THE REGULATION OF INTERNATIONAL MARKETS: THE UNRESOLVED TENSION BETWEEN NATIONAL STATES AND TRANSNATIONAL ACCUMULATION

Harriet Friedmann

1 INTRODUCTION

Writing near the middle of the twentieth century, and near the end of World War II, Karl Polanyi (1957(1944)) interpreted the history of capitalism as the tension between two movements. The dominant movement, which originated with the capitalist epoch, was the utopian project to create a self-regulating market. Because it was utopian, that project could have devastating consequences. The counter movement consisted of the multitude of survival strategies of social groups, and political responses of states, to protect human communities and their natural habitats against those consequences. The Great Depression and World War II were the most far-reaching devastation so far. The three major self-protective experiments of his time were the US New Deal, Fascism, and Stalinism.

Now that all three mid-century experiments are dead or worse, there has been a revival of the utopian belief in the magical powers of the market to regulate social life. Those who hold this belief appear impervious to increasing evidence of chaos and destruction of the human and natural substance of society. The new language of deficits and debts revives the old belief that human communities exist through the grace, in present terms, of investors. Salvation, in this view, lies not in re-embedding production and consumption in the needs and capacities of human communities, but in other people's money. That money is increasingly disembedded from any community or political agency, and moves across the world, creating here and destroying there, at an increasing pace.

This article points in bold strokes a picture of the specific rules chosen to organize world commerce and investments after World War II. The main figures in the picture are national states, which entered unequally into the original negotiations, and evolving practices and powers, of multilateral organizations. As the picture becomes animated, these figures begin to fade. States become less central as they come into conflict not only with one another, but also with the new creatures born from the post-war rules, transnational corporations.

2 NATIONAL STATES AND WORLD MARKETS

So far the political arena for playing out the tension between the market and self-protection has been the national state. Although it began much earlier, the system of national states matured in the first two-thirds of the 20th century. National states originated in the 18th century with the American and French Revolutions, quickly followed by national independence through much of Latin America, and later by other major national state formations (in Europe, Japan, and European settler colonies). World War I ended the great Empires of Europe - Russian, Austro-Hungarian, Ottoman - whose carving up into national states is still being contested in blood and tears.

After World War II, anti-colonial struggles and socialist revolutions, notably in China, completed the political system of national states - all within the framework of a titanic Cold War between the NATO and Soviet blocs. These blocs already prefigured the end of the sovereignty of national states even as national independence completed the state system throughout Africa, Asia, and the Caribbean. Allegiance to one or the other bloc implied subordination of sovereignty to a superpower, not only in matters of war and peace as in former alliances, but also in domestic politics, property relations, and most of all, adherence to rules of international economic practice (van der Pijl 1984; Block 1977; Wood 1986).

The rise and compromise of national states paralleled the fall and rise of world capitalism in the 20th century. The 19th century pattern of trade and investment, which had integrated the globe, ended with World War I. Then followed decades of instability - a boom in the 1920s, and a very large bust in the 1930s. These gave way to massive state controls over national economies and (hierarchically) integrated economic efforts among the victorious Allies in World War II.

3 POST-WAR CHOICES OF WORLD MARKET RULES

The post-war rules of international economic relations established conditions for a new and deeper global integration by capital. However, these rules were highly contested by proponents of an alternative model - national capitalism, planned by states, including management of national currencies in relation to domestic objectives. This implied the subordination of international trade and capital flows to national planning. Trade would be negotiated among strong states seeking to enhance national plans through imports of specific goods and of capital for specific purposes (Block 1977).

The rules actually chosen to regulate international economic relations, and the institutions enforcing them, favoured free movement of goods and capital via use of the US dollar as international currency. These rules created an inevitable tension between national states/economies and transnational organization of production. Instead of the strong international institutions hoped for by the left governments of post-war Europe and by progressive figures in the US government, a series of decisions created weak institutions whose effectiveness depended on the strength - and the policies - of the US. All these decisions were made between 1944 and 1947.

The Bretton Woods monetary rules, which established the dollar as international currency, worked only because of the integrative role of US foreign aid, first to Europe, Japan, and European colonies through the Marshall Plan, later to the emerging Third World (Wood 1986; Friedmann 1982, 1990). Aid was the mechanism that allowed investment and trade to occur despite lack of dollars, and allowed transnational capital to move into countries with inconvertible currencies. The International Monetary Fund, far from its theoretical potential as a world central bank regulating a world currency, was originally a minor institution designed to give automatic access to members for short-term loans to cover balance of payments deficits. This is a far cry from its present role, which though more powerful, is still distinct from the responsible role of a world central bank.

The IMF is now collector of official debts and enforcer of uniform policies which dismantle the economic regulatory powers of states. Precisely because it remains implicit, the force to which states must 'adjust' their economies, via 'structural adjustment' measures, is nothing else than the utopian 'self-regulating market' (whose 'self-regulation' paradoxically requires considerable 'adjustment' by states). The complex interplay between state supports for 'markets' and disempowerment of states is part of the unfolding tension between declining US economic dominance and increasingly unregulated (i.e., chaotic) markets, particularly currency markets.

The General Agreement on Tariffs and Trade (GATT), likewise, was a feeble alternative to the proposed International Trade Organization (ITO), which would have established a strong international institute to regulate trade through ongoing multilateral negotiations (Rau 1957). The US initiated the ITO, but then allowed it to lapse by failing to bring the negotiated treaty to Congress for approval. The GATT began in anticipation of the ITO, as an *ad hoc* group of self-selected governments intended to be subsumed by formal negotiations after the ITO came into effect, Despite the failure of the ITO, it continued as an *ad hoc* set of negotiations, called 'rounds', among self-selected countries.

Although much trade liberalization occurred among advanced capitalist countries, the GATT did not include states that maintained inconvertible currencies. Until the debt regime and the collapse of the Soviet bloc created a narrower set of options for socialist and third world states, the GATT remained a rich country club. Once their economies were opened through various forms of 'structural adjustment', the GATT posed little further threat, and offered the only forum in which the new members as a group could press for reciprocal openness to the world's largest national markets (Raghavan 1990).

Even more telling, because it left no trace even in weak international institutions, was the defeat of the proposal for a World Food Board (WFB). Like the ITO, the WFB was sacrificed to US agricultural interests which prevailed over the larger, and more consistently trumpeted, US interest in multilateral institutions favouring the free flow of goods and capital internationally. The integrative mechanism of the world food economy fell to US food aid, and via that opening, to transnational agro-food corporations. That is the reason for the omission of agriculture, originally at US insistence, from the GATT agreements. US agricultural interests were also part of the national lobby which prevented the creation of a strong multilateral organization, with a stable mandate, membership, administrative staff, and budget appropriate to the task of regulating international trade - independent of the relative strength of the US economy and the vagaries of US national policies (Peterson 1979; Friedmann 1993).

4 NATIONAL REGULATION AND TRANSNATIONAL INTEGRATION

The result of the post-war rules - and the international relations which unfolded through their operation - was a particular structure of international markets. The tension in US policy between multilateralism and national interest was at the heart of decisions leading to the IMF, the GATT, and other institutions (such as the World Bank), rather than to the stronger multilateral alternatives proposed (and widely supported) after the War.

US national regulation of money, trade, and the rest, in turn prompted other countries to institute strong national regulation. Even within the US set of alliances (and certainly outside it), it was difficult for the US to oppose policies parallel to its own. Thus the idea of 'national economic development' coexisted with the idea of 'free enterprise' (i.e., free trade and investment), and the practices of national economic planning, currency and trade controls, and the like coexisted with transnational private investment.

The glue of the international economy, therefore, was created by transnational corporations and banks. Internal transfers between branches of transnational capital came to account for increasing proportions of international trade (Helleiner 1981). The transnationals emerged within the framework of highly regulated national economies. They created transnational sectors that disarticulated 'national' sectors from one another (Aglietta 1979). For instance, the Canadian aircraft industry which made wings was less related to other Canadian industries than to the US aircraft industry which made the matching bodies. Similarly, the French dairy industry, making regional cheeses, was less related to other French farms than to the US farms from which it imported soybeans and maize as feedstuffs. In the second case, the attempt to reverse this dependence in the 1980s through import substitution via European Community agricultural policy remains a major obstacle to concluding the present GATT agreements.

The rules which allowed both transnational integration and national economic regulation were bound to produce an impasse eventually. Their coexistence depended on two conditions - US economic dominance and the balance of power in favour of states relative to transnational corporations. Both have shifted decisively. Official debts and the collapse of the Soviet bloc are only two of the many factors which finally brought the latent conflict to a head

5 THE CRISIS OF INTERNATIONAL REGULATION

The brief span of this article precludes an account of the precipitating incidents and shape of the crisis which issued from the impasse between national regulation, dominated by US economic strength, and transnational integration, which accompanied the rise of transnational corporations. Still, several features can be identified. First, the rules of international economic relations failed to sustain order and were abandoned or changed in the years between 1968 and 1973. These rules were primarily concerned with pegging the US dollar to gold and other currencies to the US dollar. This became less and less effective as Eurodollar markets expanded in the 1960s, and US institutions lost control of the world money supply. The US response, to abandon the Bretton Woods rules, left a vacuum of control, and markets in multiple currencies developed in many parts of the world.

Second, the international monetary crisis of the early 1970s coincided with an energy crisis and a food crisis. The energy crisis precipitated a global recession, as industries and consumers had to pay more for energy. The shift from profits on production to mineral rents created a pool of accumulated capital, which had few profitable outlets. The oil-rich states deposited their revenues in transnational banks, thus fueling the explosion of money. The banks lent the money to Third World and socialist states, eager to shift from official lending, with its stringent conditions, to private loans. This greatly expanded the accumulated official debt of the preceding decades. At the same time, Third World and socialist states required greatly increased loans simply to maintain existing levels of imports of energy and food at prices two to three times their 1970 level. For this and other reasons, few countries were able to invest the loans productively, precipitating the debt crisis of the 1980s (Wood 1986).

Finally, the ineffective political responses to faltering international regulation left the field to the transnational corporations and banks. The US adopted aggressive national policies, particularly in relation to money and agricultural exports. As international conflict grew, corporations increased the rate of industrial restructuring, both socially and geographically. This put pressure on employment and public expenditures in advanced capitalist countries. The mounting public sector deficits came increasingly to be financed by international capital flows. Thus the problem of capital flight began to constrain social policy even in the privileged core of the world economy, just as in the Third World.

The international institutions which depended on US economic strength, and on the responsibility and effectiveness of US policy in relation to international regulation, were the only available means for private capitals to coordinate their activities on an international scale. Banks, supported by major states, strengthened the debt enforcement powers of the IMF, including its ability to force debtor states to withdraw from managing production, trade, currencies, and income distribution within their domestic economies. Other international institutions were strengthened, such as the World Bank, and (yet to be agreed) the GATT. All of these projects strengthened only those powers relevant to the short-term interests of private capital.

This short-term, limited perspective compromises the ability of international institutions actually to create and enforce new rules for stable world markets. These depend on a degree of autonomy, accountability, and legitimacy so far achieved only by national states in relation to civil societies. The dilemma of international regulation is double. On one side, states cannot regulate their national economies because of capital flight, and they cannot provide stable conditions for investment of capital because a national scope is not sufficient for transnational capital. On the other side, international institutions inherited from the post-war settlement depend on US power, which now resides mainly in the military, not in production, trade, or money, and on responsible use of that power, which has so far been sacrificed to US national interest.

6 WHAT RULES ARE POSSIBLE FOR WORLD MARKETS?

Two paths are no opening. One favours accumulation, that is, the further subordination of national powers to transnational private capitals. The other, much less clearly delineated, offers the prospect of successful coordination of the many movements of self-protection for human communities and their natural environments.

The main movement over the past decade has been to reorientate international institutions from national states, which answer to their respective civil societies, towards the accumulation of transnational capitals. This attempt, still incipient, involves changes in states themselves. One approach to these complementary is the idea of an incipient 'transnational state' (McMichael and Myhre 1991). This term refers to a common phenomenon, in which states shift the balance between ministries concerned with trade and finance on the one side and those concerned with social services on the other. The relative status and power of the former have increased greatly relative to the latter, setting new limits to the democratic setting of priorities, or even the ability to defend existing social programmes. At the same time, trade and finance ministries are in increasing communication with each other internationally, and with the international agencies concerned with trade and finance.

Although this process is contested, the officials in each national ministry and in the international agencies are arguable coming to share a common language and belief in the inevitability and priority of 'adjustment' to international markets. These markets are self-regulating only in the shared rhetoric of economic managers. In reality, they are being created and shaped, but not controlled, by the increasing openness and vulnerability of national economies to the movements of transnational investments. As the latter seek to retain their value in an increasingly unstable world, they move into ever shorter term investments, and further destabilize each national economy, and the world economy.

The devastation to societies is becoming clear. The destruction of the social basis for protecting human communities and environments is leading to many social movements to defend the old protections and to create new ones. In particular, movements to defend past social protection against poverty and unemployment, and to create new forms of community to promote livelihoods, are appearing everywhere in forms appropriate to local and national conditions. At the same time, the destruction of natural environments are inspiring protective movements in many parts of the world.

A major form of movements for self-protection has been local/regional and a major aim has been greater autonomy. This puts further pressure on national states, politically and from below, as a counterpart to the economic pressure from above by transnational capitals. So far these sporadic, local projects are largely separate. Yet if viewed as variants of the movement for self-protection against the utopian project for a self-regulating market, now projected on a global scale, it becomes possible to envision links among them. At the deepest level, they can be interpreted as social attempts to recover use value (how do people in this community and nation define their needs?) and labour (what energies and skills do people have in this community and nation?)

Politically, linking movements is a distinct project at each level. To link movements for livelihood and environment, first of all, presupposes attention to the relation between actual settlements and bioregions. Livelihood depends on bringing to the smallest possible level, often municipal or regional, the common effort to link needs and capacities of society and the natural habitat. Specifically, it means creating local links between what is produced and what is consumed, and all the social ties and activities in between - local economies. This is happening through desperation where capital has abandoned communities, and through choice where people have become aware of the dangers of dependence on mobile capitals to provide employment and the goods necessary for life.

Of course, the world is irreversible integrated. To embed the chaotic global economy in society now requires democratic institutions at all levels. Local economies will have to find ways to federate into higher and more encompassing levels of political coordination. The result of this type of politics, if successful, would be to create democratic institutions capable of regulating the world economy in response to the needs and capacities of the federated communities.

National states are now being weakened from above and from below. Yet they are all that we have at the moment, to sustain the old protections against self-regulating markets, and to respond to democratic pressures to create new ones. Still they are an increasingly weak thread of responsive power between people and the direct rule of capital. Self-protection at this historical moment would seem to require a combination of protection of the national institutions inherited from a national period, and of attention to new social relations to embed economic life and new institutions of rule to support and direct them. Local links between activities expressing the needs and capacities of social groups are difficult, but are easily understood in relation to experience, once begun. They are vulnerable to transnational capitals in many ways; the most successful are especially vulnerable to absorption and integration.

New forms of regulation, therefore, will require support from existing national states and ultimately from institutions at higher levels, including the world. The examples of states collapsing without self-organized communities or effective international institutions are starkly evident in the news every day. The project for federated, self-regulating communities, nested in bioregions of increasing scale, may seem utopian. Yet the evidence of present strife suggests that it is less utopian than the project of capital to regulate itself.

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