish Presidency of the EU, 2004:Annex 7; Conference of the Representatives of the Member States, 2003:Chapter II).

Governance by Enabling, Surveillance and Discipline

In a number of areas, the EU has adopted forms of governance which rest on concepts of enabling, surveillance and discipline. Characterised as 'soft' (or relatively soft) law (Abbot and Snidal, 2000) and by the EU itself as an 'open method of coordination' (OMC), these frameworks rely on a variety of policy tools rather than legal implementation. For instance, macro-economic convergence, the LS and EES are enforced through a method of setting strategic aims and defining appropriate policy frameworks and relying on member-states themselves and often regional and local authorities to implement them. This form of governance, in places backed up by harder law, is characterised by the use of collective self discipline, multilateral surveillance, monitoring and transparency, supra-national discipline and by an institutional arms-length relationship between democratic accountability and responsibility for policy design.

There is some debate over the significance of these models. For instance, Wincott (2003) is ambiguous over whether the OMC symbolises a radically new departure in the mode of governance and over the chances of its persistence. What is significant about the OMC is that it symbolises an attempt to draw a range of policy areas connected to the social and institutional transformation needed to lock-in neo-liberal hegemony within the overall supra-national framework of authority. The specific mode of governance may appear weak in relation to harder regulation and constitutional law but is a significant development nonetheless. Further, there is a distinction in the overall governance framework between those areas of policy in which a relatively fixed and long-term perspective is required – macro-economic policy, price stability, an anti-inflationary stance – for market credibility, and those areas in which some degree of flexibility is required to manage market trends – such as labour market policy, skills and micro-economic policy. Thus, a differentiated approach perfectly suits the requirements of neo-liberal accumulation. It should also be noted that some of the specific policy tools implemented through the OMC – such as outcome oriented planning, performance management, peer and public monitoring and discipline and flexibility in the means of implementation – are hallmarks of the NPM, especially as applied in the UK with regard to institutional accountability (Centre for Public Services, 2004d). In that regard, the OMC partly mimics the institutional mechanisms between quangos and local state agencies and central government in the UK.

Macro-economic Convergence as an Example of 'Soft Law' Locking-in

The ground work for the locking-in of macro-economic orthodoxy at a European level was clearly already laid in the Maastricht Treaty. The obligation of convergence in preparation for EMU cemented the need to follow a similar policy framework at a national level, defined at Maastricht in loose terms as price stability and fiscal discipline (TEU Articles 103; 104). This was subsequently elaborated and more clearly defined in the initial LS and its year on year development. Maastricht also contained a nebulous institutional framework for policy coordination based on surveillance and monitoring, again subsequently strengthened in the intervening period through the extension of similar surveillance and peer-monitoring mechanisms with regard to labour market and social policy.

At the Amsterdam European Council meeting of 1997 these principles were strengthened significantly with the creation of the SGP.[38] The Pact aimed to ensure fiscal discipline through three measures: collective self discipline on the part of member states, multilateral surveillance between member states (through the Council and by the Commission), enforced through provisions for multilateral sanctions. Finally, in line with the objectives of EMU, the Pact also resulted in the delegation of key elements of strategic macro-economic policy making to the macro-regional level, separating them from the democratic accountability of 'normal' politics.

The Amsterdam European Council meeting mandated member-states to a significant commitment to collective and individual fiscal self-discipline. Member-states committed themselves to maintain "medium term budgetary objectives of positions close to balance or in surplus" and were invited to publish Council advice in this regard. Where the Commission or the Council conclude that they are close to an 'excessive' deficit they are obliged to "launch the corrective budgetary adjustments they deem necessary without delay" and where such deficits do occur they are to be corrected "as quickly as possible after their emergence". Member-states were to exercise self-restraint over claiming exceptional circumstances as the cause of excessive deficits (European Council, 1997a). The form of collective self-discipline does not only take shape within this rules-based framework, it is at the very heart of the coordinated policy making process. As the 2003 Commission report on the LS made clear "existing and new member states must choose to grow" (EC, 2003) meaning they must adopt the neo-liberal political, economic and social policy framework articulated at the core of the EU.

Under the terms of the Pact and associated Council regulations, surveillance and monitoring is exercised by the Commission, the Economic and Finance Committee (ECOFIN) and through the Council itself. As part of the provisions of Maastricht (European Council Regulation, No 3605/93) an elaborate system of reporting was already established with member states reporting planned and existing deficits, government debt and GDP (for the present and projected several years into the future) at various points throughout the year. These obligations were substantially

[38] Political agreement to draw up a SGP was in fact reached earlier at the 1996 Dublin Council meeting.

strengthened at Amsterdam.[39] For Euro-area states these are 'stability' programmes while for non-euro area states they are 'convergence' programmes. Despite the different name both are broadly similar and are assessed by ECOFIN. The Council then takes a view on their robustness in terms of their underlying economic assumptions, built-in safety margins to avoid an 'excessive deficit', and whether the measures outlined in the programme are sufficient to meet medium-term (3 years) budgetary objectives and the conditions of the SGP. Where the Council, acting on advice from ECOFIN and the Commission, decides that the medium-term objective is inconsistent with the SGP or unlikely to be met they are empowered to make a recommendation for corrective policy to the member state (European Council Regulation No1466/97). The programmes are also assessed by the Council for their consistency with the BEPGs.

Building on the provisions of TEU Article 104, the SGP centred on the 'Excessive Deficit Procedure' (EDP). The procedure defines acceptable deficits as below 3% of GDP on an annual basis. Only where an unusual event outside the control of the member state has a major impact on the budget or where a deficit is the result of a severe economic downturn (defined as a fall in GDP of 2% or more) is a larger deficit acceptable.

A larger deficit triggers collective admonishment from the European Council and from the Commission and, potentially, financial sanctions. Initially, these are to be implemented through a non-interest bearing deposit with the Commission but this can be converted into a fine.[40] During 2002 the EDP was invoked against both Portugal and Germany and an early warning was made against France in relation to an expansionary draft budget (European Council Decision 2002/923/EC; 2003/89/EC; European Council Recommendation, 2003/90/EC). In the case of Germany and Portugal, the Council publicly recommended that the respective governments reduce their deficits. Portugal agreed a new Stability Programme and Germany agreed to undertake structural reforms. The reality of multilateral discipline is not then just rhetorical and the power of the Commission and Council to exercise control over macro-economic policy making inside member-states is established not just in law but in practice.

[39] Subsequently revised by European Council Regulation, 475/2000 and Commission Regulation 351/2002.

[40] The deposit/fine is composed of two parts, the first being fixed and the second variable and related to the size of the deficit. The Council can also add to the amount in the deposit up to an agreed annual limit of 0.5% of GDP (European Council Regulation 3605/93; 1467/97).

Internal Market Strategy

A core element of policy convergence is the project to complete, embed and institutionalise the internal market. Again, this objective is hardwired into the *raison d'etre* of the EU, its Treaties and is subject to the same principles of soft law governance. Through the European Council and Commission, member-states have also agreed to multilateral targets for the transposition of single market directives, which are monitored, alongside 'Transposition' rates on a six monthly basis in the published *Single Market Scorecard* (European Commission, 2002b; 2003c). This process also includes an annual 'Cardiff Report' which assesses progress in the integration of product and goods markets and separate Commission reports on the implementation of aspects of the IMS (CEC, 2004b). These include details of proceedings initiated for infringements of directives covering issues such as state aid, national treatment in public procurement, import or regulatory restrictions and problems arising from different taxation systems. Infringements are also often compared in league tables. Taken together these documents form the 'Cardiff process' which:

> "completes the Growth and Stability Pact and the multilateral surveillance of national employment action plans within the European Employment Strategy agreed at the Luxembourg European Council. This exercise will reinforce and accelerate the reforms necessary at both national and Community level to make the Single Market and Economic and Monetary Union function optimally." (EC, 1999a:2).

In support of its efforts to implement the IMS, the Council has adopted various action plans and strategies. The 1997 *Action Plan for the Single Market* (EC, 1997) set four 'strategic targets', each containing a series of action points. The first target, to make the rules more effective, was to be pursued through the member states being more diligent in promptly transposing single market directives. Problems in the operation of the single market, competition regulations favouring domestic firms (generally and in public procurement), other market access problems and a lack of access to appropriate information for capital were to be dealt with quickly to bolster business confidence in the level playing field. Under the second target, key market distortions were to be removed through tax harmonisation in sales and energy and a more rigorous application of competition policy, particularly with regard to state aid. Third, sectoral obstacles to market integration were to be removed through liberalisation of services markets, unifying product regulation regimes, simplifying the legal framework for multinational capital operating in the EU and extending pro-market regulation to new sectors such as e-commerce and bio-technology. Finally, a range of measures to improve labour mobility within the internal market were promoted as "delivering a single market for the benefit of all citizens". The 1999 IMS and subsequent reviews have underlined these objectives and encouraged institutional and legal reform, particularly with regard to the regulation of production and markets (EC, 1999b; CEC, 2000; 2001d).

Social Locking-in

Locking-in social adjustment at the macro-regional level has entailed marked similarities with the agenda developed at state and sub-state level in the UK, spanning both supply-side labour market reform and in a more limited way the need to secure social order through criminal justice and citizenship initiatives. Indeed it has also included linking mechanisms between macro-regional and sub-state levels of governance.

The European Employment Strategy

The employment strategy set out in Essen was partially modified in the 1997 renegotiation of the TEU at Amsterdam, against an analysis of the failure of past policies. As Allan Larson, then Director-General of Employment, Industrial Relations and Social Affairs, put it:

> "The main failure of European employment policies is the 'wait and see'- attitude that has led to the high and persistent long term unemployment. It is a known fact that the present policies lead to an inflow of 2 million people every year into long term unemployment. This gives a clear indication of the need for a new strategy." (EC, 1997a).

Though the political-economy aspects of the change in strategy were evolutionary rather than revolutionary, the institutional and procedural aspects of the change were more significant. At Amsterdam, new legal mechanisms in the TEU itself were created, including a defined mechanism for multilateral supervision, coordination and discipline of member-states with regard to their internal labour market and employment policies. The broad purpose of the strategy to create flexible rather than secure labour markets was also institutionalised in the Treaty, effectively providing legal boundaries for the content and substance of the strategy:

> "Member States and the Community shall, in accordance with this title, work towards developing a coordinated strategy for employment and particularly for promoting a skilled, trained and adaptable workforce and labour markets responsive to economic change…" (Treaty Establishing the EC, Article 125, 2002).

The provisions of Article 128 (Ibid) dictate a series of annual measures of monitoring and surveillance to ensure integration and coordination, beginning with the Commission consulting with the social partners through various forums such as the European Parliament, Economic and Social Committee, COR and the Employment Committee. Following this, the proposed Guidelines are presented to the December European Council and approved by qualified majority voting at the ECOFIN. Member-states then make their input and the Guidelines are approved at the Spring Council meeting after which the member-states draw up National Action Plans (NAPs) stating how they will be implemented. The Commission then monitors implementation and draws up the *Joint Employment Report* evaluating implementation and the cycle begins again (Trubek and Mosher, 2001). The Commission may also make recommendations to member states to change their strategy (Article 128, 4; EC, 1997).

Several other important changes were instituted, such as the full incorporation of the social Chapter into the body of the treaty and the ending of the UK opt-out. In addition, the Treaty now incorporated a more explicit focus on equality encompassing racial/ethnic origin, religion/belief, disability, age and sexual orientation and stronger provisions on gender equality. The Treaty also contained a more explicit reference to the role of social enterprise, NGOs and voluntary organisations in social cohesion and economic development (TEU, Declaration, 38,annex).

The special European Council meeting (the 'Jobs Summit') in Luxembourg during November 1997 added substance to this strategic policy making framework to enhance employability, enterprise, flexibility and equal opportunities (European Council, 1997) with the support of the Social Partners (ETUC et al, 1997). Over time these objectives have received further institutionalisation, particularly after the establishment of the LS and with regard to the use of statistical performance measures and the setting of a 'full employment' target of 70% for all member states by 2010, an interim target of 67% by 2005 and specific targets for female employment (60% by 2010 and 57% by 2005) and older people[41] (50% by 2010) (European Council, 2002a:4). The prescriptive element of the *Guidelines* has also been strengthened over time for instance with the inclusion of specific recommendations that NAPs include gender mainstreaming and a greater differentiation to reflect regional imbalances (European Council, 2001a).

In substance, the *Guidelines* and the NAPs are closely related to the labour market policies adopted in the UK, and there are some suggestions that the incoming Labour government in 1997 were influential in the drawing up of the first

[41] Defined as aged 55-64.

series of *Guidelines* (Grahl, 2003:2). However, there are also clearly underlying tensions in the main principles set out in the EES. For instance, some of the discussion around ALMPs has resonance not only for a neo-liberal Anglo-American approach but also for a Nordic/Scandinavian approach to assisting the unemployed to improve their employability and find work, often identified with a more solidaristic tendency (Grahl, 2003).

In this context, employability was defined in terms of measures to tackle youth and long-term unemployment, ALMPs, increasing work place training, lifelong-learning and measures to better tailor educational systems to the needs of the labour market, for instance by equipping young people to cope with technological change in the workplace. This agenda was driven forward with detailed prescriptions for the operation of domestic labour market services and the establishment of further performance measures and targets. The Social Partners were also to be engaged to increase the amount of workplace training (European Council, 1997).

Tax and benefit systems were also to be reformed to incentivise work, reduce the tax burden on employment, and measures were to be taken to increase the capacity for older people to continue working (European Council, 1999a:4). Subsequent *Guidelines* request that member states prepare lifelong learning strategies, e-learning initiatives, tackle 'bottlenecks' in labour supply and sectoral or spatial shortages of labour to increase competitiveness. Member-states were also urged to introduce targets for the reduction of the overall tax burden, especially on low skill labour (EC, 1997) and to use fiscal incentives to promote investment in training and 'human capital' development (European Council, 2001a:7).[42] Limiting labour market discipline to maintain labour utilisation is also included with measures to tackle the emergence of the 'working poor' (European Council, 2001a:5-6). Widening the labour market was to be further promoted by developing the 'social economy' and expanding the range of target sectors for job creation to include environmental technology and the information society (European Council, 1999:5). Greater emphasis has also been placed on the role of Regional and Local authorities in determining sectors for job creation (European Council, 2000a; 2001a).

The approach to widening the labour market has emphasised the need to target specific groups including women, ethnic minorities, disabled and older people

[42] As the *Guidelines* developed they also strengthened the case for replacing taxes on labour with taxes on emissions and pollutants (European Council, 1997; 2001a; 2002a).

under the banner of equal opportunities. Gender is particularly interesting here with the strategy increasingly facilitating the greater penetration of commodification within the family structure (European Council, 1997). Thus, the *Guidelines* have included a Gender Mainstreaming approach to labour market policies, mandating member-states to implement measures to close gaps between male and female employment rates, pay rates and career progression (European Council, 1999), with the support of domestic Gender Equality bodies (European Council, 2001a, 2002a). Clearly, the increased participation of women in the labour market may be progressive (Grahl, 2003:11). However, it is also symbolic of attempts to expand the scope of commodification to ever more labour power, including not only the direct participation of women but the replacement of domestic with commodified labour, while leaving broader gendered power structures unaltered. Thus gender equality is often conceived in terms of equal capacity to release commodified labour. While flexibility is often promoted rhetorically in terms of 'family friendly' policies, the Luxembourg Council and 1998 *Guidelines* offered no such window dressing. The 'modernisation of work organisation and forms of work' was to be implemented not just by member-states but by capital and organised labour "with the aim of making undertakings productive and competitive and achieving the required balance between flexibility and security". Such agreements were to be facilitated by legal and regulatory reform to enable the use of more flexible and non-standard contracts, with annualised working-time agreements mentioned as an example. Reforms to encourage the implementation of workplace training were also encouraged (European Council, 1997).

Entrepreneurship was defined at Luxembourg as the ease of business start-up through improving access to risk capital and easing the regulatory and administrative burden, specifically with regard to SMEs and in employing new workers. The 2001 *Guidelines* introduced further recommendations to more actively foster enterprise through education, social, welfare and taxation systems and to combat undeclared work to draw informal entrepreneurship into the formal regulated economy (European Council, 2001a).

During 2002, the EES was reviewed, incorporating separate national and EU-wide evaluations, during which the political-economy principles underlying the strategy were further revealed. For instance, in its *Technical Analysis,* the Commission included a lengthy comparative analysis of the relationship between economic growth, employment, unemployment and inflation. Comparing these relationships over time, the Commission concluded that after several rounds of structural adjustment the employment content of economic growth was now more sustainable. The reasons for this resulted from wage moderation, itself defined as the product of ALMPs and the discipline produced by a more responsive reserve labour pool, especially during the upward swing in labour demand in the late 1990s. The *Technical Analysis* also found that the increased use of short and fixed-term contracts has helped to boost the 'sustainability' of the jobs content of growth (EC, 2002a:14-21, 54-82).

However, it fails to mention the vast range of other measures that have contributed to the relative weakening of labour's bargaining power across the whole economic cycle. These have included previous rounds of 'cold bath' labour policies adopted in some countries, the progressive liberalisation of capital, goods and more recently services and labour markets and enlargement. Regulation of the labour market to enforce flexibility is also left largely uncovered, though the Commission does note the tension between aspects of the EES, for instance between employment security and flexibility. It is noted in the conclusions of the review that reduced working time is less seen as spreading the available work more broadly while reducing working hours than it is driving the adaptability of labour to the needs of 'economic activity' (CEC, 2002b). This analysis is augmented by a discussion of the perceived shift to higher skills and a larger proportion of employment being in sectors higher up the global production value-chain, meaning that there are less incentives for capital to substitute for labour (Ibid:8). Overall, the review concluded that there had been significant movement toward convergence in employment strategies and policies at the level of member states and to a lesser extent at regional and local levels (Ibid:2,20-22; EC, 2002a:28-9,305-16). The Commission was clear that despite a lack of effectiveness and capacity at regional and local level in many member-states, a greater role for these levels will help to secure more thorough implementation of the EES in the future (EC, 2002a; CEC, 2002b).

Finally the review reaffirmed the familiar list of key strategic challenges, noted new ones related to specific sectoral and place-based skills shortages and concluded that the Strategic framework for the Guidelines should be simplified and, building on the conclusions of the Barcelona Spring European Council, coordinated with the BEPG and IMS reporting process.

The 2003 *Employment Guidelines* therefore contained strong elements of continuity but the four pillars and related themes were replaced by ten priorities. These priorities largely continue the trends already established in the EES in terms of expanding the labour supply, increasing the relative capacity of labour to realise surplus value and coping with the social effects of inequality by building economic and social 'inclusion' defined as participation in paid employment (or the ready availability to do so). Indeed, these are handily summarised in the *Guidelines* themselves under the titles of 'Full employment', 'Improving quality and productivity at work' and 'Strengthening social cohesion and inclusion' (European Council, 2003a:5). The two new entrants to the strategy: 'Making work pay' and 'Transforming undeclared work into regular employment' also fit within this schema. Both widen the net of the formal labour market and thus extend the commodification of labour power while the former also contributes to the capacity of capital to take on board this absolute increase in labour supply by subsidising labour costs.

The need to build strategic alliances or historic blocs at macro-regional, national and sub-national levels around the strategy is also noted and the guidelines include an Annex on "Good governance and partnership in the implementation of the Employment Guidelines" to this end (Ibid:9). In line with the decision to streamline the economic and social policy coordination process, the new *Guidelines* were more explicitly linked to the BEPGs and extended to cover the same three year period to 2006 (CEC, 2002c).

The draft 2004 Guidelines were heavily influenced not only by the 2002 Review but also by the 2003 *Employment Taskforce Report*. The Taskforce, established at the behest of the Council against the backdrop of slow progress on the Lisbon employment targets, economic slowdown and a 'rapidly ageing population', began by reiterating the 'need' to subject larger amounts of labour power to commodification and for more efficient commodification: "Europe needs more people in work, working more productively" (European Employment Taskforce, 2003:6). The Taskforce's Conclusions were largely predictable and in the main repeated familiar aspects of the EES with some investment measures that are part of the LS. The main point of deviation was demands for more commitment and diligent implementation by member states and also local and regional authorities and social partners. The basic message then in the face of the failure of the EES to stimulate "more and better jobs" is "more and better discipline".

Duly, the proposed 2004 Employment Guidelines begin with a statement of purpose:

> "**Strengthening the implementation of the European Employment Strategy** Heightening the political debate through more focused and forceful EU recommendations to the Member States" (CEC, 2004a:3, emphasis in the original).

They also highlight much closer linkages between the Employment Guidelines and broader macro-economic policy and urge "a trend break" in the implementation of reform. Continuing the messages of the Taskforce for more of the same one-size-fits-all approach, the Guidelines rather perplexingly declare that:

> "The existing overall policy framework is therefore adequate and appropriate to confront today's employment challenges in an EU of 25 Member States." (Ibid:4).

There are three main methods for coordinating and driving the implementation of the EES. First is the OMC. The second, rests on the creation of EU Directives, which are proposed by the Commission but whose content is hotly contested by the social partners, the member states and the Parliament and which often take many years to be finalised. Once established, member states are given a defined period in which they must 'Transpose' them into domestic law. Despite the complexity (and often controversy in the drafting process), several EU Employment Directives have proved important in locking-in labour market adjustments at a domestic level.

Under the banner of equalities, the Race and Equal Treatment Directives have obliged member states to strengthen legal protection from discrimination in the workplace on the grounds of gender, race, disability, sexual orientation, religion and age including provisions which mandate the creation of institutions to police that legislation (European Council Directive, 2000/78/EC; 76/207/EEC; 2000/43/EC). That large parts of those Directives and the way that they are transposed into member states laws (AGE, 2004) extend protection only to employment suggests that the primary motive behind them is to forcibly widen the social reach of the labour market. Indeed, the Directives themselves offer this rationale. Other Directives have sought to regulate the use of part-time (97/81/EC) and fixed-term (1999/70/EC; EC, 2002b) contracts and to limit permissible working time (93/104/EC), though the limit of 48 hours and inclusion of individual and occupational opt-outs again hints at the underlying interests being promoted. Directives have also been issued to establish mechanisms for offsetting tensions between the social partners in the event of company insolvency and large scale redundancies (2002/14/EC). The bulk of this legislation performs the dual function of both advancing the commodification of labour by smoothing market imperfections and at the same time offsetting some of the social tension that may result. However, there is an increasing trend to move toward Directives produced solely through negotiation by the social partners, thereby also facilitating the development of strategic alliances in the construction and commitment to hegemony and building relative autonomy from the state at macro-regional level.

The OMC has been augmented by a range of projects aimed at embedding the structural adjustment process in domestic societies. For instance, a 'peer review programme' has been established to generalise best practice and act as a competitive driver for the implementation of ALMPs (www.peerreview.almp.org/en). This has been further augmented by Commission funded projects in the member states to raise awareness of the EES and NAPs[43].

The third method of implementation is structural adjustment through the ESF. The ESF priorities have, since 2000, been focused on implementing the EES and matched to the four pillars of the Luxembourg Strategy. Overall the ESF amounts to around €60bn between 2000-2006 (CEC, 2001f) and about 8% of all spending on ALMPs across the Union (CEC, 2001c:5-6). However, the actual leverage of these funds is often much larger still as they are required to be match funded, meaning that they become a key tool in strategic alliance building, drawing in support and participation from capital and from community and voluntary groups. As such, the EES becomes a key focus of a range of organisations 'on the ground' directly linking locking-in between the macro-regional and local/community level.

Reform of the ESM

The promotion of welfare reform has largely been overshadowed by the EES and tailored to meet the demands of employability, adaptability and the extension of the reach of the formal labour market. Measures to 'make work pay' and tie the social partners into pay restraint have also been present in the EES, BEPGs, LS and in the Commission's Communications on social policy (CEC, 2000c). Further common ground are fiscal sustainability and measures to deal with the ageing population, such as higher labour market participation, pension and long-term social security reform. As such the Commission's proposals for a revised Social Policy Agenda (SPA) at Nice were located within the overall strategic framework described above:

> "Well-targeted social protection is essential for adapting the economy to change and providing for an efficient and well-trained labour force. High quality education and training, which is accessible to all, strengthens social inclusion and competitiveness.

[43] see http://www.moreandbetterjobs.info/index.htm.

> Raising the employment rate will underpin the sustainability of the financing of social protection systems. Social cohesion prevents and minimises the under use of human resources. The management of the interdependence of policies should lead to a "policy mix", which will sustain economic and social progress." (Ibid:6).

The objectives of this Agenda and the policy interventions designed to achieve them were set out under five overarching aims: Full Employment and Quality of Work, Quality of Social Policy, Promoting Quality in Industrial Relations, Preparing for Enlargement and Promoting International Cooperation (CEC, 2000c).

Full employment and Quality of Work, subsequently changed to the more pithy strap-line of 'More and Better Jobs', contained four underlying objectives including securing full employment through the EES, anticipating and managing social change[44], exploiting the knowledge-based economy and promoting labour mobility in the EU (CEC, 2000c:18-19). The quality of social policy was to be enhanced by 'modernising and improving social protection' against the backdrop of changing economic and demographic trends. While ambiguous in title, clues as to the meaning of this objective showed consistency with the aims set out in the BEPGs and EES:

> "In practice this will mean adapting social protection systems to make work pay and provide secure income, make pensions safe and pension systems sustainable, promote social inclusion and ensure high quality and sustainability of healthcare" (Ibid:20).

The real meaning of these objectives is given greater weight by remembering the generic and country specific exhortations of the BEPGs to lower the levels of social protection to compel people into the labour market and to privatise pension systems to force the transfer of social risk away from collectivised institutions to individualised private schemes, creating liquidity for capital markets in the process.

Social inclusion, again defined as the potential for labour market participation, was also an underlying objective of improving the quality of social protection, as were measures to promote gender equality and end discrimination in the workplace. Anti-discrimination also took its place (particularly with regard to race) in securing social cohesion in a defensive move to shore up the social basis of hegemony. Promoting quality in industrial relations was to fulfil the objective of building ownership and alliances behind the importance of "competitiveness and solidarity and the balance between flexibility and security" (Ibid:23).

Preparing for enlargement was part of the agenda to spread social adjustment to the candidate countries and international cooperation was to do the same on a more global playing field, protecting EU competitive/comparative advantage in the

[44] echoing the outcome of the High Level Working Group on Industrial Change (1998).

process by promoting core labour standards and "an integrated economic and social agenda" to ensure the security of neo-liberal hegemony even at its margins (European Council, 2000b).

The implementation process was to follow the familiar pattern of the OMC, incorporating multilateral discipline and peer pressure. Member states have produced two sets of strategies. The first are National Action Plans on Social Inclusion (NAPs/Incl), drawn up in line with the Common Objectives established by the European Council and monitored by the Commission and the Social Policy Committee (established for the purpose of coordinating action on the new SPA) (European Council Decision 2000/436/EC). The first common objectives set out the broad terms of members states' social policy aims based on facilitating access to employment, goods and services, preventing social exclusion and assistance to the most vulnerable, defined in terms of women, those in poverty and deprived localities (EC, 2000a). Member-states responses are then subjected to scrutiny and evaluation in the form of a Joint Report on the action plans prepared by the Commission and contributed to by the Parliament and the Social Protection Committee. These Joint Reports are in two parts with the first assessing the cross cutting themes and the second addressing individual member-states (see Council of the European Union, 2001; 2001a). While the 2001 Joint Report was reasonably timid, confined largely to summarising the NAP/Incls, the 2003 instalment was more strident, identifying areas of weakness and making recommendations for the strengthening of the policy framework. Cross-cutting recommendations included taking a more holistic view of social protection to encompass other social policy areas such as "housing, lifelong-learning, culture, e-inclusion, and transport" and strengthening the link between social inclusion and employment policies and the overarching macro-economic framework. Other recommendations address public management approaches such as consultation, mainstreaming and statistical performance management (Council of the European Union, 2004:4), with weaknesses in individual member-states identified.

The monitoring and surveillance process has been augmented by a comprehensive range of statistical indicators measuring progress on a vast range of grounds: such as income and income inequality, exclusion from work, child poverty, long-term unemployment and life expectancy at birth. Attention is also given to the issue of geographical disparities within member states (Social

Protection Committee, 2001). Performance on these measures is published annually in the Social Policy Scoreboard by the Commission.

Member states then have to show they will implement these objectives in their individual NATs/incl plans. The first plans, submitted in 2001 were to be up to the 2003 mid-term review of the SPA. Subsequently, the Common Objectives were reviewed without major change by a report from the Social Policy Committee and endorsed by the European Council (European Council, 2002b).

Investment in Human Capital or Remaking the working class

> "Human resources are the Union's main asset and it is now widely acknowledged that investment in this area is a determining factor of growth and productivity, in the same way as investment in capital and equipment. It has been calculated that raising the average level of education of the population by one year represents a 5% increase in growth in the short-term and a further 2.5% in the long-term. In addition, the positive impact of education on employment, health, social inclusion and active citizenship have already been extensively shown" (CEC, 2003d:5).

A great deal of policy emphasis has been placed on investment in 'human capital', fitting with the demands of second-phase locking-in appealing both to social-democratic ideals and articulating the needs of capital to boost labour productivity. The European education strategy emerged from the LS and other strategies described above (CEC, 2001h:2). A series of papers from the Commission have set out strategies and monitored implications, particularly through the "Education and Training 2010" initiative (e.g. CEC, 2001g).

Overall the strategy hinges on seven functions for education in the modern neo-liberal economy. These include: (1) tackling basic skills issues to expand the labour market; (2) increasing skills standards, individual flexibility and capacity to learn (including for teachers themselves); (3) providing accessible lifelong learning and motivating take-up; (4) drawing excluded groups back into the flexible labour market; (5) embedding supportive ideas of responsible citizenship which encompass both notions of the ideal type flexible and pliant worker and the subservient citizen, respecting authority and the need for social harmony; (6) facilitating industrial change by matching specific sectoral skills demand/supply; (7) imbuing individuals with the mystical spirit of enterprise and risk-taking from an early age (CEC, 2001h:6-12; Council of the European Union, 2004:27). Taken together these 'concrete objectives' mark a fundamental and far-reaching agenda to remake the working class in the image of the flexible, and productive worker, pliant to the demands of global capital and demure in the face of the regulatory and coercive functions of political authority.

An additional element of the reform and locking-in agenda with regard to education is the drive to secure standardised qualifications. This relates first to labour mobility by creating transparent measures of skills demand and supply, and can be seen as part of the broader support for teacher and student exchanges (CEC, 2004d). Standardisation is also a pre-cursor to the commodification and trade of education 'products' (Nunn, 2002; Centre for Public Services, 2003) and is taken forward in the Bologna/Prague process and 'Education and Training 2010' initiative, both of which extend far beyond the borders of the EU alone (Conference of Ministers Responsible for Higher Education, 2003:2).

Material Locking-in

Managing and directing industrial restructuring has formed a core part of EU strategies to raise productivity and competitiveness. Overall, there are two themes to restructuring, the first aiming to replace low with higher-value added sectors to raise aggregate productivity and competitiveness. The second, aims to improve the working practices within existing and new firms to raise productivity:

> "In the developed economies, traditional industry will be able to compete only by becoming more knowledge intensive. Knowledge intensification in traditional sectors seems as likely to generate employment and wealth as the emergence of entirely new industries" (CEC, 2000:14e).

At least part of this second theme is to be facilitated via strongly pro-market competition policy to reward successful firms and penalise failing ones to encourage 'productivity churn' and efficiency. Offsetting this, are measures to correct market failure with respect to start-up barriers facing those sectors which are identified as having medium to long-term growth potential. These two themes cut across the related policy areas such as sectoral business assistance, managing industrial change, enterprise, innovation and regulatory or competition policy. They are also promoted in a symbiotic relationship with measures to improve the quality of labour inputs, in a drive to increase labour productivity. These can only be effectively improved via an understanding of industrial change, both in terms of the nature of products and their production.

The role of political authority in this process is illuminating, demonstrating its relative autonomy vis-à-vis even relatively dominant sections of capital. The process of mapping out future overall market trends, positioning industry in relation to these, the uptake of new ideas, products, technologies and production processes as well as the capacity of labour to assimilate these changes are all heavily directed by political authority, at both state and macro-regional level.

There are clearly challenges involved in this strategy. For instance, measures to raise labour productivity may replicate the identified problem of the substitution of capital for labour. The Commission is clearly aware of this dilemma but is unable to offer an appropriate policy mix to resolve the tensions:

> "Reducing the cost of low skilled labour, or limiting wage increases are other strategies to increase employment and the employment content of growth. Higher incomes can be achieved only by measures that increase the long-term growth potential of an economy. Removing growth barriers and investing in the future, i.e. in innovation, education and diffusion of new technologies, contribute to this." (CEC, 2003c:9).

Enterprise

The broad approach to enterprise policy was set out as a component part of the LS (CEC, 2000d), leading to a European Council Decision to create a 'Multiannual Programme for Enterprise and Entrepreneurship' (European Council Decision, 2000/819/EC). This established three aims for enterprise policy: to "encourage risk taking and the spirit of enterprise" to "build a dynamic enterprise environment in which companies can be created, grow and innovate" and "to ensure that our [EU based] enterprises have access to markets, both internal and global, in which to sell their products and services" (CEC, 2000d:2).

In line with these aims, a number of policies were proposed. To encourage risk-taking, the penalties for failure were to be reduced, including a more lenient approach to bankruptcy. The spirit of enterprise was to be fostered and nurtured through education policy, applying to both high academic achievers and more vocational areas (Ibid:3). Business start up rates were also to be boosted by targeting those groups whose labour has been less deeply commodified such as "women, young people and the unemployed". Start-ups and growing or innovating businesses were also to be encouraged through easier access to finance (Ibid), with the European Investment Fund providing a selection of loan guarantees and venture capital (Ibid:19-28). Further policy actions included easing the regulatory environment on business, for instance through proposals to introduce a Business Impact Assessment (what is known as Regulatory Impact Assessment in the UK) to allow member states' legislation to be amended if it is deemed to be too burdensome in its effects on business (Ibid:5).

There was also an emphasis on promoting e-commerce, though and the focus of this work was established in a separate e-Europe action plan. The development of this plan has taken place through several stages. The Commission drew up an e-Europe initiative in 1999, which after the Lisbon and Feira Council's of 2000 developed into the first e-Europe Action Plan. This was then replaced in 2002 by a further paper entitled *e-Europe 2005*. The main thrust of these plans is largely continuous, to foster internet access and usage through regulation of e-commerce, roll-out of broadband infrastructures and through strengthening the focus on ICT skills in education (CEC, 2000e).

Innovation

> "A policy to enhance innovation must be present in a modern enterprise policy as one of its main components. This means buttressing enterprise policy by measures specifically directed at encouraging the emergence and growth of 'first mover' firms, and the flow of innovation and the flow of information from them into the enterprise sector as a whole" (CEC, 2000e:5).

Building on the identification of weaknesses in terms of innovation in the EU in comparison to major competitors presented in the December 1995 *Green Paper on Innovation* (EC, 1995) and the subsequent 1996 *Innovation Action Plan* (EC, 1996c), the Commission has regularly reasserted deficiencies in terms of the environment for innovation, particularly underinvestment in ICT, both as a final and intermediate goods sector:

> "A key determinant in Europe's recent under-performance in productivity growth is insufficient innovative activity as well as under-investment in, and weak diffusion of, information and communication technologies" (CEC, 2002f:4-5).

In particular the Commission has highlighted the large scale investment in ICT in the US as a major driver of the 1990s boom.

The commercialisation and dissemination of knowledge production has also been identified as key to innovation. This takes the shape of the exploitation of university-based research and its translation into commodifiable form as well as recommendations for increased private sector investment in R&D:

> "The knowledge society depends for its growth on the production of new knowledge, its transmission through education and training, its dissemination through information and communication technologies, and on its use through new industrial processes or services. Universities are unique, in that they take part in all these processes, at their core, due to the key role they play in the three fields of research and exploitation of its results, thanks to industrial cooperation and spin-off; education and training, in particular training of researchers; and regional and local development, to which they can contribute significantly." (CEC, 2003e:2).

As such specific targets have been set for member-states to increase the amount of public and private investment in research to 3% of GDP (CEC, 2002h). An essential pre-cursor to the effective commodification of knowledge is protection of intellectual property rights and this has been included in the raft of policies aimed at promoting innovation (CEC, 2000e:9; 2004e).

Implementation

As in other areas, implementation measures to improve the productivity and competitiveness of European capital have rested on a variety of means including regulation and legislation, ring-fenced conditional finance and multilateral surveillance and peer pressure. The e-commerce directive which aims to improve security for transactions carried out over the internet (EC Directive 2000/31/EC) and others apply to intellectual property rights (CEC, 2004e:6). Further measures have included the provision of ring-fenced funding aimed at entrenching entrepreneurship, innovation and sectoral change, such as through the ERDF[45] and other financing mechanisms for SMEs (CEC, 2000d:Annex 1,2). In addition, multilateral surveillance and peer monitoring has been applied in a number of areas such as through the Community Innovation Survey, the Innovation and Enterprise Scoreboards, annual Enterprise benchmarking and Competitiveness Reports all of which present an analysis of performance based on growth accounting and advancing the cause for sectoral change and the uptake of new practices within existing industries.

4.5 Conclusion: The EU Project and the Construction of National Hegemony

The EU project described above should be seen as a conscious strategy on the part of policy elites and key national governments to construct and embed a specifically neo-liberal form of capitalist hegemony. Clearly, the new constitutionalist aspects of this involve the restriction of future national autonomy, though the example of the UK demonstrates that supra-national constitutionalism is only one of a range of vehicles to achieve the necessary credibility with capital markets and their domestic advocates. In other ways the EU reflects the desire to spread and embed policy frameworks supportive of second-phase hegemony. The extension of the OMC to labour market and social policy is an example of this. But as a range of critical commentators have noted, embedding ALMPs and the like at the European level also reflects the existing implementation of such policies at a domestic level and provides useful external legitimacy for them (Hay et al, 1999, 2002; Hay and Rosamond, 2002; Wincott, 2003).

The argument developed above demonstrates first, that EU integration, particularly in the form of legally binding constitutional agreements, from Maastricht to the new draft EU constitution, are not only supra-national but specifically neo-liberal in

[45] see EC (2002d:41–44) for impact of Objective 1 on sectoral adjustment in selected regions.

character, enshrining key macro-economic and structural policy prescriptions beyond the reach of everyday politics. This neo-liberal orientation, and more specifically the articulation of a specific strategy for EU-wide competitiveness is also contained in a variety of soft-law mechanisms for broad policy convergence, such as the BEPGs, LS, EES and SPA. Within these, there is scope for national, and indeed in places sub-national, variation in the implementation of these strategies, but this is set against a pervasive logic of internal, place-based, competitiveness. The differentiation between relatively binding and relatively flexible locking-in is reflective of the need on the one hand to lock-in and demonstrate adherence to key principles of macro-economic stability while retaining the capacity to vary specific structural policy interventions between places and over-time to shape them to the specific contexts in which they are deployed. In form, the shape of this project is remarkably consistent with that developed within the UK, described in the last chapter, and that promoted by key institutions at a global level, described in the next.

5 SECOND-PHASE GLOBAL GOVERNANCE

5.1 Introduction

In 1998 a severe financial crisis erupted in East Asia, spread to Russia, parts of Latin America and for a time threatened to wreak havoc in developed countries too. The crisis acted as a catalyst for consideration of international institutional reform. While much attention focused purely on institutional capacity to manage the movement of finance capital, the World Bank in particular sought to use the juncture as an opportunity to launch an ambitious programme of deep reform, entirely consistent with the tenets of second-phase locking-in. Indeed, Tony Blair and Gordon Brown, principal architects of second-phase locking-in in the UK, have been at the forefront of advancing this project on a global scale. This project has taken shape in a comprehensive programme for promoting debt and poverty reduction in the developing world, but has also included the significant strengthening of the global institutional architecture for economic and social management.

This chapter considers the development of this second-phase project at the global level, charting the development of the global institutional framework and policy transmission mechanisms to translate governance between 'levels'. While in the previous case study chapters it was easy to identify a lead agency in the project, this is much more difficult at the global level. As a result of this, and the constraints of space, this chapter focuses largely on developments in the IMF and World Bank (WB) in relation to developing countries. In particular, it highlights the severe limitations on autonomy at the level of the state, but at the same time the increased emphasis awarded to institutional capacity at state and sub-state levels for delivering the global development agenda.

The political-economy content of these revised governance frameworks is presented in relation to identified crisis pressures in the application of first-phase restructuring, including the tendency to financial crisis, but also going further to identify more deeply embedded structural aspects of crisis. Primary among these, as in the UK and EU chapters, is a concern to widen the scope of the commodification of labour power, to manage capitalist development and to increase relative surplus value extraction on a world scale. The agency of the World Bank, in particular, in this project is presented as marking out a bid for a degree of relative autonomy, acting as coordinator of all actors in the international development sphere to secure neo-liberal hegemony over the long-term.

5.2 Crisis in Global Neo-liberalism

Signs of Crisis

By 1998 it had become common to speak of crisis in the global economy. A decade long recession in Japan was compounded by a major financial crisis which emerged in a speculative attack on the Thai Baht and spread throughout the rest of South East Asia to Brazil, Russia and for a time threatened the US economy.

> "Since mid-1997, when the Asian crisis first broke, we have seen almost unprecedented turmoil in international financial markets. After its onset in Thailand, the contagion spread to other countries in East Asia with a speed that caught everyone by surprise. The second round erupted in mid-August with Russia's moratorium on its debt servicing leading to renewed, stronger pressures on many emerging countries around the world, especially in Latin America. Simultaneously, Japan, to which many had looked to help recovery in the East Asian countries, found itself in a deepening recession exacerbated by a severely stressed banking system. Even the other industrial countries were not immune. The emerging markets crisis was a factor in the sharp third-quarter equity market correction in North America and Europe, and was also reflected in lower external trade volumes, even though economic fundamentals in both regions remained sound. As the year progressed, it was clearly no longer appropriate to speak of a crisis affecting just Asia, or even emerging markets alone. Instead, what we faced was a systemic problem" (Camdessus, 1998c).

The cumulative effects of the fall in confidence in financial markets also threatened the US economy through the near-collapse of the hedge fund Long-Term Capital Management (LTCM). The BIS and the New York Federal Reserve (NYFR), in particular, were concerned that the size and structure of LTCM meant that its failure would threaten the entire global financial system and orchestrated a major rescue package involving some of the world's most prestigious financial firms (USGAO, 1999:11-18).

From Crisis to Pressures for Reform

These highly visible signs of crisis prompted a series of commentators to warn of the imminent need for reform. The causes of the Asian Crisis in particular and the suitability of the policy responses directed by the IMF were widely dissected, with a resulting rash of suggestions for reform of the 'international financial architecture' being the first source of pressure for the reworking of strategies to secure neo-liberal hegemony. Second, as in previous episodes, financial volatility has provided symbolic evidence of the need for structural, 'deep' reform, a cause taken up, in earnest, primarily by the World Bank (WB). Finally, these pressures have been compounded by a combination of passive and active resistance to neo-liberal globalisation and questioning of the basic legitimacy of its institutional and social structures, norms and values.

Each of these three pressures for reform arose from connected, if separate crisis tendencies and weaknesses in first-phase neo-liberal hegemony. What matters for the discussion here, is not so much that these crisis tendencies were present, many of the issues discussed below had been in existence for several years. Nor is it enough to argue that they were noticed only during this period. Rather, what mattered is that several factors came together at one time and were recognised as a source of systemic risk from within the existing hegemony.

Weaknesses in the 'Global Financial Architecture'

Analyses of the causes of the late 1990s crises have highlighted a variety of weaknesses in the global financial system, particularly with regard to institutional capacity at the international level, and in developing states, to provide the conditions for stable accumulation.

Tony Blair (1998), in his role as Chair of the G7, highlighted five key aspects of these weaknesses including: a lack of transparency over fiscal and monetary policy, failures in global supervision, the lack of capacity to tackle short-term liquidity crises, too rapid capital market liberalisation and lacking transparency, accountability and partnership working between the BWIs. The G7 itself largely concurred adding the capacity of the BWIs to manage the global economy and the lack of mechanisms for dealing with moral hazard (G7, 1998). The Interim Committee[46] of the IMF (1998), with Gordon Brown as Chair, also followed the same line of argument, this time adding concerns over financial data quality and domestic institutional capacity.

The US Treasury (1998;1998a;1998b) convened a group of representatives from international institutions and states with a major influence on the international financial system. The discussion stressed similar weaknesses, this time adding corporate governance; risk management practices and the lack of domestic arbitration mechanisms. US Treasury Secretary Rubin (1998) focused on institutional failures in financial markets and risk management and the insufficient attention paid to promoting growth by advanced economies and to good governance, regulatory capacity-building and establishing social safety nets by emerging economies. He also highlighted the frequent lack of political support for structural adjustment and the lack of global institutional capacity for surveillance.

[46] Renamed the International Monetary and Finance Committee (IMFC) in 1998.

The UN General Assembly (UNGA) largely concurred, but also drew attention to the lack of inclusion of LDCs in global decision-making processes and inequality in the distribution of the benefits of globalisation, the volatility of exchange rates and currency markets (UNGA 52nd Session Resolution 52/180).

Some noted academics also contributed to the debate. Jeffrey Sachs (1997; Radelet and Sachs, 1998), one-time prophet of 'shock-therapy', focused his attention on the imposition of Washington Consensus policies by the IMF. He argued that the crisis was speculative in nature, related to a heady combination of rapid but incomplete capital market liberalisation, weak domestic intermediary institutions, vast short-term capital in-flows to finance long-term investments in property and the vagaries of confidence in international financial markets, especially with regard to short-term liquidity problems. Crucially, he argued that the problems were with the private sector, not governments. Intellectual leadership was also provided by Joseph Stiglitz who, like Sachs, had a credible track record of support for neo-liberal globalisation, through his roles as Chief Economic Adviser to Clinton (1995-1997) and Chief Economist at the WB (1997-2000). He (2002) argued that neo-liberal policy orthodoxy was too rigid and blamed the IMF and US Treasury for pressuring East Asian countries to undertake rapid capital market liberalisation. He also argued that the IMF was more interested in assisting in the rescue of transnational bank capital than it was in restoring growth.

The famed Hedge Fund operator and philanthropist George Soros also weighed-in with a range of criticisms of the existing structure of hegemony. To Soros, failings in the financial architecture were matched, if not exceeded, by failings in the political, ideological and institutional frameworks for global economic management. In a broadside on 'market fundamentalism' he argued that financial liberalisation was only part of the framework necessary for global accumulation to coexist with an 'open society'. Soros' (1998) critique was that first-phase restructuring had created a political vacuum at domestic and international level with "financial capital in the driver's seat".

Stiglitz and Soros' attacks on the IMF, have drawn strong rebuttals from the institution. However, what they highlight is that weaknesses in global governance were not just related to the capacity of regulatory authorities but to the nature and political economy of governance.

Before discussing these more structural weaknesses in hegemony in more detail, it is worth noting that while the Asian Crisis was catalytic in spurring reform, such weak points in the structure of hegemony had been widely understood for many years. For instance, the month before the currency crisis erupted in Thailand, the G7 (1997) announced plans to strengthen surveillance, transparency and regulation over financial flows. Previous rounds of crisis have also resulted in the identification of similar weaknesses in the regulatory system and have spurred reform, such as the establishment of the 'Halifax Accords' by the G7/8 in 1995 (G7, 1995) and the tightening of the Basle Capital Adequacy Standards in 1987 (BCBS, 1988). The late 1990s crises had one other relevant effect though. Critics of the role of the IMF in these episodes firmly associated it, above all other institutions, with the Washington Consensus. As demonstrated at greater length below, this demonisation of the IMF was a useful trick for those that wished to develop an ideological framework for trasformismo and a political, social and economic strategy for 'deep' reform, presented as vastly different from existing orthodoxy.

Structural Weaknesses in Accumulation and Reproduction

At the time of the Asian Crisis, WB President James Wolfensohn also identified contemporary weaknesses in neo-liberal hegemony. However, he argued that the discussion of the financial crisis during 1997/8 was largely superficial in nature, ignoring its more structural aspects:

> "We must go beyond financial stabilisation. We must address the issues of long-term equitable growth, on which prosperity and social progress depend. We must focus on the institutional and structural changes needed for recovery and sustainable development. We must focus on the social issues. We must do all this. Because if we do not have the capacity to deal with social emergencies, if we do not have longer term plans for solid institutions, if we do not have greater equity and social justice, there will be no political stability. And without political stability, no amount of money put together in financial packages will give us financial stability" (Wolfensohn, 1998:4).

At the heart of this line of argument lies a concern with dealing with weaknesses in commodification, the realisation of surplus value and reproduction of capitalist social relations. For instance, Stiglitz (2002a:33) has argued that first-phase restructuring had undermined the capacity of domestic political authority to recreate the social, political and economic conditions for continuing accumulation.

The Wolfensohn-Stiglitz line of argument here was not new and had been recognised by the Bank at least six years prior to Wolfensohn's appointment. In 1989, responding to the rising tide of criticism (e.g. UNECA, 1989:1-5) of structural adjustment and the various initiatives to deal with the overwhelming debt burden, particularly of states in Sub-Saharan Africa, the Bank had published *Sub-Saharan Africa: From Crisis to Sustainable Growth* (WB, 1989). The report identified seven key aspects of these weaknesses in the structure of neo-liberal hegemony at its margins: low labour productivity, declining competitiveness in world markets, deteriorating social conditions and human capital, environmental degradation, a lack of institutional capacity and political autonomy from vested interests, and finally the external image of Africa as dangerous and unstable. Taken together these weaknesses contributed to undermining investment conditions.

The report rejected demand-side and dependency type explanations, emphasising instead internal supply-side, structural and internal dynamics of African economies. The logic of this argument was that neo-liberal hegemony was weak because of inefficiencies in the commodification of labour as a result of the inability of states and their regional and local institutions to provide the appropriate conditions for capitalist reproduction. Singling-out those in absolute and extreme poverty was therefore a prime concern, as these sections of the global population are most ripe for commodification, coercion into the reserve army function and, conversely also, resistance to hegemony. Identifying the absolute poor and the barriers to their incorporation in full competition for jobs has therefore taken on a key role in securing expanded hegemony (e.g. WB, 1990; 1991; 2001; Coudel et al, 2004; Wodon and Yitzhaki, 2004).

Weaknesses in Legitimacy

The failure of expanded accumulation and reproduction was also linked to failing legitimacy, creating the potential for large numbers to look for means of survival outside the formal capitalist economy and in some cases outside capitalism altogether: Cheru (1997:160) argues, that there has been widespread ‘dropping-out’, with “millions … engaged in trades of every description, from back-alley foreign exchange houses, road side restaurants, curb-side automobile and small appliance maintenance shops, to production and distribution of farm equipment made out of scrap metals”. In a rural setting this ‘resistance’ took the form of a variety of highly localised and variable strategies designed to cope with the implications of agricultural commodification. Stealing from government projects or merely misreporting harvests while diverting crops to localised production and intra-peasant barter were all prominent ‘weapons of the weak’. This sort of search for alternative means of subsistence to commodified labour has been augmented by social unrest and violence as a result, for instance, of the imposition of structural adjustment. Between 1989 and 2003 at least forty-five countries faced such unrest, with many facing multiple and protracted episodes (Caffentzis and Fedecini, 2001; Woodroffe and Ellis-Jones 2001; Ellis-Jones, 2002;2003; http://www.ezln.org/).

Stiglitz has reinforced this point, identifying the links between economic instability and austerity-based restructuring:

> "The policies of the past have set in motion a vicious circle: failed macro-policies which have led to high unemployment have in turn led, or at least contributed, to urban violence and guerrilla wars which, in turn, have discouraged investment and impeded growth. (Stiglitz, 2002a:40-41).

While unrest, protest and resort to subsistence entrepreneurialism has largely been without formal and organised political expression, there are cases where a coalescence of interests between already marginalised groups and privileged elements of the state, have resulted in more coherently expressed demands for change (Cheru, 1997:160-165). Perhaps the most celebrated example of politically organised resistance is the Zapatista uprising in the Chiapas in Mexico (http://www.ezln.org/).

By the latter part of the 1990s and the early part of the millennium, opposition was also expressed in increasingly global popular movements against debt, world poverty and neo-liberalism. For instance, the Jubilee 2000 campaign united activists in developed and developing countries in a campaign for debt reduction, with other similar campaigns fronted by rock stars. Intellectual support came from the aforementioned Stiglitz and Sachs. By 2000, riots at the Seattle Ministerial meeting of the WTO placed a series of 'new social movements' high on the agenda. International meetings of the BWIs, G7 and the WEF have become the regular target of such protests. The World Economic Forum in Davos attracted particular attention and the new social movements have established their own shadow forums such as the World and European Social Forums which have served as a meeting space for those broadly opposed to neo-liberalism on all manner of grounds and have attracted hundreds of thousands of activists from all over the world (Weber, 2004).

Finally, problems in legitimacy have meant that externally imposed reforms have not always been wholeheartedly implemented by host countries (Stiglitz, 2002:242). Indeed, a large quantity of research, largely funded by the WB, has identified problems of weak implementation with diminishing commitment over time and frequent policy reversals (Killick, 1996). Conditionality was criticised for offering weak incentives for structural reform, especially when set against the trade-offs of domestic resistance and the 'fungibility' of even heavily conditional aid, and upfront financing of policy programmes (WB, 1998a:62-74; Collier et al, 1997).

5.3 Contemporary Locking-in

Ideological locking-in

Intellectual Foundations of Trasformismo

> "The ideas of economists and political philosophers both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men who believe themselves quite exempt from any intellectual influences are usually the slaves of some defunct economists. Mad men in authority who hear voices in the air are distilling their frenzy from some academic scribbler from a few years back." (Keynes, quoted by Stiglitz, Colombia Business School, 2001).

In response to the identified weaknesses in neo-liberal hegemony, has been a consciously developed strategy to articulate the key principles for tackling technical weaknesses in accumulation and redirecting opposition, resistance and calls for change into support for the existing global class compromise. Taken together, this can be viewed as a comprehensive framework for neo-liberal 'locking-in' through trasformismo.

A wide range of individuals and organisations have provided the strategic role of 'organic intellectual' in developing this strategy. One of the more prominent of these is Stiglitz, whose ideas are interesting both because of his position at the WB at a critical period in the reorientation of the dominant development paradigm and because of the high profile, revealing and often misleading debate that has surrounded his critique of the Washington Consensus and particularly the IMF.

While at the Bank, Stiglitz engaged in a series of lectures and speeches setting out a critique of the implementation of the Washington Consensues on developing and transition economies. In remarkably similar fashion to the Giddens-Brown-Blair tactics reviewed in Chapter 3, Stiglitz (1998:5-14) presented central economic planning and the Washington Consensus, or first-phase neo-liberal restructuring, as misconceived, narrow-sighted and diametric opposites. In particular, he highlighted the narrow focus of first-phase restructuring on macro-economic reform (1998a:4-28). In its place he proposed a new more comprehensive approach to development based on the socially constituted nature of capitalism. Therefore, he argued that it was not enough to stabilise, liberalise and privatise. In addition, a thoroughgoing social, institutional and ideological transformation was necessary to effectively embed macro-economic reform while expanding commodification:

> "Development represents a transformation of society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of production, to more 'modern' ways…Key to these changes is the movement to 'scientific' ways of thinking, identifying critical variables that affect outcomes, attempting to make inferences based on available data, recognising what we know and what we do not know…Indeed, one characteristic of many less developed countries is the failure of the more advanced sectors to penetrate deeply into society, resulting in what many have called 'dual' economies in which more advanced production methods may co-exist with very primitive technologies." (Stiglitz, 1998:3).

Stiglitz emphasised several features of this social and institutional transformation. First, was a recognition of context. For instance, while the Washington Consensus policy-mix may have been appropriate for Latin America in the 1980s it was inappropriate for tackling the long-term implications of the Asian Crisis (1998a:4-7). Second, he argued for a broader recognition of market failure and a corresponding focus on increasing institutional capacity. Third, was a critique of the over-reliance on liberalisation and privatisation to ensure efficient resource allocation (Ibid). Fourth, he argued that imposed macro-economic reform needed to be replaced with a participatory process of locking-in from below, enabling the transformation of social institutions such as welfare systems, labour markets and the family to provide a conducive environment for the commodification of productive labour power (1998:15-34;1999).

In 2002 Stiglitz, exploiting his self-styled 'rebel within' image, published *Globalization and its Discontents*. The title of the book is revealing in itself and the fervent media hype that surrounded it reinforced its marketing attraction to the new social and protest movements. Developing themes of many of Stiglitz's many academic and newspaper articles,[47] the book presents a broadside against the IMF in particular but also other vested interests and the policy prescriptions of first-phase restructuring. He lampoons the IMF for its excessive focus on deflationary policies, its fervent market fundamentalism and its barely concealed preference for financial interests.

In the final section of the book, Stiglitz sets out a strategy of reform based upon his theoretical work on informational asymmetries, modified Keynesian demand stimulus and political interventions to correct market failure (see Box 2).

Box 2: 'The Way Ahead' - The main components of Stiglitz's Plan for Reform
• Markets fail and government interventions can and should correct market

[47] See http://www-1.gsb.columbia.edu/faculty/jstiglitz/download/JosephStiglitz.pdf.

failures –when there are externalities, when markets tend to over or under produce, to provide collective goods or to smooth out the economic cycle.

- It is vital to build an ideological consensus on the appropriate political-economy aspects of reform and to move from this to providing technical advice on practical problems in the implementation of reform.
- Changes to voting rights in international institutions to improve equality between developing and developed countries.
- Increased transparency.
- IMF to be limited to managing crises.
- Macro-regional Surveillance institutions and peer pressure.
- Participatory poverty assessments in which the poor can effect macro-economic policy.
- Taxation of short-term capital flows.
- Sovereign bankruptcy reforms and a move away from large scale bail-outs.
- Improved social safety nets.
- Policies deigned to fit local historical and social contexts – no blanket policies with evaluations of the poverty and employment impacts of policies.
- Self-authored reform programmes with technical support.
- Debt reduction.
- Replacement of 'conditionality' with 'selectivity'.
- Capital market liberalisation to be sequential and undertaken at a slower pace.

Stiglitz, 2002:Ch9.

It is not until these final pages that his central logic is revealed. After outlining a 'radical' programme of reform, Stiglitz positions himself in the debate. Listing those negative effects of neo-liberal globalisation to be ameliorated he warns that if his advice is not heeded the result will be 'instability' and 'political backlash'. He takes the theme further, likening the contemporary position of global capitalism to that of the 1930s, and himself to a latter day Keynes (in Stiglitz's own words a 'conservative' defender of market capitalism):

> "Today, the system of capitalism is at a cross roads just as it was during the Great Depression. In the 1930s, capitalism was saved by Keynes, who thought of policies to create jobs and rescue those suffering from the collapse of the global economy. Now millions of people around the world are waiting to see whether globalisation can be reformed so that its benefits can be more widely shared" (Ibid:250).

The effect, of his critique is then to develop an intellectual framework for the defence of the present historic bloc through minor revisions to the structure of power within it, and the development of an ideology to obscure the reality of contemporary poverty reduction as a justification for the more efficient exploitation of labour on a world scale, simultaneously to building ownership within class factions that have been opposed to first-phase restructuring. In Gramscian terms, it is a clear strategy of trasformismo, to lock-in the gains of first-phase restructuring by allowing the re-commodification of labour in a very different historical, social and political context in which the ascendant dominance of capital over labour is assured.

The well publicised schism with the IMF that occupies much of the substance of the book is illuminating, especially given that the title of the book is ‘globalisation’ rather than the ‘IMF’ and its discontents (Dawson, 2002; Rogoff, 2002; 2003; Camdesssus, 2002). The tactic is useful, however, because it helps to associate much of what is ‘wrong’ with globalisation, in the eyes of its many discontents, with a simplistic depiction of the Fund’s implementation of Washington Consensus policies (Stiglitz, 2002:220-1).

By defining the debate in these terms, both Stiglitz and the Fund, are able to juxtapose this with the politics of ‘deep’ reform that he proposes. In fact the Fund is not so slavish to the narrow definition of market fundamentalism painted by Stiglitz. Neither is the WB, or indeed Stiglitz himself, so opposed to it as he would have us believe. The responses of the IMF to Stiglitz go someway to confirming this while also portraying Stiglitz in equally exaggerated fashion as an advocate of Keynesian expansionism and ‘big’ government. In fact both Stiglitz and the Fund alongside a vast array of institutional, political and intellectual allies share a common concern to make globalisation and globalised markets work more efficiently, by correcting failures, building support and assisting in accumulation as the quotations in Box 3 reveal. Moreover, the majority of Stiglitz’s proposals for the ‘Way Ahead’ (Box 2 above) are already firmly part of the accepted ideological framework subscribed to by the BWIs. Those that are not, have and continue to be debated by them at various times. Creating this false dichotomy is useful to both ‘sides’ because it creates an apparent chasm in ideas that can be filled with a ‘third way’.

In fact in the contemporary project to lock-in neo-liberal hegemony, technical macro-economic policy prescriptions reflect something of a synthesis between neo-classical and neo-Keynesian orthodoxy. This is because the current political-economy context is vastly different to when the hegemony of capital was challenged in the core by militant organised labour and at the periphery by third-world collectivism. This means that, with capital firmly in the ascendancy, neo-liberal hegemony, so often wrongly associated with a particular set of macro-economic policies rather than the underlying class structure of the historic bloc, can easily accommodate expansionism, limited by the operation of the new-constitutionalism. More deeply, this context also necessitates a vastly different approach for structural policy than in the context of first-phase restructuring. In this changed context the need is not to undermine entrenched social interests but to draw in 'excluded' groups to offer their labour power for commodification. As a result, the focus of ideological locking-in has shifted to one of maintaining the privileged position of financial interests while securing the social basis of accumulation by expanding and intensifying the stable commodification of labour power and legitimacy on a global scale.

Box 3: Stiglitz and the IMF (and their allies) - Confrontation or Shared Project?

"over the past 50 years, the process of globalization has been the source of unprecedented gains in human welfare. But it has also brought risks and challenges, such as disruptive volatility in international capital flows and the depletion of natural resources. I welcome the ongoing, critical debate about globalization, as an opportunity to clarify its costs and benefits, and as an antidote to complacency. Let us not confuse ourselves—the people of the world need more globalization, not less. But it is also clear that we need to work harder to make globalization more inclusive, and seek a better balancing of the risks and benefits. This means that integration into the global economy must be accompanied by investments in making integration pay off for the people of the world, and especially for the poor—investments in better policies and regulatory frameworks at the national level, to safely take advantage of the opportunities of the global marketplace; and investments in more effective international cooperation, to guide and shape the process of globalization." **Horst Köhler, Managing Director of the IMF, (2003)**.

"the world is now at a crossroads. It can heed the critics of globalization and turn the clock backward, or we can spur the process of liberalization and growth and work to make globalization benefit more." **Anne Krueger, First Deputy Managing Director of the IMF (2003a).**

"We cannot go back on globalisation; it is here today. The issue is how we can make it work." **Joseph Stiglitz (2002: 222).**

"Globalisation can be a force for good: the globalisation of ideas about democracy and of civil society have changed the way people think, while global political movements have led to debt relief and the treaty on land mines. Globalisation has helped hundreds of millions of people attain higher standards of living, beyond what they or most economists thought imaginable but a short while ago. The globalisation of the economy has benefited countries that took advantage of it by seeking new markets for their exports and seeking foreign investment." **Joseph Stiglitz (2002: 248).**

"In listing the negative impacts of markets on people, it is important not to appear to be rejecting markets as the central organizing principle of global economic life. Markets need institutions and rules—and too frequently in the global setting they are not yet adequately subjected to the control of either. But the unleashing of competition within countries and between countries has ushered in for many an era of prosperity and liberty…. this empowerment has been uneven—leaving countries, regions, ethnic and religious groups, classes and economic sectors the victims of increased inequality. Sixty countries have been getting steadily poorer since 1980. The losers from globalization are both a huge human and political waste and the source of disappointment and often tragedy for themselves and the families that depend on them. Markets have brought dislocation and heartache as well as remarkable advances. As the authors argue, these failures, unaddressed, will compound and encroach on the security of today's market winners." **Mark Malloch Brown, Administrator and head of the Human Development Report, UNDP, (1999: v).**

Key Principles of and Approaches to Locking-in

Technically, the ideology of locking-in focuses on minimal reform to aspects of global financial management or domestic institutional management in which market imperfections are accepted but within a continued preference for markets over other allocative mechanisms. Phrases such as ‘transparency’, ‘surveillance’, ‘good governance’, ‘poverty reduction’, ‘ownership’ and ‘participation’ pepper the language of reform.

Cutting across these principles is an acceptance of market failure, a shared conception of the desirability of institutional capacity building for the management of global neo-liberal capitalism and the development of depoliticised approaches to ‘evidence-based’ policy-making. For instance, even those criticised by Stiglitz and others as ‘market fundamentalists’ have agreed that markets are imperfect and fail (Fisher, 1998a; Krueger, 2004b).

In recognition of this, the focus on institutional capacity building has also been widely shared, particularly with regard to the global financial architecture, domestic financial institutions and capacity to deliver social and infrastructure projects to create a supportive environment for capital. As the 2002 WDR, highlights:

> “Effective institutions can make the difference in the success of market reforms. Without land-tilting institutions that ensure property rights, poor people are unable to use valuable assets for investment and income growth. Without strong judicial institutions that can enforce contracts, entrepreneurs find many business activities too risky. Without effective corporate governance institutions that check managers’ behaviour, firms waste the resources of stakeholders. And weak institutions hurt poor people especially. For example, estimates show that corruption can cost the poor three times as much as it does the wealthy. Addressing the challenge of building effective institutions is critical to the Bank’s mission of fighting poverty.” (WB, 2002:iii).

‘Evidence-based policy making’ is used to assist in obscuring the underlying dynamics of advocated reform. Taking neo-liberal globalisation as a ‘fact of life’, the strategy is to present policy prescriptions for its locking-in as technical, evidence-based policy designed to tackle problems of market failure, organisational solutions to delivering services or bespoke economic policy advice for every social and historical context. This ideological strategy for ‘knowledge management’ was set out by the incoming Wolfensohn (1996) in a paper to the 1996 Annual Board meetings in which he proposed that the Bank act as repository and ‘gateway’ to research, advice and technical know-how in poverty reduction and development. The following year, the WDR set out this strategy publicly. As Cammack (2002:22) argues, this represents the re-branding of neo-liberal doctrine as technical know-how or expertise.

In the wake of the financial crises of the 1990s, ‘transparency’, ‘surveillance’ and ‘monitoring’ have become familiar refrains. Those reports that dissected the Asian Crisis and drew conclusions about the weakness of global institutional capacity to manage liberalised capital flows and respond to crisis, all stressed the importance of these three principles. In line with the prescriptions of the new-constitutionalism, clear evidence of strategy and policy are to be provided, compared and measured to secure information so that investors can make efficient allocation decisions, over-coming market failures related to information problems. A multitude of global reports and indices compare every available aspect of social, economic and political data to facilitate this.

‘Good governance’ is one of the lynch-pin concepts of the emerging orthodoxy. What is meant by it is again illuminating. On its website, the IMF has a handy fact sheet (IMF, 2003a) on Good Governance and a supplementary guide to *The IMF's Approach to Promoting Good Governance and Combating Corruption* (IMF, 2002), which largely define it as a combination of measures to tackle corruption. The state is to be free from capture by domestic special interests and the rules of investment and property law are to be transparent to investors. Within this framework the relative autonomy at domestic and national level is then to be brokered to secure the conditions necessary for general accumulation.

The need to extend the scope of the global labour market while maintaining legitimacy, involves the construction of policies to draw-in social groups which currently lie outside the scope of commodification. This has led to the adoption of the pervasive ‘poverty reduction’ mantra in which the delivery of ‘pro-poor’ policies is portrayed as a decisive break with the austerity-based policies of the past, and was initially taken up by the WB and the United Nations Development Programme (UNDP). The poor were (and are) to be systematically measured, identified and then targeted by policies designed to secure their inclusion. For instance, the first annual Human Development Report the UNDP was critical of first-phase restructuring:

> “Human development efforts in many developing countries have been severely squeezed by the economic crisis of the 1980s and the ensuing adjustment programmes. Recent development experience is thus a powerful reminder that the expansion of output and wealth is only a means. The end of development must be human well-being. How to relate the means to the ultimate end should once again become the central focus of development analysis and planning”. (UNDP, 1990:10).

In place of national-income accounting the UNDP suggested a human-centred development paradigm based upon a range of social indicators. The 1990 WDR

Poverty followed a similar theme, stressing that while structural adjustment should pursue equilibrium wages and attract investment, the short-term effects can be damaging, including increasing the exclusion of groups from the formal capitalist economy (World Bank, 1990:103-4).

Separate chapters were dedicated to measuring and identifying the poor and the specific barriers to their inclusion in the global economy. Of particular importance is the way in which poverty is defined.

> "Poverty is not the same as inequality. The distinction needs to be stressed. Whereas poverty is concerned with the absolute standard of living of a part of society – the poor – inequality refers to relative living standards across the whole society." (WB, 1990:26).

While there was a superficial similarity then in the approach set out by the Bank and the UNDP, there were in reality several very real philosophical and ontological differences in their treatment of human development. The UNDP made it clear that they were proposing a very different sort of human-centred development to that pursued by the Bank and later by its allies.

However, despite the continuation of the HDR, and that one of its principal intellectual founders, Amyrata Sen, won a Nobel Prize for his work, it is the Bank's approach that has become widely shared. Indeed, the differences in the UNDP's philosophical basis for defining human development did not carry over to the policies it advanced for enhancing it (UNDP, 1990:Ch 4), and subsequent reports have fully accepted the desirability of neo-liberal globalisation, albeit with the usual qualifications about more effective management (UNDP, 1999:2).

The basis therefore of the Bank's 1990 WDR and the more recent *Attacking Poverty* is a mixture of the basic needs and human capital formation approaches described above (WB, 2000:15-29). This reveals the basic operational logic of the Bank's approach to poverty reduction as one of providing the poor with the resources and services they need to attain a minimal acceptable standard of living, enabling them to compete in the formal labour market. The key strategic theme of the approach, is not altruism but, as Cammack highlights, a two-fold plan to expand primitive accumulation through the ability of individuals, families and communities to sell their labour:

> "The first element of the strategy is the pursuit of a pattern of growth that ensures the productive use of the poor's most abundant asset – labor. The second element is widespread provision to the poor of basic social services, especially primary education, primary health care, and family planning. The first component provides opportunities; the second increases the capacity of the poor to take advantage of these opportunities" (WB, 1990:iii, quoted in Cammack, 2002).

This ideological shift in emphasis has been expanded upon in subsequent WDRs, while the ideological framework is widely shared. Poverty Reduction and 'Pro-poor' policies have become part of the oft-repeated mantra at the global level:

> "Poverty reduction is in the news for both the IMF and the WB... For its part, the WB headquarters has built into its lobby wall the slogan 'our dream is a world free of poverty.' The recent East Asian currency crisis and its aftershocks in other countries generated intense concern about how the poor were faring under structural adjustment programs supported by the Bank and the Fund. The poverty issue is so red-hot that IMF and WB staff began to feel that every action inside these organizations, from reviewing public expenditure to vacuuming the office carpet, should be justified by its effect on poverty reduction." WB Staff member, William Easterly (2000:2).

Further evidence of the Bank's commitment to this principle can be gained from its website, where its annual reports (WB, 2003), speeches of its president and senior officers (Wolfensohn, 2003) and the vast array of research and other publications leave no doubt as to the centrality of this principle. The WDR2004, *Making Services Work for Poor People*, highlights different structural mechanisms to deliver basic services with access to education, primary healthcare and credit being central elements in the evolution of the Bank's ideological framework for locking-in (WB, 1990:6; 1993; 2004).

This overarching focus is also shared, as Easterly suggests, by other key strategic actors at the global level. For instance, in the wake of the criticism of the IMF, it also stressed the importance of meeting the needs for the poor to share in the benefits of economic growth. For instance, Camdessus (1998d) outlined a four point strategy for helping the poor, including targeted access to education, health and credit, social safety nets to enable responsiveness to market change and macro-economic reform and adjustment, equality defined not by income but by opportunity to compete for work and specifically reflecting local social, historical and cultural definitions.

Finally, a great deal of attention has been given in the ideological framework to boosting ownership and participation in the locking-in process, based on an assessment of a lack of commitment to externally imposed policies. 'Selectivity' has been promoted in place of traditional conditionality, which, it has been argued, has the advantage that it induces governments to make a strong domestic case for reform, secure wider social commitment and to build the institutional structures needed for adjustment over the long-term (WB, 1998a:62-74). Financing in this case follows reform, rather than preceding it and sends clear signals to the private capital markets about the sincerity of the reform process. As one ardent supporter of 'locking-in' and his colleagues explain:

> "The attempt to buy policy changes actually exacerbates the problem of lack of ownership of policies on the part of the government. Without government ownership the persistence of reform may have insufficient credibility to induce strong supply response. We have argued that a necessary … condition for government ownership is that the design of policy should be done by the government…the allocation of aid on the basis of outcomes would concentrate aid in those countries in which it is most likely to be effective, thus meeting the objective of selectivity. By relinquishing the objective of inducement and hence the very public conflicts of priorities, it becomes possible for donors to be invited by governments to function as agencies of restraint. Finally because aid would follow economic performance it would signal that performance. This may assist in attracting private capital to the best performing economies." (Collier et al, 1997).

Attention has also been given to greater local ownership. For instance, a heavy reliance is placed on partnerships for development with local non-governmental organisations (NGOs) and in 'learning' the lessons of localised projects through the Bank's detailed collection of de-politicised 'knowledge'.

Institutional Lock-in

Strategies to lock-in neo-liberal hegemony within each of its facets are complicated at the international level because of the lack of a single institutional actor or framework for their coordination and because they are not only represented in institutional frameworks at this level but include also mechanisms for their transmission to the domestic level. The following section charts just some of the more prominent aspects of locking-in at the global level.

Institutionalising Deep Reform: Poverty Reduction and Participatory Development

> "We need to promote greater openness and transparency in national policy-making. In this new world, national governments must set clear, long-term policy objectives that build confidence and commit to openness in policy making that keeps markets properly informed and ensure that objectives and institutions are seen to be credible. The way for them to do this is to agree to abide by well-understood, and internationally-endorsed, codes of conduct: for fiscal policy, monetary and financial policy, corporate standards and social policy. The IMF has already drawn up a code of good conduct for fiscal policy and is now drawing up a code for monetary and financial policy. The OECD is drawing up the corporate code, and the WB is considering a social code." Gordon Brown to the IMF and WB Annual Meetings, (1998).

By the eve of the new millennium a new consensus around the central principles of the emerging ideological framework was manifest in two institutional initiatives: the setting of what would become known as the Millennium Development Goals (MDGs) at the UN Monterrey meeting and the institutionalisation of structural and social reform efforts in developing countries to match the existing efforts at macro-economic stabilisation.

At the turn of the Millennium, UN Secretary General Kofi Annan produced *'We the Peoples' The Role of the United Nations in the 21st Century* (UN, 2000) in advance of the Millennium Summit convened by the UNGA to discuss the UN's future. The report emphasised several key weaknesses in the structure of hegemony, including the contradictions created by economic globalisation:

> "There is mounting anxiety that the integrity of cultures and the sovereignty of states may be at stake. Even in the most powerful countries, people wonder who is in charge, worry for their jobs and fear that their voices are drowned out in globalisations sweep. Underlying these diverse expressions of concern is a single, powerful message: globalisation must mean more than creating bigger markets. The economic sphere cannot be separated from the more complex fabric of social and political life, and sent shooting off on its own trajectory. To survive and thrive, a global economy must have a more solid foundation in shared values and institutional practices – it must advance broader and more inclusive, social purposes." (Ibid:10).

The report went on to identify the specific elements of the dislocation between the economic, social and institutional 'fabric', including institutional weaknesses at global and domestic level, inequality between and within states, poverty and exclusion from integration in the formal global capitalist economy, failing legitimacy, conflict and war and environmental degradation (Ibid:9-75). In order to tackle these threats to hegemony, Annan suggested a programme of action in four areas, based on a set of values including freedom, equity and solidarity, tolerance, non-violence, respect for nature and shared responsibility, which the paper claimed were universally held. First, was tackling poverty through universal primary education, halting the spread of HIV/Aids, improving slums, generating employment, institution building, market access for exports from LDCs, sovereign debt cancellation and increased development assistance. The need for a specific focus on Sub-Saharan Africa was also emphasised. Second, war and conflict were to be tackled by strengthening international law and its enforcement, extending the remit and capacity of the UN itself. Third, action on environmental sustainability was also suggested including the promotion and widespread ratification of the Kyoto Protocol, more extensive use of 'green accounting' in national accounts and support for the Millennium Ecosystem Assessment. Fourth, reform of the UN was proposed, specifically with regard to the composition of the security council, increased resources, managerial reform of the Secretariat and increasing engagement with NGOs (Ibid:77-80).

The September 2000 Millennium Summit endorsed action broadly consistent with this agenda in the form of the Millennium Declaration. The declaration institutionalised the commitment to socialise and lock-in the globalisation project:

> "We believe that the central challenge we face today is to ensure that globalization becomes a positive force for all the world's people. For while globalization offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed. We recognize that developing countries and countries with

> economies in transition face special difficulties in responding to this central challenge. Thus, only through broad and sustained efforts to create a shared future, based upon our common humanity in all its diversity, can globalization be made fully inclusive and equitable. These efforts must include policies and measures, at the global level, which correspond to the needs of developing countries and economies in transition and are formulated and implemented with their effective participation." (UN, 2000a:1).

The Millennium Declaration has since received further institutionalisation in the form of the establishment of eight overarching Millennium Development Goals (MDGs)[48] with a wide range of associated targets and statistical performance indicators attached to them as part of a policy 'roadmap' (UN, 2001; 2003). The eight MDGs cover the eradication of extreme poverty and hunger, the achievement of universal primary education, the promotion of gender equality, reduction of child poverty, improvement of maternal health, combating HIV/Aids, malaria and other diseases, promoting environmental sustainability and developing a global partnership for action. Attached to these eight goals are eighteen targets and forty-eight statistical indicators. The approach demonstrated in the Millennium Declaration and given emphasis and focus in the MDGs is clearly based on a second-phase concern to lock-in neo-liberal hegemony, containing its contradictions and laying the framework for both expanding commodification and socialising the approach to accumulation.

The approach to 'poverty reduction' and the associated 'pro-poor' services is most illustrative. Nowhere in the targets does equity feature at all. The concern is solely to raise the absolute income of the poorest to above $1 a day and to increase the share of wealth of the poorest fifth. Whether or not that increased share comes from the second poorest fifth or whether the increase in average income or prices means that an income above $1 a day is either a relative or absolute rise is left entirely unmeasured by the goals, targets and indicators. Indeed, as research for the UN[49] has shown, the $1 a day figures resulted from a series of studies that were by the turn of the millennium out of date (Vandemoortele, 2002:4-10).

The concern to develop universal social safety nets, increase spending on, and the coverage of, services such as health and education and to focus on participatory development methods, aim to contain the contradictions of and to lock-in the poor to neo-liberal hegemony. This leads to a natural concern in the policy literature on the MDGs to promote policies which spread labour-intensive

[48] Reflecting the further development and instutionalisation of several goals, targets and indicators agreed over the course of the 1990s and previously termed International Development Goals.
[49] See http://www.developmentgoals.org/Research.htm.

growth and the liberalisation of low-technology industrial sectors in the advanced economies (UNDP, 2003:6; WB, 2004b:X;52;144;151). At the same time however, that same concern continues to motivate the widening of the global labour market, sustain an effectively functioning reserve labour pool to discipline labour in its (globally and domestically situated) struggles with capital and to secure a highly hierarchically organised global division of labour. The strategy thus pursues both absolute and relative surplus value, both through labour intensive industrialisation in the developing world and through capital intensive industrial restructuring in the advanced economies (World Bank, 2004b:50).

It is within this framework that the remaining elements of the MDGs sit. The concern to improve health and education is intended to prevent the loss of potentially commodifiable labour and enable the poor to enhance and sell their labour power more effectively. Gender equality is promoted in a clear attempt to usurp traditional cultural structures and enable women to enter the formal capitalist labour market. Strengthening the financial system displays a desire to protect capital, and throughout the approach is to build and secure legitimacy.

During 1999, Wolfensohn (1999) circulated a ‘discussion draft’ within the Bank proposing the establishment of a Comprehensive Development Framework (CDF). The purpose was to institutionalise the building consensus, giving greater emphasis to structural and social issues alongside the focus on macro-economic stabilisation.

Building on his previous analysis of the importance of tackling deeply embedded structural and social barriers to the locking-in of neo-liberal capitalism in developing countries, Wolfensohn’s proposal embodied an all-encompassing plan to guide development assistance, projects and structural reform in developing countries over the long-term. The framework provided for structural, human and infrastructural development alongside specific strategies aimed at urban and rural issues and support for private sector development. Structural issues were broken down into separate aspects, including good governance to maintain the autonomy of the state, effective legal systems to protect contract and property law, a developed financial system to build and retain the confidence of investors and a social safety net to assist in orderly adjustment and to sustain second-phase locking-in. Human development included specific focuses on education and skills and health and population control. Infrastructural issues highlighted included water and sanitation, energy, roads, communication and transport infrastructure and a concern for the environment. The strategy was then developed as a bid for leadership among the international development community.

> "One of the central CDF principles is the creation of more effective partnerships, collaborative relationships, and working toward shared objectives through a mutually agreed division of labour. More effective partnership should promote coherence, encourage selectivity and reduce wasteful competition among donors, in supporting the government's efforts to reduce poverty." (WB, 2000:9).

Alongside this attempt to align the donor and aid community behind the CDF, a further principle was to secure the ownership of the strategy among host countries themselves (Ibid:5). Also reflecting the second-phase concern to secure progress, the CDF includes the need for domestic institutional capacity building (Ibid:3).

The framework was then used to establish a matrix to guide the coordination of development activity at a domestic level. The matrix highlights the importance of the CDF as a mechanism for both institutionalising second-phase hegemony at the global level, and translating it downwards into the institutional fabric of developing countries (WB, 1999).

Uptake and implementation of the CDF has been evaluated on an annual basis, with attention paid to the extent to which the key principles (Background, Long-term/Holistic vision, Ownership, Partnership, Performance Management and target setting) have been embedded institutionally (WB, 2000). A variety of inter-linked institutional mechanisms have been adopted to lock-in the CDF, to domestic institutions, especially at the margin of hegemony, promoted through the use of conditions attached to financial assistance, though these have been reformed to represent a much more sophisticated and coordinated set of institutional mechanisms. Responding to crisis tendencies in reproduction and legitimacy, the BWIs developed a more concessionary form of financial assistance in the form of debt relief through the Heavily Indebted Poor Countries Initiative (HIPC) (1996) and later, in 1999 the enhanced HIPC. In light of the evidence of the fungibility of standard conditionality, this was replaced by selectivity, with host countries obliged to prove that they were committed to the dominant development paradigm based on a new novel procedure: the Poverty Reduction Strategy Paper (PRSP) approach (WB and IMF Development Committee, 1999). This is intended to provide a mechanism not only to create country and local ownership around the revised second-phase reform agenda but also to lock-in bilateral aid and debt relief to the same agenda. As such the WB's Country Assistance Strategies (CASs) also link to the PRSP as the dominant domestic plan. The PRSP approach was thus to provide a concrete mechanism for the transmission of the MDGs/CDF to the domestic level (Wolfensohn and Fisher, 2000:56).

Both the CDF and the PRSP were trumpeted as a decisive move away from conditionality. However, the reality was somewhat less conclusive. As the Bank itself has made clear:

> "Ultimately, the Bank and other major players must reserve the right to support those proposals with which they agree." (WB, 2000:22).

Recent reviews by the BWIs as well as 'external' evaluations by their respective evaluation offices suggest that PRSPs are still seen by many developing countries as a tool for external control. The Bank has developed comprehensive guidance on the development of PRSPs which gives detailed information on institutional development. For instance, Volume 1 of the PRSP *Sourcebook* offers separate chapters on statistical techniques to identify the incidence and severity of poverty (Coudel et al, 2004; Wodon and Yitzhaki, 2004), to develop monitoring, evaluation and comprehensive institutional performance management systems (Prennushi et al, 2004; Christiaensen et al, 2004; Achikbache et al, 2004) and Public Expenditure Management (PEM) (Fozzard et al, 2004). The *Sourcebook*, the associated technical appendices and additional guidance offer developing countries in search of external support for debt servicing, exchange rate management or development financing, a complete guide to public management for the enabling neo-liberal state. What is outstanding is the similarity between the institutional solutions and mechanisms advocated in the *Sourcebook* and those applied by ardent developed neo-liberal governments like New Labour in the UK. The result is the generalisation of the OECD approach to NPM as modified by the second-phase neo-liberal determination to map, measure and correct market imperfections.

PRSPs also have to be 'signed off' by the Executive Boards of the BWIs who are helped to make this decision by a Joint Staff Assessment (JSA) of the PRSP. Host countries must also produce an Annual Progress Report (APR) on implementation, which again is the subject of a JSA. The Progress Report and evaluations of the PRSP approach identify both 'signing of' and the JSA as areas for reform (IMF IEO, 2004:4). Duly, the JSA is to be renamed the Joint Staff Advisory Note (JSAN) and be more graduated and frank in its engagement with the PRSP and APRs, (WB and IMF, 2004:45-46). Thus the role of the JSA/JSAN and that of the bi-annual reviews and evaluations is to provide a mechanism to ensure that the Country-authored PRSPs reflect the Bank's preferred development paradigm.

Guidance to Bank and Fund officials in their preparation sets out a series of detailed questions to ensure that the strategy has been developed in the prescribed way and contains the requisite focus (WB, 2004a). The APRs and associated JSA/JSANs, frequent reviews and evaluations, all of which are published in the interests of transparency (and as such increasing 'signalling' (IMF, 2004b; 2004c) to the markets) provide the function of ensuring that the strategy is actually implemented at domestic level. Indeed this has been singled out as an area for further work (IMF IEO, 2004:16).

PRSPs, JSA/JSANs and APRs are just part of a broad-based approach to institutional coordination in which the repeated submission of plans, monitoring of statistical data and the setting of institutional (input, process and output) and collective (outcome and impact) targets focuses institutional agendas and organisational priorities on the preferred strategy. This control is enhanced by the effect of tranching assistance and the requirement for prior and continued demonstration of commitment to 'appropriate' reform. For instance, PRSPs need to be produced in acceptable form prior to concessional assistance being offered and a continuing commitment must be demonstrated between 'decision' and 'completion' points and then on an annual basis with respect to the APRs. PRSPs themselves must be reformulated every three years.

This coercive/incentive function is augmented by a drive to extend domestic 'ownership' of reform by a wide range of domestic interests and actors, through parliamentary, civil society and private sector participation (IDA and IMF, 2002; WB and IMF, 2004).

> "…Bank reviews of its policy-based lending operations have concluded that impact is greatest when governments are the prime mover in suggesting reforms, and it is highly likely that domestic policy efforts have greatest impact when they represent a wide consensus within civil society and others concerned with effecting national development." (IMF and IDA, 1999a:20).

By enhancing transparency and a plurality of political pressures, the Bank is intent on creating the political space for relative political autonomy from vested interests, rent seeking, capture and clientelism (WB, 2004b:Ch2).

In line with the CDF, the PRSP is also intended to act as the framework for assistance not just from the BWIs but from bilateral donors too, with the effect of substantially increasing the leverage of the PRSP approach by incentivising reformers or disciplining reluctant states. In the case of the Bank, alignment is provided through the CAS which provides a summary of all the different types of development assistance, concessional support, debt relief and programme credits offered to host governments and how these link to the PRSP (WB and IMF Development Committee, 1999:17-20). In the case of the IMF, alignment is provided through the PRGF. Endorsement of the PRSP by the Bank and Fund is a key gateway to accessing support under the PRGF and objectives, targets and measurement to be incorporated in PRGF programming documents are expected to flow from the PRSP. Moreover, the IMF explicitly determined that PRGF documents were to be more closely focused on issues of macro-economic stabilisation and to facilitate the successful implementation of Bank sponsored structural and social reform (IMF and IDA, 1999:18-19; IMF, 1999a; 2000; 2001a; 2004; IMF IEO, 2004:43-62).

"Faster, deeper and broader debt relief" (IMF, 2000:2) for the most indebted countries was also to be linked to the PRSP/CDF. HIPC, which works through an enhanced package of financial support through the PRGF, was developed from a wide consensus on the need to match debt relief with determined action on poverty reduction, particularly by diverting savings from debt relief to social spending. For instance, similar proposals were made by a range of development NGOs to those eventually embodied in the enhanced HIPC programme (IMF and IDA, 1999a:35-49). The disciplinary nature of HIPC is highlighted however, by the contrasting fortunes of the eleven (29% of the total) otherwise eligible countries who have been unable or unwilling to satisfy the conditions for relief (IMF and IDA, 2004:13-21).

The thrust then to strengthen country ownership exists only within a wider five-pronged framework for control. The first two prongs consist of detailed policy prescriptions presented as technical guidance and institutional coordination mechanisms which extend within and between levels. Third, these mechanisms are augmented by their attachment first to a comprehensive programme of debt relief and concessional assistance from the BWIs which is available only to willing reformers. Fourth and fifth, alternative development paths are closed-off through the alignment of other donor strategies and the use of extensive signalling to the private capital markets, meaning that the PRSP approach is the "only game in town" (Bretton Woods Project, 2004:1).

Institutionalising Fiscal and Monetary Regulation, Transparency and Surveillance

The global regulatory environment for financial, monetary and fiscal policy has been gradually developed over recent decades, especially in response to periodic crises. For instance, exchange and current account volatility in the early 1980s led to the development by the G7 of the Plaza and Louvré Accords (G7, 1985; 1987). Following the 1987 Wall Street Crash the Basle Committee on Banking Supervision (BCBS), published new non-statutory rules on the bank capital reserves (BCBS, 1988). Similarly, crises of the late 1990s have been followed by a large number of regulatory initiatives to boost the resilience of the global economy to crisis and to prevent crisis in the first place, promoted particularly by the G7 and the IMF (G7, 1998:2-3; 2000:4; 2001:4; IMF, 1998). To facilitate this, the G7 established the Financial Stability Forum (FSF) in 1999 to assess the strength and weakness of the global financial system and to coordinate the work of a range of regulatory bodies such as the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the BCBS (Tietmayer, 1999; G7, 1999; FSF, 2004). The FSF provides a forum for coordinating and reporting back from these institutions and its membership includes representatives of major public sector institutions in major national, regional and global financial authorities. What is notable about the development of regulatory reform over the last three decades is that it has slowly institutionalised the requirements of neo-liberal hegemony, including the promotion of the new-constitutionalism, the protection of the global financial system from temporary or spatially concentrated crises and extending very detailed and technical prescriptions for domestic regulation.

The IMF has developed (in 1998) and revised (in 2001) its *Code of Practice on Fiscal Transparency* and *Code of Practice on Transparency in Financial and Monetary Policy* (1999) which determine that fiscal, financial and monetary policy should be subject to clear legal rules for the preparation of budgets, comprehensive data dissemination on public spending, taxation accounts and monetary policies, and that these rules and the quality of data should be subject to independent scrutiny (IMF, 1999; 2001). While transparency is often presented in terms of public accountability, the exercise of scrutiny requires significant resources, expertise and capacity. Clearly such transparency is oriented toward increasing the leverage of global financial markets over fiscal, monetary and financial policy. Indeed, speaking at a conference in South Africa a senior IMF bureaucrat who worked on developing the IMF codes, stressed that augmenting the leverage of financial markets was part of their initial rationale:

> "In fiscal policy perhaps nothing matters quite so much these days as what the financial markets think that you are doing and how well you are doing it, …if you appear to be making the wrong decisions they pretty rapidly get hold of you and they can transmit quite quickly from one side of the world to the other…once markets start to have doubts

they react and they react quickly…The last point about markets is that at the end of the day markets are driven by expectations. So it is not just important to be doing well, it is important to create an expectation that you will do well in the future." (Potter, 1999).

A range of other regulatory bodies are also engaged in regulating domestic macro-economic policy, in a way consistent with the new-constitutionalism. For instance, the IOSCO's *Objectives and Principles of Securities Regulation* aim both to promote transparency and to secure the relative autonomy of regulatory authorities from special interests while being based on an avowedly pro-market stance:

"Implicit in this document is the belief that regulation should facilitate capital formation and economic growth. In the context of regulation, there should also be a recognition of the benefits of competition in the market place" (IOSCO, 2003).

These rules have also been strengthened and augmented in recent years with the establishment of further standards such as for corporate governance and audit (IOSCO, 2003a) and the BCBS (1997) has augmented its Capital Adequacy Standards with *Core Principles for Effective Banking Supervision* which sets out the role of regulation as maintaining financial stability while 'encouraging and pursuing' market discipline, and promoting some risk taking. The Code goes on to champion other central elements of neo-liberal hegemony such as "sound and sustainable macro-economic policies" and effective market discipline. While "sound" and "sustainable" are left largely undefined, the use of banking law "to achieve public policy objectives" is ruled out as creating market distortions. Other preconditions are simply essential to capitalism:

"a system of business laws including corporate, bankruptcy, contract, consumer protection and private property laws…well defined rules governing, and adequate supervision of, other financial markets and, where appropriate, their participants…a secure and efficient payment system" (Ibid:11-12).

In June 2004 the BCBS (2004) also completed work on a Basle II which significantly strengthens the 1988 capital adequacy standards. The Committee on Payment and Settlement Systems (CPSS) produced *draft Core Principles for Systemically Important Payment Systems* in 1999 and after consultation strengthened these still further before publication in 2001 (CPSS, 2001). Other new and expanded standards and codes have been developed by the IAIS (2004) and the International Accounting Standards Board (IASB).

Though having differing legal status, these and other standards, rules and codes of practice are also subject to some limited enforcement through a variety of established and developmental policy coordination mechanisms. For instance, Article IV (Section 3) of the IMF's Articles of Agreement set out its obligation to monitor member states' exchange rate policies (IMF, 2004). The remit of 'Article IV consultations' has subsequently been broadened, to take account of the general domestic economic situation and strategy (IMF, 2003b) and since 1997 the results of these consultations have also been subject to voluntary publication. These results (or in some cases the full staff report) can provide an important 'signal' of the credibility of domestic policy and performance enhancing the disciplinary effect of global capital flows.

In 1999, Article IV consultations were augmented by the establishment (jointly by the Bank and the Fund) of the Financial Sector Assessment Program (FSAP). FSAP teams examine the stability of a participating member's financial system, the observance of the various international codes and standards, the financial system's development and reform needs as well as the policies of members into the future. The assessment includes a variety of technical econometric assessments and analytical tools, some of which were developed specifically for the programme (IMF and WB, 2003). The findings of the FSAP are then incorporated in three separate reports; the Financial System Stability Assessment (FSSA) (by the Fund) which is then included in the Article IV consultation process, the Financial Sector Assessment (by the Bank) and the Reports on Observance of Standards and Codes (Hilbers, 2001), which are collectively presented to the Boards of the BWIs. While the FSAP was initially designed to prioritise large, emerging or systemically important financial systems, the recent review of the programme resulted simultaneously in a more streamlined and prioritised approach and an increasing involvement of the WB in LDCs, with a greater emphasis on medium-term and structural issues (IMF, 2003c; 2003d). One of the identified benefits of the FSAP for participating states was cited in the review as augmenting the domestic case for pro-market reforms:

> "Developing and emerging countries also emphasised the FSAP's contribution in identifying vulnerabilities, prioritising reforms, and focusing attention domestically on the need for reforms." (IMF and WB, 2003b:11-12).

In addition to the FSAP, the Fund is also developing a Policy Monitoring Arrangement (PMA), at the request of member states, involving a closer and continuing assessment. The rationale for the development of the PMA is partially cited as overcoming domestic opposition to IMF programmes and gaining access to the catalytic effects of 'signalling' (IMF, 2004a; 2004b).

Social locking-in

> "Social Development' is a term that for the WB means change in society, just like economic development is development of economies…it is about 'inclusion', 'cohesion', 'accountability'." Steen Jørgenson, Director of Social Development, WB (2004).

This introduction to the Bank's Social Development Strategy, highlights the importance of matching institutional and ideological change with fundamental social transformation to ensure the success of second-phase locking-in. These aims and objectives can be grouped into two categories according to their function in locking-in neo-liberal hegemony: measures to secure original accumulation and measures designed to raise the rate of relative surplus value, understood within the overall framework of building the legitimacy of, and support for, neo-liberal development. It is also important to remember that this contextual framework is shaped by the spatial elements of the global division of labour and strategic alliances which differentiate within the global working class to formulate national alliances between classes to uphold hegemony in its domestic context.

Securing Original Accumulation Through Social Transformation

Measures to secure primitive accumulation include agricultural and rural development, promoting the economic activity of women and enhancing employability. A key element of this at the margins of hegemony is to transform traditional social and cultural practices. This has been attempted through measures to integrate or re-integrate agricultural production into the capitalist economy and more ambitiously into the world market. This is set against a firm belief in the linear trajectory of economic and political development (WB, 2003a:18).

The shift from first-phase strategies to second-phase locking-in, principally expressed in the need to align rural development strategies with the MDG, CDF and PRSP approaches, has necessitated a significant change in tack to more expressly manage the process of agricultural reform and complementary processes of LDC industrialisation and trade liberalisation. The backdrop to this shift in policy emphasis was provided by a rise in subsistence agriculture, dropping-out, failing legitimacy and conflict:

> "The potential gains of growth of rural communities have increased, but so have the costs of decline. Exclusion of young people from meaningful political and economic opportunity fuels an ongoing and roving conflagration of conflict and lawlessness." (WB, 2002a:1).

In this context, the WB has set about implementing a strategy for rural development which is congruent with its overall approach to poverty and urban industrialisation. Land and labour are to be commodified, subjected to market exchange and where possible integrated into the global economy. Social and cultural practices linked to prior or de-commodified socio-economic systems are to be obliterated in favour of capitalist social relationships. Traditional practices such as collective and uncertain land tenure are to be replaced with individualised land tenure backed by institutional reforms to administer land sales and registers of ownership (Ibid). Land reform itself is not new, but in contrast to first-phase restructuring the approach is to match land reform with social as well as economic transformation, inculcating gradual capitalist development from below rather than simplistic imposition from above.

As such, land tenure is to be directed first at small scale farmers as a means of enabling the poor to access credit for investment (Cord, 2004:86-96). The approach to finance underlines this strategy. Careful analysis of the capacity of rural communities to cope with different types of financing for agricultural investment is used to assess the extent to which capitalist social practices are embedded. Where these are poorly embedded, grant aid, land and regulatory reform are advocated prior to the development of local microfinance options (WB, 2003b:xi).

Similarly, pastoral approaches to livestock farming are to be replaced with more modern techniques, implemented by the poor themselves. Traditional agricultural methods are to be replaced by modern agri-science, the transfer of research, physical and crop-technology backed by the extension of financial products to allow investment. These efforts are intended to raise the rate of agricultural production to the extent that it can effectively support primitive accumulation (WB, 2002a:6).

Emphasis is placed on developing ownership of the strategy and promoting entrepreneurialism. A link with female emancipation through formal equality in the market place (for instance in relation to legal property rights) is central not only because it transforms traditional gender roles but also as a means of promoting long-term security in assets and access to food (WB, 2003a:64).

The link with food security is expressed also in the approach to target markets. While clearly acknowledging the long-term benefits of full integration in the global economy, emphasis is placed on the need to support urbanisation through production for local markets. Indeed the commodification of agricultural production is intended to take advantage of women's dominant role in food production while securing the sustainable release of male labour for commodification in industry:

> "Women provide 70% of total agricultural labor in many countries of Africa. In part this is because many African households are headed by women, as men migrate to cities in search of work. Even in households containing both adult men and women, women often have primary responsibility for producing food. Yet often women do not have access to the resources that would enable them to increase output. One major constraint is time. Along with cultivating fields and tending animals, they must look after children, the sick and the elderly, collect firewood and water, prepare food, transport goods, and buy and sell goods in the market" (WB, 2002a:12).

Throughout, the approach is to embed and contain the contradictions of market solutions. Even subsistence agriculture is tolerable where market access costs are prohibitive (Ibid:20). Social safety nets are also to be developed, particularly framed around women, but aimed not at insulating poor rural families from risk and vulnerability but enabling them first to compete more effectively through productivity and diversification, and second to cope with 'downside risk' while preventing the loss of human and physical capital through coping mechanisms like removing children from school, cutting dietary intake, ceasing healthcare or selling productive assets. Public intervention, in combination with marketised insurance, to offer minimal socialisation of risk is presented as acceptable but only in so far as it enables enhanced risk-taking (Ibid:32-33).

Agricultural development is to be integrated with urbanisation. As the 2003 WDR highlights, urbanisation is both a product and driver of social transformation:

> "The shift from rural to urban society, with greater mingling among diverse people, transforms social attitudes and behaviours. It reveals the limits of traditional values and institutions and intensifies pressures for change in local governance and intergovernmental relations. Traditional social norms that perpetuate inequalities for women and for certain minorities tend to be less strictly enforced in the urban environment. Urban households are generally more motivated to limit family size, because of economic alternatives and lifestyles." (WB, 2003d:109).

The report goes on to note the many other economic advantages of demographic agglomeration such as innovation, productivity growth, labour and capital specialisation. However, the report also acknowledges that urbanisation generates important contradictions and barriers to efficient commodification, generating fertile ground for the breakdown of legitimacy (Ibid:109-111).

The report then presents a risk matrix for different types of environmental determinants (water resources/supply, sanitation, drainage, waste management, air pollution, greenhouse gas emissions, land management, accident risk and disaster management) of these contradictions by stage of development (low, lower-middle, upper-middle and high) (WB, 2003d:112). In tackling these, institutional capacity building, good governance and land reform are all emphasised. Further detail is added in the PRSP Sourcebook and associated documents which highlight key multiple determinants of poverty, including income/consumption, health, education, security of land and housing tenure and political disempowerment (Baharoglu and Kessides, 2000:5-7; 2003:125-127), to be tackled through policy interventions in labour markets, land, housing and services, financial markets, public spending, urban governance and capacity building.

Helpfully, the technical note to the *Sourcebook* (WB, 2003c) provides a 'menu' of appropriate policies and projects under each of these areas. However, such urban development projects are not promoted by the Bank only. In the wake of the second major UN conference on cities and sustainable development in 1996, the UN Commission on Human Settlements (Habitat) adopted the Habitat Agenda which explicitly addressed the challenges created by rapid urbanisation (UN Commission on Human Settlements, 1997).

The Habitat Agenda, adopted by 171 countries, focused actions on five key themes: shelter and housing, sustainability, enablement and participation, gender equality and financing. Since then Habitat has been awarded increased prominence in the UN system, being promoted to a (UNGA Resolution A/RES/56/206) and charged with delivering the MDG target on slum dwellers. To do this, the newly named UN-Habitat has developed a strategy which is fully consistent with that of the Bank (UN Human Settlements Programme, 2003). This demonstrates that the Bank's strategy and purpose are widely shared and implemented by a range of actors.

Human development is at the core of attempts to secure primitive accumulation within second-phase locking-in. HIPC debt relief has been tied to increasing spending on 'pro-poor' services, principally primary health and education, as part of the strategy for deep reform, to meet the needs of neo-liberal globalisation.

The first component of this strategy is to tackle chronic ill-health, high mortality rates and malnutrition. Achieving better health outcomes for the worlds poorest is at the centre of the MDGs and PRSP approach (WB, 2000:3). Ill-health presents a risk to the security of capitalist social relations, preventing the commodification of labour power both directly and indirectly because of the impact of caring responsibilities. Increased spending is only one component of the strategy to address this problem, comprehensive reform is the other (Claeson et al, 2003:203-4).

The *Sourcebook* stresses the importance of systematically measuring, quantifying and analysing the extent, features and dynamics of ill-health among the poorest sections of society, with the most prominent health and development issue identified as the HIV/AIDS pandemic. The broad approach is to define social, cultural, institutional and political barriers to delivering better health outcomes for poor people throughout their lifecycle (WB, 2003e:543-549), before presenting a comprehensive programme of deep reform to tackle each of these barriers in turn (Cleason et al, 2003). Tackling HIV/AIDs, Malaria and Tubercolosis and other preventable diseases has included the establishment of A Global Fund to provide finance for treatment, though there are residual concerns about access to generic drugs and the scale of financial contributions of developed states to the fund.

Education too is fundamental to achieving the necessary social transformation and is the subject of several MDGs which develop the 1990 Jomtien World Declaration on Education for All (EFA) (UNESCO, 1990). In 2002, the Bank launched a formal bid to align the EFA initiative with its own CDF and PRSP approaches. Formal education provides a vital mechanism not only to increase the capacity and productivity of labour but also to secure the social values necessary for capitalist development, helping to prevent a return to non-market traditional economic systems (WB, 2002b:4-6).

The importance of education in locking-in this developmental trajectory led the Bank to suggest a shift in the EFA target toward completion of a defined amount of primary education, set at six years because of regression analysis that suggests this is the 'tipping point' after which the benefits of education become embedded. The Bank went on to identify the major barriers to achieving this as relating to issues of educational supply (data gaps, policy weaknesses, institutional capacity and financing) and contextual dynamics (HIV/Aids, conflict and user-fees). The Bank then sketched out a role for itself at the centre of a social policy agenda to secure primitive accumulation (Ibid:12-25). An essential element of this strategy was the provision of initial investment, capacity building and the collection of good practice demonstration projects through the operation of 18 fast-track pilot programmes. Since then the Fast Track Initiative (FTI) has been opened to all low-income countries and is closely related to the CDF/PRSP approach. Applicant countries must have a PRSP ('endorsed' by donor partners) or other similar strategy in place and the Bank has provided guidelines to support the endorsement process. There must also be an education sector plan demonstrating capacity to use additional financing effectively and including strategies to combat HIV/Aids and other barriers to progress, as well as a coherent monitoring plan allowing benchmarking with other FTI countries. The applicant must also be able to demonstrate widespread ownership of the strategy at the domestic level. Each of these and a wide range of additional issues are assessed by the donors via the Bank's Assessment Guidelines which establish the 'appropriate' policy framework (WB, 2003f). The programme is consistent with the selective approach, with increased external financial support only arriving after the demonstration of commitment and approval of a long-term plan to lock-in policy change.[50] The familiar focus on internal and external alignment is also repeated (WB, 2004c). The *Sourcebook* also focuses on the role of education in achieving social transformation:

> "A large body of research points to the catalytic role of basic education for those individuals in society who are most likely to be poor—that is, girls, ethnic minorities, orphans, people with disabilities, and people living in rural areas. Basic education or literacy training, of adequate quality, is crucial to equipping disadvantaged individuals with the means to contribute to and benefit from economic growth. Education is one of the most powerful instruments societies have for reducing deprivation and vulnerability: it helps lift earnings potential, expands labor mobility, promotes the health of parents and children, reduces fertility and child mortality, and affords the disadvantaged a voice in society and the political system." (Aoki et al, 2003:233-4).

The *Sourcebook* presents a detailed approach to defining the barriers to greater participation and quality in education systems and again the approach is to separate out and analyse the linkages between educational outcomes, social, cultural and behavioural issues and educational inputs and the wider public policy framework (Ibid:236). Analysis of barriers to change are linked to a 'decision tree' to help focus policy options on a menu of suggested interventions to tackle these barriers, with a wide range of supporting research and policy papers intended to offer evidence of the validity of the overall approach (Ibid:253-262).

Preventing 'dropping out' and 'pushing back in'

Social risk management is promoted in order to prevent individuals, families and communities from dropping out of the capitalist economy, with the Bank and G7 acknowledging that the contradictions of capitalist development present serious risks in this regard. For instance, in a Bank Discussion Paper, Holzmann and Jørgenson (2000), highlighting the experience of industrialisation in the core, note the impact of urbanisation and industrialisation on pre-existing social risk management strategies such as "extended families, mutual gift giving, egalitarian

[50] 'Seedcorn' funding for the development of the strategy is available (WB, 2003g).

tribal systems, crop-sharing arrangements with landlords, etc" (Ibid:4). They go on to note that capitalist development entails inherent risks and acknowledge the added impacts of contemporary globalisation:

> "Globalization-induced income variability combined with marginalization and social exclusion can, in fact, increase the vulnerability of major groups in the population. In other words, the risks are as large as the potential rewards. To further complicate matters, the trend towards globalization and the higher mobility of production factors reduces the ability of governments to raise revenues and pursue independent economic policies and, thus, to have national policies to help the poor when they are needed most." (Ibid:5).

Thus in the wake of the 1998 crises, the BWIs, UN and others were mandated to develop a set of principles for developing social protection systems to contain these contradictions. The suggested strategy was not, though, to be one of controlling capitalism to eradicate or control this risk. Such mechanisms are identified with failed and outdated strategies of the post-war era which induced 'uncompetitive behaviour' on the part of the poor (WB Development Committee, 1999b:1). Rather social protection systems are to provide the functions of 'safety nets' and 'spring boards', simultaneously preventing the poor from dropping out of the market and where this does occur, propelling them back into it in minimum time (Holzmann and Jørgenson, 2000:3).

Again, relying on 'evidence-based policy making' both the 2000/01 WDR (WB, 2001) and the *Sourcebook* develop a framework for designing such mechanisms. They systematically map the various potential risks to capitalist development, with a key analytical separation being made between structural and transitory risk. While social protection can assist with some structural risk, at least in the short-term, the more appropriate response is macro-economic or structural adjustment. Further, in dealing with different types of risk, social protection systems are only to be invoked where the risk is of sufficient severity to threaten continued market participation (Coudouel et al, 2003:167). Thus risk and vulnerability are acceptable so long as they are short-term rather than resulting in long-term market exclusion. The problem is that the very poor often cannot tolerate even short-term risk (WB, 2001:135). As such, longer-term measures are needed, such as those human development and social transformation measures described above. The issue, though is to prevent coping strategies, particularly at crisis junctures (Prennushi et al, 1999) from destroying capital by "pulling children out of school, 'fire sales' of their assets at very low price, and the reduction of food intake, all of which endanger their future earning capacities, leading to even deeper poverty and perhaps destitution" (Holzmann and Jørgenson, 2000:9). The threat of such risks also leaves the poor 'risk averse' in the first place and thus unwilling to undertake the first steps into primitive accumulation (Ibid:9).

Measures to Realise Relative Surplus Value

Measures to increase the rate of relative surplus value are a continuation of those to secure primitive accumulation. Social and cultural transformations are clearly intended to facilitate small-scale entrepreneurialism, in part replacing subsistence with market-based activity, and generating surpluses that can be sold for cash and further access to credit for expansion. This cyclical process which builds competition and a nascent property owning class also generates demand for paid labour as the scale of both urban and rural enterprises grows. Ultimately, this nascent class can become a partner class for FDI, analysed by Weber in her work on micro-credit.

Against a background analysis of the impact of the knowledge economy on development, the WB advocates an 'appropriate' developmental trajectory, resting on the familiar pattern of a more flexible education system to facilitate lifelong learning, technological and knowledge dissemination, innovation and, through this, increasing productivity. Citing the example of Costa Rica, the document suggests that a literacy rate of about 40% is sufficient to begin the process of opening up to technology transfer in the guise of FDI flows. Education is also cited as responsible for additional benefits such as lower crime rates and social cohesion (WB, 2003h:5-8). However, skills alone are not enough to facilitate the social transformation necessary for high productivity growth. Additional measures to allow flexible adjustment are required such as lifelong and incentivised learning and social risk management systems.

The trick therefore, learning the lessons of the shift to service sector growth in developed countries, is to match the supply of education and skills to increasing demand for skilled labour derived from FDI and social policies that allow the take-off of wage inequality to incentivise labour. Taken together, this developmental path not only leads to rising wage inequality but to the neo-liberal ideal-type flexible worker, and competitiveness and productivity in the global economy:

> "The rise in earnings inequality can be explained by changes in technology, the production process, work organization, and patterns of international trade (Wood 1994). Changes in the production process led to changes in the demand for certain types of labor. Organizational and technological changes may have caused the shift in demand to dominate the shift in supply, leading to a rise in returns to schooling and increased earnings inequality in advanced economies and some middle-income countries." (Ibid:12).

The Bank also notes that the continuation of social transformation requires higher level education and skills and needs to be accessible to women as well as men, posing this as a crucial skills determinant for succeeding generations (Ibid:15). As the outline for the 2006 WDR (WB, 2004d) highlights, the focus on gender equality, education and income/expenditure inequality throughout the development process is highly illuminating. Combating inequality is a core part of the poverty reduction strategy, in which equality of opportunity – in education, health, in the potential for property ownership and capacity to compete – is a central goal. As states move out of the LDC category to transition status, the focus changes to incentivising individual achievement by letting inequality rise, while retaining an emphasis on formal equality of opportunity. In designing this context, the capacity for labour, to compete globally to sell itself to capital is strengthened, thereby locking-in the central component of neo-liberal hegemony: heavily managed social structures to provide the necessary conditions for the accumulation of surpluses.

The whole process of lifelong learning is then allied to institutional and fiscal strategies which place emphasis on developing countries as the potential site for educational FDI and distance learning from edu-corporations in the core (Ibid:17-18; Centre for Public Services, 2003e:41-45; Nunn, 2002; 2002a; 2001).

The process of dynamic change to achieve higher labour productivity requires mechanisms to retain the support of losers in the process. In particular, this needs to recognise that the acceptance of formal property rights is equally as important as their legal embodiment:

> “Many investment climate improvements require changes to laws and policies. But more is required. Over 90 percent of firms in developing countries report gaps between formal policies and what happens in practice. And the content as well as the implementation of policies are vulnerable to a deeper set of policy failures. At the heart of the problem lies a basic tension: Societies benefit greatly from the activities of firms, but the preferences of firms don’t fully match those of society.” (WB, 2004b:6).

As such tensions need to be resolved by building legitimacy and containing contradictions. Among the suggested measures to achieve this, a preference for open, transparent and participatory decision making is key to the social side, while tailoring reforms to fit, where possible, within existing cultural norms (Ibid:7-8) and protecting the most vulnerable from ‘dropping-out’.

Material locking-in

The restructuring of capital is promoted through several channels.

Setting the Boundaries for Global Capital Markets

The HIPC and PRGF initiatives provide the framework for dealing with the contradictions posed by long-term debt bondage. However, this framework has been subject to technical problems, with only fifteen from a possible forty-two states having qualified for HIPC support by December 2004 (IMF and IDA, 2004a: 7; Reichart, 2004), and many suggesting that even for those with full HIPC support, debt relief is insufficient to meet the terms of the programme. Campaigners have continued to urge 100% cancellation and the adoption of US style bankruptcy laws for sovereign debt (Jubilee, 2002). The issue is one of contention within the strategic alliance in support of locking-in with the UK (Sturke, 2004; Treasury and DfID, 2004; Elliot, 2004), seeking to enhance the existing package and others such as the US resisting these changes (Elliot, 2004a). A number of proposals are currently being considered by the Fund and Bank (IMF, 2004e; 2004f), though they have consistently resisted 100% relief (IMF, 2001c) and the only concrete decision that has been taken is a limited extension of the existing HIPC framework for two years (IMF, 2004e:7).

For shorter-term financial crises, as Stiglitz's overly caricatured critique of the Fund highlights, the challenge is one of developing a mechanism for 'orderly' debt restructuring to maintain returns to capital generally, while maintaining 'medium-term sustainability'. There has been much debate on this topic both within the establishment and from critics (Krueger, 2001; Boorman, 2002; Jubilee, 2002), focusing on a mechanism to avoid the devaluation of capital both for creditors and of fixed and human capital in the debtor economy (IMF, 2002a:6; 2003e; 2003f).

The approach is thus highly connected to securing primitive accumulation and raising the rate of relative surplus value, while attempting to avoid systemic dislocation through maintaining generalised time-space fixes. Part of the rationale for an SDRM is the prevention of large scale – system threatening – defaults by individual or groups of debtor states. The most recent high profile example of this is afforded by Argentina where crisis was accompanied by large scale mass-protests and frequent changes in government. This is in fact a continuing story of the construction of neo-liberal hegemony. After three years of wrangling with the IMF and international creditors, the Argentine government was able to offer just 30 cents to the dollar (Jubilee, 2004; IMF, 2004g; IMFC, 2004; Elliot, 2005). If this example or even more radical measures were followed by other large debtors, a major threat to the dominance of financial markets would ensue. It was just such fears that motivated the successive Baker and Brady plans to deal with the third-world debt crisis in the 1980s (Cheru and Gill, 1997:144-54). A general default and refusal to pay by all debtors would clearly have system-wide implications, create serious devaluation of capital, capital flight and a credit crunch.

Private Sector Partnerships

In addition to reformulating the rules of investment and financial market transactions, strategic attempts to restructure capital in line with the overall time-space fix have sought to build partnerships with key private sector actors and sections of capital. There are many different examples of this such as debt restructuring and the more generalised trend toward Corporate Social Responsibility (CSR) (UNIDO, 2002; Blair et al, 2004). The UN's *Global Compact* aims to embed a base level of CSR through encouraging companies[51] to sign up to a basic level of commitment to ten principles, of human rights, labour, the environment and anti-corruption, derived from key UN documents such as the 1948 *Universal Declaration of Human Rights* (UN, 1948), the ILO's (1998) *Declaration on Fundamental Principles and Rights at Work*, the Rio Declaration on the Environment and Development (UN, 1992) and the UN Convention against Transnational Organised Crime (UN, 2003a).

Similarly, the Environmental principles urge the adoption of the Bruntland Commission's 'precautionary principle' and in particular focus on issues of human and economic sustainability in the future, acknowledging that the underlying environmental and ecological crisis tendencies of contemporary capitalism also require a 'fix'. Finally, the approach to corruption, a late addition, is important in the context of removing market distortions, extending the scope of formal regulation, preventing financial crises and the financial aspects of terrorism.

Liberalisation and Privatisation

Partnership and restructuring is also advanced via the twin strategies of liberalisation and privatisation. Liberalisation is clearly part of the long-run tendency of capitalism for expansion, not just in terms of trade but for investment and production also, as part of the ongoing spatial fix to over-accumulation. Liberalisation has thus featured, alongside privatisation, as a continuing theme of neo-liberal hegemony, forming a core element of early approaches to global integration and interdependency in the 1970s, structural adjustment and the Washington Consensus from the 1980s onwards. More recent developments

[51] Only around 1,800 companies have so far signed up to the code.

include the expansion of the trade regime to include financial and services products through the failed MAI and the GATS.

However, second-phase locking-in has altered the trajectory of the debate in respect of how capital market liberalisation in particular is undertaken and how the linkages to privatisation are made. In first-phase restructuring, the focus was on using rapid liberalisation and privatisation as a means to shock the economy, and privileged domestic interests, into efficiency by exposing them to the full force of global competition. It was effective in one sense as a means to absorb surplus capital in devaluation in parts of the world that did not threaten the stability of hegemony in the core, and also in disrupting a global movement that had openly, and powerfully, questioned the class basis of capitalism and begun to suggest alternatives. Taken together, these elements of the strategy were immensely destructive and led to large scale devaluations of physical and human capital. Crucially, it pushed large sections of the world economy outside the scope of capitalist hegemony, into further reliance on aid, subsistence and barter.

Second-phase hegemony, however, with its focus on locking-in and socialising commodification on an expanded scale, has linked gradual and phased liberalisation (IMF, 2004) and privatisation more firmly to securing primitive accumulation and measures to raise the rate of relative surplus value. So, for instance, liberalisation and privatisation are an essential part of the PRSP agenda with debt relief used for increased expenditure on basic services supplied, at least partly, under contract by firms from the core. Advice in the *Sourcebook* and 2004 WDR advocates privatisation as one way of overcoming capacity and institutional weaknesses and improving quality through competition (Aoki et al, 2003:256; Claeson et al, 2003:220; WB, 2004:Ch4; Prentis and Richards, 2004). The Private Sector Development section of the Bank's website hosts literally hundreds of reports, articles and guides to the privatisation process using different procurement and contract management mechanisms and in different sectors (http://rru.worldbank.org/).

There are several notable implications of linking liberalisation/privatisation with the PRSP agenda in this way. The linear development model assumes the Western experience. However, advanced states built welfare systems in the context of absorbing surpluses within a national developmental model. A context of privately designed and delivered services, subject to full market pressures implies a vastly different development model as well as substantially different technical policy challenges. Moreover, by matching the process of poverty reduction to liberalisation and privatisation, certain key states appear to have pulled of a very neat trick with regard to their own domestic capital structure. For instance, France (Water, telecoms), the UK (education, health, administrative), the US (all services) have nurtured domestic companies, either through market making or monopoly protection, which are now reaping the benefits of increased development, debt relief and pro-poor spending. While commodifying these long-term temporal sinks for over-accumulated capital is a good way of building support from large sections of capital, the strategy also presents a problem in that the absorbed capital rapidly returns to the market creating wave after wave of potentially deflationary pressure.

Building Strategic Alliances

At the global level, strategic alliances are increasingly shaped by leading states, the emergence of a transnational capitalist class and, in classic Gramscian style, strategic alliance building between these and subordinate groups and classes.

The emergence of dominant capitalist classes has been heavily theorised, especially by the 'Amsterdam School' (Van der Pijl, 1994; 1998). In the context of the TNC being the most significant agent of economic activity in the global economy, Sklair (2001) summarises the contemporary transnational capitalist class:

> "…those who run the TNCs cannot achieve their ends alone. They require help from other groups, notably globalising bureaucrats, politicians and professionals, consumerist elites and the institutions in which they operate, to carry out their work effectively. Together, all these people constitute a transnational capitalist class. They are a *class* in that they are defined in terms of their relationship to the means of production, distribution and exchange, and they are a *capitalist class* in that they own and/or control, individually or collectively, the major forms of capital. They are a *transnational capitalist class* in that they operate across state borders to further the interests of global capital rather than of any real or imagined nation-state." (295, emphasis in the original).

Second-phase locking-in has provided an ideological, institutional and policy framework for alliance building between the transnational capitalist class and subordinate groups and classes. Important in this process are a variety of individuals who have performed the function of leading-edge organic intellectuals of second-phase neo-liberal hegemony, including individuals like Soros, Stiglitz, Sachs and Sen. The influence of Soros for instance was important in powerfully denouncing 'market fundamentalism' at the World Economic Forum in 1997, and in providing a ready-critique of first-phase restructuring at the time of the Asian and Russian financial crises in 1997-99. Likewise, Stiglitz, in his various roles has had a platform for his views, and has since used his public voice to fulfil the role of organic intellectual. Sen has been important in shaping the approach to human development and participation (IMF, 2004h:4-7). Sachs was influential both in the operation of first-phase restructuring, through advocating shock therapy in the transition to full market capitalism in Eastern Europe and later in advocating measures to contain crisis and now as Special Adviser to the UN. All have been influential in shaping debt-reduction campaigns. Others too have performed the role of organic intellectuals, including both notable 'globalising bureaucrats' and politicians. For instance, WB chief, Wolfensohn and Chief Economist at the IMF Anne Krueger have both shaped the institutional response to locking-in at the global level in institutional reforms, speeches and articles. A handful of politicians can also be identified with leadership of second-phase neo-liberal hegemony, such as Bill Clinton, Gordon Brown, Tony Blair and African leaders like Nelson Mandela, Thabo Mbeki and Olusegun Obasanjo.

A notable contemporary broadening of the historic bloc for second-phase neo-liberal hegemony is currently being attempted by Tony Blair and Gordon Brown in their leadership of calls for debt reduction and increased aid. In so doing, Blair and Brown are attempting to draw in a host of critical forces including those represented by the Make Poverty History coalition, represented by figures from popular culture, notably Bob Geldof and Bono.

Beneath these 'agenda setters' lie a significant cadre class who translate hegemony into action. They include academics producing the next generation of cadre class, economists, policy specialists, development specialists and business process experts. Vitally important for creating the space in which the cadre class operate are institutions. The discussion above has highlighted at length the role of the WB, IMF and United Nations and to a lesser extent, the WTO in this process, though others too are important, notably the OECD.

A key forum where these organic intellectuals have been able to shape the debate is the WEF, whose annual meetings are held in Davos, Switzerland. The WEF brings together senior politicians, business leaders, academics, representatives of the media and public figures (including cultural figures), religious leaders and a handful of senior trade unionists. The Forum discusses prominent issues facing the world economy, often focusing on crisis tendencies, such as the environment, debt and poverty. The themes of the conference thus echo shifts in hegemony. For instance, Van der Pijl, who refers to the WEF as "the most comprehensive transnational planning body operative today" notes that the themes of the WEF were reflective of the harsh medicine of first-phase restructuring up to the middle of the 1990s, and since have struck a softer tone, focusing on issues of partnership and environmental sustainability. The WEF has established the Global Institute for Partnership and Governance and the Centre for Strategic Insight which focuses on the "identification of emerging risks and developments which will shape the agendas of business and governments" (Centre for Strategic Insight Website). The WEF is so influential because it brings together organic intellectuals, politicians, globalising bureaucrats and bureaucracies, the cadre class and organisations which directly lobby on behalf of business.

Important among this latter group are the Trans Atlantic Business Dialogue (TABD), the US Coalition of Service Industries (CSI), the European Services Network (ESN), the International Chamber of Commerce (ICC) and the European Roundtable of Industrialists (ERT) (Whitfield, 2001: 5). Much of the activity of these groups has gone into advancing commodification, seeking a profitable spatial-fix to over-accumulation rather than articulating the basic framework for socialisation and locking-in. For instance, many of these groups were fundamental to establishing the WTO and specifically to expanding and deepening the trade regime through the GATS:

> "without the enormous pressure generated by the American financial services sector, particularly companies like American Express and CitiCorp, there would have been no services agreement." Then WTO Trade in Services Director David Hartridge (quoted in WDM, 2003).

A strong mutual relationship exists between leading states and the corporate lobby in advancing the project to expand and deepen the scope of the world market (Ibid). For instance, the Corporate Europe Observatory (CEO) uncovered minutes from meetings between the UK DTI and International Financial Services London (IFSL) which revealed the very close relationship between the UK government and the financial services industries on trade negotiations, and winning the domestic case for trade reform. The same minutes included discussion on joint work between government and business to counter a civil society anti-GATS campaign (WDM, 2001; Wesselius, 2001).

But corporate groups have also been part of the movement to socialise this extended and expanded commodification, recognising the crisis tendencies inherent within it. For instance, large corporations and MNCs/TNCs have adopted CSR at least rhetorically, as an important operational framework: "…like FDI and world best practice (and global vision), global corporate citizenship is an intrinsic feature of the globalising corporation" (Sklair, 2001:184). Ruggie (2004) identifies this as an important basis for institution building at the global level. In addition, the sustainable development policy agenda has been largely co-opted by large transnational capital (Sklair, 2001:198-250). The breadth of the concept of sustainable development (economic, social, environmental and ecological) means that this encompasses most elements of contemporary capitalist hegemony and can thus be mobilised to articulate the concerns and values of locking-in.

5.4 Conclusion

This chapter has argued that there has been a shift in the focus of strategies to secure neo-liberal hegemony at the global level. While hegemony has continued to be institutionalised in a form entirely consistent with that described by Gill as the new constitutionalism, the shift in emphasis has meant that the broader process of locking-in has expanded to cover a vast array of policy areas. These have been locked-in through ‘soft’ governance and linking mechanisms which make continued financial assistance and debt relief conditional on the adoption of the largely WB authored poverty reduction approach. At the heart of this approach is a fully developed second-phase approach to securing specifically neo-liberal hegemony while containing the contradictions and crisis tendencies thrown up by first-phase restructuring. The adoption of this strategy was catalysed by the East Asian financial crisis of 1998-9 but was in fact set out much earlier and has addressed much broader issues than those suggested by this instance of crisis. Through poverty reduction, Weber (2004:199) argues:

> “the very contested normative framework of global capitalism – private commercial law – is being extended and consolidated as public policy”

She is right, but in fact this second-phase agenda is much more extensive. It aims at a fundamental institutional and social transformation to construct a hegemonic consensus around neo-liberal accumulation and to provide the appropriate conditions for neo-liberal accumulation, reproduction and legitimacy, over the long-term.

One novel feature in the overall approach is the attempt by the WB to lead a bid for relative institutional autonomy at the global level to develop, coordinate and manage the strategy, in the process aligning not only LDC but developed country strategies, policies and development financing. In developing this argument, it is possible to see that the notion of the emergence of novel governance patterns as being reflective of the dispersion of power and authority is simplistic indeed. The WB has acted as a central coordinating lynch pin, advocating institutional capacity building at state and sub-state level. However, as the preceding discussion shows in some detail, it is important to distinguish between control and delivery. The argument above is that the nurturing of multi-levelled and poly-centric governance mechanisms is more about securing ownership and commitment to second-phase reform than it is about devolving and decentralising power itself. In this regard the territorial integrity of the state itself is far from eroded. Poverty reduction, institutional and social transformation all hinge on state compliance and implementation.

6 CONCLUSION

6.1 Governance, Hegemony and the Historical Development of Capitalism

A key theme in the global governance literature is that there is an ongoing shift in the location of political authority away from the state. Understandings of the precise nature of this shift and the location of where power is shifting to differ between commentators but commonly this is to the supra-national level in institutions and regimes above the level of the state, to global markets which increasingly constrain state behaviour, to institutions and actors within civil society and to a range of new or emergent forms of governance below the state.

This thesis contends that pronunciations of the decline of state power are often misleading. This is so first because state sovereignty has never been so complete or universal, nor is the contemporary state so impotent as these arguments may suggest. This is not to deny that the mechanisms and structures of governance have undergone much change over recent years and decades. However, the thesis draws attention to a much broader and longer pattern of historical change in which changes in governance are related to deeper and more complex processes of change and continuity.

The thesis has developed a three-dimensional analytical matrix for interpreting contemporary developments in the political economy of global governance. Drawing on key concepts from the work of Marx and Gramsci, a small number of theorists have argued that global governance is the outward expression of capitalist hegemony. The approach in this thesis has been to build on, synthesise and go beyond their work. In particular the analytical approach used takes Stephen Gill's notions of 'locking-in' and the 'new constitutionalism' and develops them to take account of a broader and more nuanced set of processes which are ongoing in the contemporary political economy of global governance. In this process, Mark Rupert's focus on the role of social conflict in the production of hegemony is centralised as part of the analytical matrix and is drawn on extensively in the historicist contextual Chapter two. Craig Murphy's emphasis on the role of global governance in managing the regulatory functions required by capitalist accumulation is also incorporated. Paul Cammack and Heloise Weber's concern to show how the contemporary politics of development demonstrate a desire not only to expand the remit of accumulation but to obscure that process from view, forms some of the conceptual underpinnings to the thesis.

The approach taken in this thesis sees governance as performing functions of collective problem solving in the development of capitalist social relations. In particular, governance can help to address the three categories of crisis in capitalist development. These include crises of accumulation and over-accumulation, crises in the reproduction of capitalist social relations and crises in the legitimacy of capitalist hegemony.

However, the development of capitalist social relations is dynamic and as the balance of class relations and technology develops and the spatial patterns of development alter, so too the precise nature of capitalist hegemony also changes. Thus while it is possible to speak of capitalist hegemony per se, it is also possible to understand hegemony as layered. While the continuation of capitalist hegemony in its general form means that the most foundational layers remain largely intact, more superficial layers will change in configuration to suit a variety of different possible configurations of capitalist social relations. Reflecting this, changing patterns of governance are related to both changing and persistent elements in the configuration of hegemony.

The changing configurations of hegemony can be understood and analysed more clearly by breaking down its construction into several different ‘facets’. The multi-faceted matrix used in this thesis understands hegemony as having an ideological, institutional, social and material facet. The ideological facet includes a wide range of component elements from the ways in which the continuation of capitalist social relations are explained, justified and legitimated to the precise set of dominant ideas about macroeconomic and microeconomic management. Institutional patterns include both the formal organisational mechanisms of governance and also less formal patterns of rules, expectations and norms which govern the behaviour of individual, group and organisational actors. The social facet is used here to describe the dynamics shaping the precise way in which labour power is organised. It thus covers the organisation of labour power through more or less regulated labour markets and the ways in which labour power is conceived and constructed, through education, training and popular common sense, to meet the needs of accumulation. It also includes the ways in which social life is shaped through family and community construction and physical/spatial patterns of development and infrastructure, such as for instance the built environment, and particularly housing, again to meet the needs of specific forms of accumulation. The material facet includes the way in which capital itself is organised, including the ways in which the technology and organisation of production, distribution, exchange and investment are configured. It also includes the ways in which physical infrastructure such as transport and communications are organised to match the spatial and other needs of specific forms of accumulation. Underlying these is a final facet of strategic class alliances, what Gramsci termed a 'historic bloc', referring to the creation of long-term alliances between dominant and less dominant classes and class factions in support of the overall hegemonic compromise.

The final dimension of hegemony concerns the different levels at which it is constructed. The history of capitalist development is intertwined with the emergence of the modern state system, which has itself gone through several stages of development as states have been internally and externally constructed and reconstructed at various times. However, the actuality of more or less sovereign states with more or less defined territorial borders has been a constant theme during the period of capitalist hegemony. As such, this is perhaps the most useful level to begin with. However, capitalist hegemony is produced and secured both below and above the state. Below the state it is secured through a variety of sub-national patterns, both multi-levelled and poly-centric in character. The specific forms of governance will, as argued above, be shaped by the requirements of accumulation and hegemony. Because of the nature of the social facet in particular, hegemony is also constructed at the level of community, family and individual. For instance, individual consciousness, family and community structures are shaped by the interaction of the needs of, and resistance to, accumulation (past, present and future), which are themselves often articulated through patterns of governance. Above the state, hegemony is constructed at a variety of abstractions which have proven fluid over time. For instance, imperial blocs have served as a level of specific hegemony in the past. This thesis identifies a macro-regional level in contemporary world affairs which is most often associated with continental and inter-continental spatial boundaries. Above this lies a global level, embodied in institutions such as the BWIs and the UN.

6.2 Hegemony and global governance in the 20th and 21st Century

Following the theoretical approach established above, this thesis argues that global governance over the last century followed patterns in the construction of capitalist hegemony. The thesis argues that the crisis of the 1930s was not just a crisis of accumulation but in the specific form of capitalist hegemony. The collapse in accumulation was matched by a collapse in the capacity of governance to manage the reproduction and legitimacy of capitalist social relations. Alternative visions for the reconstruction of capitalist hegemony competed with visions of post-capitalist hegemony, with WW2 representing a confrontation between two of these alternative visions. During, and immediately after, the war a hegemonic consensus was forged, principally by the US and UK, to consolidate a post-war world order around free-trade, Fordist production, national economic development and an institutionalised position for a portion of the secure working class in the core. Outside the boundaries of this hegemony, an alternative continued to exist in the form of Soviet communism and the Cold War period was thus marked by an ongoing confrontation between these two hegemonic forms of political economy. The form of capitalist world order however, contained important contradictions and crisis tendencies, particularly with regard to over-accumulation and the institutional barriers created by the embedded position of the working class and particularly organised labour. The inability to forge a renewed consensual basis for accumulation led capital to take advantage of new technology to find an organic spatial fix to over-accumulation in the core through the emergent transnationalisation of production. Added to slow growth and high inflation in the core, this resulted in a substantial crisis in both the reproduction of capitalist social relations and the continued legitimacy of the specific form of capitalist hegemony in the core, witnessed by rising class confrontation and an emergent literature in the 1970s on the alternatives for capitalist restructuring.

One of these alternatives was able to meet the requirements of an emergent historic bloc based on the ascendancy of transnational finance capital, spurred by the emergence of globally integrated(ing) financial markets and new technology in communications, transportation and production. The ideological facet of this emergent hegemony was based on the radical reconstruction of dominant ideas about the roles of individual and collective action and specifically the role of governance through the state and beyond it. The institutional and social facets of this revised and emergent hegemony stressed the need to insulate key areas of economic governance from democratic pressures and to reduce state protection from the market. The institutionalised position of the working-class was thus dismantled and subjected to harsh labour market discipline where de/re-regulation was to strengthen the relative position of capital. This has been described as the emergence of neo-liberal hegemony. However, this thesis argues that the ascendancy of neo-liberal hegemony in this period was incomplete and based more on the dismantling of a previous hegemonic order and imposition of market discipline than it was embedding a new one. Drawing on Polanyi's concept of the Double Movement, the various strategies imposed are then described as a first-phase in the construction of neo-liberal hegemony.

This thesis also demonstrates that these first-phase strategies contained important crisis tendencies. Thus the imposition of discipline from above was sufficient to dismantle post-war/Fordist/social democracy but in doing so it created further problems, casting significant sections of the global labour force out of the reach of commodification and undermining the social and institutional basis of previously in-built measures to deal with over-accumulation, to reproduce the conditions appropriate for accumulation and to secure legitimacy. Thus by the early part of the 1990s it was increasingly recognised that significant reform was needed to contain these crisis tendencies at each of the three levels considered. The recognition of these crisis tendencies and the emergence of strategies to deal with them has been the subject of much debate about the re-emergence of a 'new social democracy'. This thesis argues that much of this debate is misconceived. What is actually underway is a 'second-phase' in the construction of neo-liberal hegemony within each of its 'facets' which marks the embedding of this hegemony and its 'locking-in' over the long-term. What has not changed, however, is the reality of the class basis of the hegemonic historic bloc and the continued ascendancy of the transnational finance bloc of capital. The case studies in the thesis document the emergence and deployment of these second-phase strategies at three 'levels' of hegemony: the state (including sub-state levels), the macro-region and the global level.

6.3 Case Study Summaries

The State and Sub-State Level

The case study at the state and sub-state level is clearly a-typical in a number of respects. First, as an advanced industrial state, the UK is clearly not typical of all states. Second, it is not typical either in a European context in either formal institutional (including party structures, electoral system) or less formal respects (including market orientation). However, the case study is highly relevant for a number of reasons. The most important of these is that the NLP in the UK has transformed the UK state and its management of the economy into one of the more celebrated examples of competent economic management. It is also an expansionist project aiming to reshape Europe in its own (future) image and to expand NLP type development agendas (albeit suitably amended to suit earlier stages of capitalist development) on a world scale.

The discussion shows that the NLP itself developed from an explicit acknowledgement of the crisis tendencies posed by first-phase restructuring strategies such as unemployment, continued low productivity growth, failing infrastructure, rising inequality and social fracture. Taken together these produced a crisis in accumulation with the under-utilisation of labour power, a crisis in legitimacy marked by social divisions and a failing electoral alliance, and a crisis in reproduction as a substantial and growing proportion of the potential labour force moved further away from the labour market.

The NLP developed as a strategic response to these pressures. It has sought to address the problems inherent within first-phase restructuring in a far sighted programme of economic, social and institutional transformation. However, this has not questioned the underlying neo-liberal historic bloc. Rather it has sought to make it work better in the interests of capital and to lock-in hegemony over the long term. Ideological reform has sought to create the political space for this project to occupy and to present a justificatory and mystificatory logic to cover its real emphasis. Thus a Janus-faced approach is used to pacify both capital and labour. The project is presented over-whelmingly in technical terms as a series of evidence-based responses to problems for which the number of potential solutions are constrained by the requirements of neo-liberal accumulation (globalisation, the fixed, immutable and external competitive pressure) which is to be accepted as a matter of fact.

Institutional strategies in macro-economic policy have aimed to create ‘constrained discretion’, what might otherwise be termed ‘relative autonomy’ from the predominant sectional social interest: financial markets and large scale capital. Through a complicated system of rules (which are not quite so rigid as they might at first appear) the Treasury has built confidence and credibility with capital. This has been augmented by a system of institutional and organisational reform of the public sector which has had a number of aims. First, it aimed to secure support from important social groups, such as public sector managers and trade unions, that had been antagonistic to first-phase reform and both passively and actively resisted its implementation, with a degree of success, especially as the project ran out of legitimacy at the end of the 1980s and beginning of the 1990s. This support was brokered through the removal of certain aspects of previous efforts at restructuring that had become popularly associated with first-phase reform. It then began a process of taking control of institutional structures through the expanded use of performance management, inspection and audit, mixed with institutional discipline. This early period also involved the extensive use of piloting and institutional fragmentation, often justified as an exercise in evidence based policy making, which has had the effect of augmenting the apparent spread of poly-centric governance mechanisms. This has been further embedded by a drive to place more parts of the public sector in the market, by marketising those parts that remain public and by creating arms-length half-way houses, as well as increasing the reach of the community and voluntary sector. To some extent, there has been a more recent shift in institutional reform to more local autonomy for public sector managers. However, this is heavily constrained by the operation of hegemonic ideological consensus and the structures of audit, inspection and performance management that ensure that this autonomy is always ‘earned’. As such ‘earned autonomy’ is more about management and implementation freedoms granted as a reward for compliance with the overall policy framework.

Social restructuring has been heavily related to restructuring the labour market in a second-phase strategy for competitiveness rather than comparative advantage. It has involved extending the reach of the formal labour market and creating incentives and interventions to raise labour productivity. These aims have permeated every aspect of social policy, including but not limited to explicit labour market interventions themselves. For instance, there is a continuous focus on education as a means of levering up skills and making them relevant to neo-liberal accumulation, at all levels from primary to university level. Labour market initiatives such as the National Minimum Wage and various tax schemes to incentivise work have also aimed to widen the scope of the labour market and to enhance labour market discipline within defined boundaries and to provide an effective system of preventing drop-out and to push people back into work rapidly where this does occur. These policies are based on the underlying assumption that short-term frictional unemployment aids market adjustment and is therefore acceptable whereas long-term disengagement from the labour market is a waste of potentially commodifiable labour power. As the labour market has moved closer to peak utilisation, there have been increasing moves to widen the scope of the reserve army to augment discipline.

Relative autonomy has also aided the NLP to attempt to restructure capital through the auspices of the state. Informed by new growth theories which stress the importance of technological innovation in production, organisation and products, the government has incentivised private investment in research through the taxation system and has attempted to spread the uptake of new technology. Business clusters have also been promoted to facilitate the spread of innovation for competitive advantage.

Finally attempts have been made to secure the NLP historic bloc through a variety of means. Organic intellectuals produce a justifying logic for the NLP. The core operational principals of the ideological framework are translated into institutional, organisational, social and economic structures via the operation of a key cadre class made up of committed public sector managers, management consultants and university-based consultancy and social policy units. The latter are crucial as they were often at the centre of critical research on the impact of first-phase restructuring and are brought within the boundaries of the NLP by not insignificant amounts of contract research, paid for by government departments. The wider historic bloc is kept in place through increased opportunities for limited community participation and the involvement of civil society groups (especially advocacy groups) in second-order governance structures tasked with implementation rather than decision making.

Overall, the NLP is a long-term project of reform to embed and secure neo-liberal hegemony, while offsetting some of the crisis tendencies brought about by first-phase restructuring.

The Macro-Regional Level

Again, the case study at the macro-regional level is a-typical. No other macro-region in the world displays the same level of integration as the European Union. However, this uniqueness makes it significant as a political-economy and governance project in contemporary world affairs and has marked it out as a major area of study for recent literature on (global) governance. It is also expansionist in a variety of ways. Formally, it is expansionist through the enlargement agenda which has already seen it expand massively over Western, Southern and now Central and Eastern Europe. Enlargement also provides a less formal expansionism as countries beyond the scope of existing plans for entry into the EU seek to adjust their economies in line with the EU's policy agenda in the hope of future entry. It is also expansionist through its comprehensive trade and policy agreements with areas outside of Europe (such as the African, Caribbean and Pacific group of states and in Latin America) and in its influence over global governance through the United Nations, BWIs and the WTO. Moreover, the EU is an exemplary macro-regional integration project which is influential in shaping similar processes throughout the rest of the world. As such the EU is a worthy case study in terms of its significance for contemporary developments in the political economy of global governance.

The significant feature of contemporary developments in the EU is not just integration and apparent changes in the location of political authority, but that the nature of these processes is specifically neo-liberal in character. First, monetary union and economic policy coordination seeks to lock-in, often through an explicit new constitutionalism, some of the key coordinates of neo-liberal policy prescriptions and to enshrine them in a legal framework beyond the reach of democratic politics in the domestic polities of member states. However, locking-in goes beyond both formal legal constitutionalism and economic policy making, encapsulating also ‘soft-law’ convergence and key social and institutional policy areas. Thus in the Lisbon Strategy and the European Employment Strategy in particular, the aim is to secure second-phase locking-in in the domestic economies of member states. The familiar second-phase concern to offset contradictions in capitalist development, particularly by expanding the available labour force and its commodification, is also present. However, at the European level, first-phase agendas are also much more visible as the economic and social policy coordination process seeks to deconstruct elements of the much vaunted European Social Model(s) and to align them more with the dictates of neo-liberal accumulation. A particular theme here is competitiveness with the threat of globalisation being presented as the externally constituted back-drop and rationale for policy reform.

In this process the trajectory of neo-liberal reform is fully demonstrated in the vast array of documents which are produced in the development of the Lisbon, Social, Employment and other key strategies. This suggests a number of key themes in relation to the nature of governance at the European level. That many of these documents come from the European Commission and are often accepted almost without significant change at various European Councils suggests first that the Commission may have a degree of relative autonomy to pursue second-phase strategies. Second, it might also suggest that such a supra-national layer of governance allows the generation of a greater degree of relative autonomy at the state level for governments wishing to overcome significant domestic social pressures. Finally, especially in the presence of strong new constitutionalist elements in the integration process, it poses a significant additional site for the operation of the structural power of capital.

The Global Level

The global case study begins by suggesting that the 1998/9 financial crises in East Asia, parts of Latin America and Russia acted as a catalyst for reform. The crises coincided with the election or term in office of a range of 'left of centre' governments, principally of new Labour in the UK, that had already analysed some of the domestic implications of first-phase strategies of reform. While much of the initial publicity surrounding the crisis centred on the need to strengthen the global institutional architecture to deal with the rapid movement of finance capital, a much deeper questioning of the structure of neo-liberal hegemony was also occasioned. This catalysed already established reform initiatives, particularly within the World Bank, under new president James Wolfensohn. With the support of the influential Joseph Stiglitz as the Bank's Chief Economist, Wolfensohn moved quickly to promote a new politics of development which had in fact been gestating within the Bank and other UN agencies (notably the United Nations Development Programme) since the beginning of the 1990s. This new reform agenda would seek to both build on the results of first-phase restructuring imposed through Washington Consensus reform and structural adjustment to revitalise institutional capacity to manage the developmental process and re-integrate large parts of the potential global labour force into the scope of the global labour market.

Thus the new politics of development adopted a series of important concepts such as good governance, participatory development, pro-poor policies and now the most influential and unifying of all: poverty reduction. Poverty reduction has become an all pervasive mantra and has given its name to revised governance mechanisms that have been presented as moving beyond the first-phase concern with 'conditionality' to self-authored discipline and development planning. The focus is on state and indeed sub-state (community) ownership of the developmental process set out in Poverty Reduction Strategy Papers which provide a direct linkage between governance at the global and the local level, with the state a key transmission belt.

What is crucially significant about the adoption of second-phase poverty reduction strategies at the global level is the extent to which they are presented as a significant departure from first-phase strategies, in both the form of governance used and its political economy content. Thus the discussion in the thesis centres on Stiglitz's prolonged and bitter attacks on the IMF as part of this process. However, the conclusion drawn in the thesis from examining documents, speeches articles and books written by the IMF and senior figures within it and from Stiglitz and the Bank was that the differences over the approach to the new politics of development were not so large as either party would have had us believe. Rather, the discussion highlights that the apparent schism was in fact a useful way for the Bank to broker relative autonomy, move forward with its agenda for 'deep' second-phase reform and to build legitimacy for its actions in the process.

It is argued that the political economy content of governance at this level is in line with Cammack and Weber's separate characterisations of the need to build a more complete version of neo-liberal hegemony. The significant crisis tendencies inherent within first-phase restructuring, particularly the retreat of capitalist and neo-liberal hegemony and the concomitant dropping-out of the formal economy in significant parts of the developing world, the crisis in legitimacy of first-phase strategies, and the need to find more stable and long-term mechanisms for absorbing over-accumulation is presented as the central logic for these reforms. The role of poverty reduction in attempting a significant social and institutional transformation to meet the requirements of expanded neo-liberal accumulation is documented at length.

At the global level ideological locking-in is demonstrated through the adoption of the new politics of development. Institutional locking-in includes the significant attempts made to build the capacity of the global financial architecture, to reform the IMF and World Bank to meet the challenges posed by the crisis tendencies of first phase restructuring and to implement the governance frameworks required for poverty reduction. Included also here is the establishment of significant governance mechanisms for linking the global level to institutional capacity building and locking-in at the domestic level, particularly in developing countries. Socially, second-phase strategies at the global level again seek to re-establish the capacity of labour power for commodification, inculcating a secure transition to primitive accumulation and then to make the transition to mature accumulation. In the process, the thesis follows Cammack and Weber's claim that this social adjustment is actually a process of global proletarianisation. In terms of material practices, second-phase strategies at the global level seek to build bridges for investment into developing countries, building on efforts already underway to secure property rights, the promotion of ordered and managed capital market and trade liberalisation and crucially setting the boundaries for global financial markets. This latter point is significant because it seeks to contain the structural power of capital at a global level in order to prevent the accompanying discipline from resulting in arbitrary and damaging devaluation. Clearly, this also requires a degree of relative autonomy from that structural power on the part of the agencies and actors charged with advancing this agenda. Again the role of crisis, such as the 1998/9 financial crises and the ongoing crisis in Argentina, is argued to have been important in brokering that autonomy.

6.4 Implications for Understanding Contemporary Global Governance

This thesis has argued that it is misleading to understand global governance as a simplistic shift in political authority away from the state to new and emerging forms of governance above and below the state. Rather, it is argued that shifting patterns of governance are related to changing configurations of capitalist hegemony, where governance performs key functions in the organisation, reproduction and legitimacy of capitalist accumulation. In particular, governance mechanisms can help to offset some of the crisis tendencies inherent within capitalist development. However, while there is nothing that is conceptually fixed about the state as a location of political authority, the empirical discussion in the thesis suggests that there is little evidence to suggest that the state is less important than it was as, though the nature and functions of political authority have changed.

Important in making this assertion is the understanding that state sovereignty was never so cogent or universal as many, particularly realist, approaches to inter-state relations would have had us believe. The discussion in this thesis of the incapacity of political authority at the level of the state to manage the crisis tendencies witnessed in the 1930s demonstrates this. However, equally, while this thesis supports the claim that supra-national institutions are being invested with a degree of political authority, and more than this, relative autonomy, it is difficult to argue that the state is declining in importance as a form of governance. First, the second-phase strategies described here are driven by states, and in the state level case study, it is clear that there is no overarching form of political authority that is driving the NLP. Second, where states are less at the vanguard of advocating these second-phase strategies they remain the most important link in a chain of governance mechanisms for their implementation. Third, the idea that the emergence of more fluid, issue-based and poly-centric forms of governance below the state should not be seen as a simple fragmentation of sovereignty. Rather, as discussion at all three case study levels shows, these governance mechanisms are often more about institutional reform for efficient implementation of second-phase strategies and securing commitment to it. Finally, this thesis has shown that it is important to trace the agency of political authority in constructing hegemony through existing and new governance structures.

The construction of contemporary neo-liberal hegemony clearly contains similarities and differences with earlier hegemonic projects. The two-phases identified here offer significant parallels with Polanyi's 'double movement, for instance. However, what is significant about the second-phase strategies depicted in this thesis in comparison with the establishment of post-war social democratic hegemony is the substantial rebalancing of the social relations within the historic bloc. While contemporary efforts to contain and ameliorate poverty are undoubtedly beneficial to the poorest and most excluded sections of the global population, it is notable that this poverty was itself partially created by first-phase strategies in the construction of the same hegemonic order. The ultimate effect has been to attempt to build the sustainable foundations for capitalist hegemony in a context where the ascendancy of capital vis-à-vis labour has been powerfully augmented.

POST-SCRIPT

This thesis provides considerable evidence of the emergence of a politically driven second-phase in neo-liberal hegemony. However, the political project to advance this second-phase is not unchallenged and events that have unfolded since the completion of the research for this thesis provide evidence of its contested nature. For instance, the US under Bush, has sought unilaterally to reassert US state hegemony behind a decidedly less progressive political agenda than that described in this thesis and that which the previous Clinton administration had promoted. While for a time, the so called 'war on terror' diverted US attention, the nomination of several Bush allies to key posts at the United Nations and as the successor to James Wolfensohn as of the head of the World Bank, suggest that the US is turning its agenda to more wide ranging concerns. The US retreat from the second-phase strategies is highly characteristic of the US state's loss of relative autonomy under Bush, most significantly demonstrated in its partial capture by large scale sectional capitalist interests.

These tensions and confrontations were exemplified at the highly symbolic summit of the G8 at Gleneagles, Scotland when the UK, demonstrating its clear attempt to lead the expansion of the NLP on a global basis, attempted to broker a high profile multilateral deal on poverty reduction and environmental regulation. A compromise ensued which, thanks to Blair and Brown's orchestration of civil society, was representative of the trasformismo which is characteristic of second-phase strategies at the global level. The media and public interest, accompanied by exhortations from popular celebrities for a time focused the world's attention on global poverty reduction. Whether the significant transnational social movement that united briefly in this campaign (papering over considerable cracks in the process) can be sustained in the face of this is yet to be seen, but the distractions provided by terrorist attacks in London and Egypt, will have further weakened the momentum.

Tensions have arisen within Europe also. The rejection of the EU constitution by referenda in several European states was also symbolic of the difficulties associated with the combined attempts to apply first and second phase restructuring simultaneously in parts of Europe. A significant causal dynamic for the French rejection of the Constitution in particular was that the document was too representative of an Anglo-American neo-liberal approach to social and economic policy, requiring fundamental change in ideological, institutional, social and economic practices. These referenda came shortly after the conclusion of the mid-term review of the Lisbon Strategy which reaffirmed the commitment of member states and the Commission to the strategy and further augmented the economic policy coordination process with proposals by the Commission, accepted by the European Council, to further align the BEPGs and Employment Guidelines (CEC, 2005; 2005a; European Council, 2005). The rationale was explicitly and unashamedly set out as the existing failure to secure sufficient domestic structural reform in most member-states.

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