BUILDING A NEW STRATEGY FOR THE LEFT AROUND CAPITAL CONTROLS

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Introduction

The 1990s have been a decade fraught with increasing economic globalization, financial liberalization, restructuring, greater inequalities of wealth and income, and continued social injustice everywhere. Capitalist interests worldwide have increasingly been successful in advancing their agenda to the detriment of workers and all those whose interests are not at the heart of neo-liberalism. A critical component of this neo-liberal agenda has been the furthering of the financial liberalization, which has opened up new arenas for profit maximization while increasingly subjecting countries to the whims and perils of the markets.

At the same time that the interests of capital have unceasingly been advanced, the Left has found itself fractured, on the defensive, and generally unable to successfully develop or promote an alternative to that of the global economic system. The dismantling of the Keynesian Welfare State (KWS), the demise of the Bretton Woods regime, and the end of the Cold War, in particular, have all forced the Left to reevaluate its traditional strategies for achieving social change. Any new strategies developed by the Left must come face to face with the free flow of financial capital that travels, relatively unhindered, across national borders.

The current paper is an attempt to contribute to the development of a Left and progressive economic strategy by focusing on building this strategy around limiting

financial liberalization and its detrimental effects. It is argued that the ability of financial and speculative capital to move globally, completely unaccountable to any democratic pressures and often with devastating effects on the lives of ordinary and working citizens, would be inconsistent with any Left alternative strategy. In addition, the propensity of short-term and speculative capital flows to result in destabilizing and harmful economic crises makes it imperative that restrictions be placed on capital flows. As a result, a realistic and truly progressive strategy of the Left must be built around and include some form of capital controls.

In terms of structure and argument, this paper emphasizes the how and why of capital controls themselves rather than emphasizing the broader policies that might come after the successful implementation of capital controls. The paper will first briefly examine the rise and fall of Bretton Woods, including a look at some causes of the fall. A central theme is that increased globalization has contributed to an increase in the relative power of domestic capital vis-à-vis labour and this is a core factor that led to the successful revolt of capital versus the welfare state. The paper also critiques financial liberalization as harmful, costly, and antidemocratic and thus illustrates a need for capital controls, particularly as part of a plan of the Left. Finally, the paper examines how capital controls can form a key component of an overall strategy for progressive economic and social change.

Defining what is the Left

This paper examines how and why capital controls should be on the agenda of Left economic policy and, doing so, requires a brief discussion of who is being defined as

"Left" for the purposes of this analysis. While many of the traditionally social democratic parties find themselves in power, particularly in Europe, they have generally come to power on a platform – frequently referred to as the Third Way – that disassociates itself with the supposedly failed Left policies of the past. As a result, the commitment of these political parties to bringing about real social and economic change is often seen as being suspect, particularly since the tenets of this so-called Third Way are fairly ambiguous.[1] The general trend of social democratic parties toward such ambiguity and their eventual acceptance of neo-liberal dictums has been a gradual process that is important to keep in mind in examining why the Left tacitly and sometimes actively allowed capital controls to be dismantled. But, since such parties are also large and important vehicles for working class expression and remain those most likely and capable of implementing progressive economic policies in practice, they are included as part of the "Left". Hence, the "Left" as discussed in this paper will include social democratic parties as well as those components of the Left that operate as mostly non-partisan movements, that is to say the Left as it operates by pressuring and demanding change from governments as opposed to competing for election to form governments.

The Left and the Rise and Fall of Bretton Woods

The implementation of capital controls as a means to restrict or limit the free flow of capital across borders developed as a crucial component of the Bretton Woods regime. Capital controls were adopted following the break down of the classical gold standard and the devastating effects of the currency crises witnessed at the time of the Great

[1] A straightforward critique of the Third Way's vague plan for change is given by Robert Wade, "The Coming Fight over Capital Flows," *Foreign Policy* n.s. 113 (Winter 1998-99): 42-3.

Depression[2]. Though supported by the Left, capital controls were promoted and implemented primarily by bourgeois parties and bureaucrats as one means not only of preventing brutally destabilizing economic crises, but also because it was believed that not doing so would hinder the promotion of free trade and might even precipitate a world-wide shift toward socialism, either as a result of another financial crisis or of the rising demand for radical change among the general populace combined with the then strong attraction of the Soviet model.[3] Capitalist interests saw capital controls, which were again also promoted and supported by the Left, as a means of saving capitalism and promoting free trade.

The actual design of the Bretton Woods system included several major components.[4] The first of these was the creation of the International Monetary Fund (IMF), which was to serve as an international lender of last resort and to promote exchange rate stability. Currencies were fixed at a set rate to the U.S. Dollar, which was fixed in turn to the price of gold. In the event of scarcity of a particular currency, the IMF had the power to borrow it from the country concerned and, if necessary, ration it. Also created was the International Bank for Reconstruction and Development (IBRD), whose task was to supplement private international investment for reconstruction and redevelopment.

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[2] Mića Panić, "The Bretton Woods System: Concept and Practice," in *Managing the Global Economy*, ed. J. Michie and J. Grieve Smith, (Oxford: Oxford University Press, 1995), 39.

[3] For discussions of these causes, see Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca: Cornell University Press, 1994b), 5, 29-37; S. A. Marglin, "Lessons of the Golden Age: An Overview," in *The Golden Age of Capitalism*, ed. S. A. Marglin and J. B. Shore (Oxford: Clarendon, 1990), 5; Jeffry A. Frieden, *Banking on the World* (New York: Harper & Row, 1988), 66-71; Daniel Yergin and Joseph Stanislaw, *The Commanding Heights* (New York: Simon & Schuster, 1998), 21-22. That the legitimization of interference with international capital flows, as a policy embedded in Bretton Woods, is consistent with an ascendancy of social democratic views is argued by Eric Helleiner, "Freeing Money: Why Have States Been More Willing to Capital Controls than Trade Barriers?" *Policy Sciences* 27 (1994a): 309; Tom Notermans, "The Abdication from National Policy Autonomy," *Politics & Society* 21 (June 1993): 137.

[4] Described in Panić, "The Bretton Woods System."

Nearly all governments in the world had substantial controls on inflows and outflows of capital by the early postwar period, even though some governments tended to oppose them in principle.[5] Many social democratic governments, most notably Clement Attlee's Labour government in Britain, found themselves thrust into government by an anxious electorate following WWII. These governments of the Left, like First World governments in general during the Golden Age, found considerable success in developing and promoting the welfare state to stimulate growth and create employment.

Shortly after the signing of Bretton Woods, developments began to occur which would eventually contribute to its downfall. The first of these developments was the continued liberalization of trade, one of the central goals of the Bretton Woods regime. The growth of trade allowed firms to operate internationally, reducing the incentive for them to rely on domestic expansionary policies for growth and, consequently, reducing any reason for them to support capital controls. This argument will be discussed in greater detail a little further on. A second development that would eventually assist in the downfall of Bretton Woods was the rise of the Eurodollar markets, which were both caused by and a cause of the elimination of capital controls.[6] Originally tolerated by the U.S., they eventually created a pressure on other governments, especially from those governments' domestic financial interests, to remove their capital controls thus allowing their financial institutions to compete internationally.

[5] James Crotty and Gerald Epstein, "In Defence of Capital Controls," in *Socialist Register 1996*, ed. R. Miliband and L. Panitch (London: Merlin Press, 1996), 124.

[6] Frieden, *Banking on the World*, 79-122, chronicles the rise and consequences of the Euromarkets. He explains that U.S. policymakers had regulations in place, but let financial institutions bypass these. See also Crotty and Epstein, "In Defense of Capital Controls," 126-7 on Euromarkets causing the end of capital controls and John B. Goodman and Louis W. Pauly, "The Obsolescence of Capital Controls," *World Politics* 46 (October 1993): 53 on Euromarkets having arisen as a response to capital controls.

The end of Bretton Woods was made official in 1971 with the end of the U.S. dollar's convertibility into gold and its subsequent devaluation.[7] This period coincided the beginning of a major shift in government policies worldwide away from the KWS and toward monetarist and neo-liberal policies. Financial liberalization and the dismantling of capital controls became a major emphasis of governments, pushed in particular by domestic capital interests, as well as international ones, including the United States and the IMF.

Financial liberalization and the related explosion in the size of speculative capital movements worldwide have, in recent years, allowed and likely precipitated a number of currency crises. The most notable of these is the 1997-98 Asian financial crisis that, at its peak, threatened to tip the entire globe into economic recession. This has been preceded by a number of other currency crises in recent years, most notably the Mexican peso crisis in 1994.

Left Complicity in The Shift Toward Neo-Liberalism and Financial Liberalization

The causes and consequences of the fall of Bretton Woods and the decline of the KWS are important to examine in contemplating the re-establishment of capital controls, for they bring to question the role of the state and its present ability to act independently of international and transnational actors. If arguments that the state is largely dependent on structural forces that lie beyond its jurisdiction, such as having to compete for investment by inspiring investor confidence or by putting downward pressure on wages and social standards, can be supported, then the prospect of being able to implement capital controls may be limited. Clearly, structural constraints do exist to at least some degree, though they

[7] Panić, "The Bretton Woods System," 50.

are surely not all-powerful. Though it is beyond the scope of this paper to make an exhaustive list of all the constraints faced by the state, several are crucially important and are examined, using the five categories defined by Benjamin Cohen.[8]

Cohen has put forth five reasons to explain why countries have not, generally speaking, adopted capital controls. Because these five reasons are based on impediments and power relationships that work to prevent particular government policies, namely capital controls, these reasons also closely reflect the same pressures that helped drive the demise of Bretton Woods and the capital controls that accompanied it. Each of the reasons outlined as factors that have helped to prevent a rush toward the re-implementation of capital controls can also be traced to similar pressures that assisted in their original decline.

The first of these reasons are the technical and practical difficulties that exist in implementing capital controls, particularly since their adoption, like the adoption of any new policies, face numerous practical hurdles. In a similar fashion, it may have been easier in the 1970s to follow the lead of other countries in dismantling capital controls rather than to develop innovative ways to alleviate pressures on currency without allowing it to become completely floating and exchangeable with other currencies. It is generally easier for governments to follow the advice and lead of domestic and international interests than to face the risks, not the least of which are political, of devising new and technical policies.

Second, Cohen argues that recent evidence for capital controls is fairly limited; Malaysia is the only recent example of a country rejecting financial liberalization and the

[8] Benjamin J. Cohen, *Capital Controls: Why Do Governments Hesitate?*, Paper presented at the Annual Meeting of the APSA, Atlanta, GA., 2-5 September 1999, 11-16.

success and wisdom of its decision still remains under debate.[9] Likewise, countries with capital controls were offered plenty of evidence for their obsolescence and for the difficulties inherent in maintaining limits on the free flow of capital in order to push them to abandon their controls. For example, the limits that had originally been put in place to limit short-term speculative flows had resulted in the growth of the Eurocurrency markets, an example that served to further the argument that capital controls would only scare away capital.[10]

The third reason simply relates to the strongly held neo-liberal ideological values of most governments that hold that the unrestrained market is the most efficient and best allocator of goods, services, and capital. For holders of this pro-market ideology, capital controls are seen as disrupting the efficient allocation of capital to its most productive use. It is important to note that the rise of neo-liberal ideology coincides with the end of Bretton Woods and the KWS. The development and dogged promotion of neo-liberalism and its attack on the welfare state can be best explained as the ideological instrument of the business elite that sought and still seeks a curtailment of the rights of labour.

Cohen's last two reasons are the most important in his view, as they represent the greatest impediments to the re-implementation of capital controls. The first of these, or fourth overall reason, is that of domestic politics; no matter what is the ideological-leaning of the government, it must face very powerful financial and corporate interests that exist within its own borders. These interests are likely to have relatively easy access to major corridors of power, the financial resources to spread their opinions quickly and effectively,

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[9] See *The Economist*, "Malaysia: The Road Less Traveled," 1 May 1999, 73, which is a proponent of the view that Malaysia's rapid recovery from the crisis is due to factors other than its imposition of capital controls.

and have a well-developed ideology, based in neo-classical economics, to assist in the promotion of their interests. That domestic interests were of crucial importance in bringing about financial liberalization in the first place will be pursued further on into this essay.

The last reason seen by Cohen as important in preventing the adoption of capital controls is international politics, including direct pressure by most of the powerful advanced capitalist countries and policies imposed by those countries through the IMF and other international organizations. The powerful countries opposing capital controls generally do so because of the neo-liberal ideological bias mentioned previously and their desire to maintain stability and the current liberal financial order, both of which are in the interest of those countries' elites. International factors were likewise very important in the dismantling of capital controls, particularly following the United States' successful push in the 1970s to have the IMF's bylaws amended so that it had the power to force countries to reduce or eliminate their controls over capital flows.[11] This was accompanied by direct pressure by many powerful nations, particularly the United States and Germany, to have other countries, including Japan and the current EMS nations respectively, to dismantle capital controls.

Foreign corporate and financial interests operating within a country's domestic market represent both foreign and domestic interests as they would be likely to support and perhaps are able to influence the international policies of their country of origin, but yet are subject to the legal and economic framework of the country they are in. Hence, they play

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[10] Frieden, *Banking on the World*, 79-122; Crotty and Epstein, "In Defence of Capital Controls," 126-7; Goodman and Pauly, "The Obsolescence of Capital Controls?" 53.

an influential role in the domestic policies of countries they operate in and will likely work to help prevent the implementation of any policies, such as capital controls, that might reduce their profits.

Other financial interests, such as credit rating agencies, can play a powerful role in resisting capital controls, as they are able to influence the cost of a country's loans simply by adjusting its credit rating. This is similar to the tactics of the IMF, which does this by threatening to increase a country's cost of borrowing or even threatening its ability to borrow at all. Investor confidence, which can also be related to a government's credit rating, tends to be buoyed by state policies of low inflation, fiscal austerity and commitment to open markets, and plays a strong role itself in determining whether a state receives investment capital or not.[12] In Malaysia's case, opponents of its decision to implement capital controls argue that it will suffer a penalty in the form of a dearth of investment.[13]

While it is clear that interests originating from outside of a state do play an important role in influencing its economic policies, the domestic forces that exist within a state cannot be underestimated. After all, states still do have the power to snub international pressures, such as the IMF and the United States, without imploding, as Malaysia appears to have shown. Domestic forces are much harder to ignore, particularly since spurning such forces will result in retaliation and sustained challenges to the existing government's legitimacy. Crotty and Epstein, who point to the political alliance of

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[11] Crotty and Epstein, "In Defence of Capital Controls," 127. Also see Frieden, *Banking on the World*, 65 on earlier U.S.-driven reforms of the IMF, which codified stringent guidelines for borrowers from the fund and would also have had an impact.

[12] See Robert Pollin, "Can Domestic Expansionary Policy Succeed in a Globally Integrated Environment?" in *Globalization and Progressive Economic Policy*, ed. D. Baker, G. Epstein and R. Pollin (Cambridge: Cambridge University Press, 1998), 439-40.

[13] *The Economist*, 73.

domestic industrial and financial capital as pivotal in the removal of capital controls, finger these domestic capital interests as the overwhelming source of the war against labour and the drive to counter the relative growth in labour's position.[14]

Crotty and Epstein's view is that domestic forces are the single most powerful cause of the elimination of capital controls. They explain that capital controls played a role in the success of the "Golden Age" by providing funds to national governments to help fund domestic policies and by limiting the power of rentier interests to move their capital elsewhere if interest rates and inflation levels were not ideal for profit maximization. Furthermore, the reliance of these interests on the domestic economy for profits then gave them an incentive to support strong growth in domestic demand and, hence, the welfare state. Once domestic businesses expanded internationally, they began to be less reliant on the domestic economy and began siding with financial interests in pushing for increased financial liberalization. This theory appears to be supported in four countries – Germany, Japan, France and Italy – that were examined by Goodman and Pauly, who also note quite importantly that these governments *allowed* the growth of offshore markets and the international expansion of firms.[15] In each case, the internationalization of domestic firms meant an increase in the relative hindrance caused for them by capital controls, leading those firms to be influential in demanding the subsequent policy shift toward financial liberalization.

If the international expansion of domestic capital did, as Crotty and Epstein have argued, increase the domestic pressure against capital controls, then it might be important to link the liberalization of trade after the Second World War with the later liberalization of

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[14] Crotty and Epstein, "In Defence of Capital Controls," 125,128-9. The importance of domestic forces is also noted by Helleiner, "Freeing Money," 309.

finance. Since the Bretton Woods accord had free trade as one of its fundamental pillars, perhaps its own demise was inevitable; as cross-border trade increased following the rebuilding of Europe, overwhelming pressure was eventually built to force down the barriers to increased financial liberalization. Continued maintenance of control over capital flows in the face of this increasing adversity would then have meant having to challenge Bretton Woods from an anti-free trade perspective and, consequently, would have necessitated a re-examination of the welfare state from the Left and an unprecedented challenge against the power of capitalist interests.

The Left, particularly social democratic parties and unions, had far too much invested in the KWS and the status quo to begin challenging the fundamental bases on which it had been built.[16] After all, by the time Bretton Woods was near its end, organized labour had been able to achieve not only recognition as an important player in the economy, but had also experienced full employment and steady increases in wages and benefits for nearly all of the previous 25 years. Mass-based political parties of the moderate Left had experienced significant electoral success in many of the advanced capitalist countries under the status quo and, consequently, were sooner willing to acquiesce to the continued internationalization of domestic capital, hoping that their market-reformist policies could still be sustained politically, than to take a hardcore stance against it. Harmon, who puts considerable weight on structural and international forces as

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[15] Goodman and Pauly, “The Obsolescence of Capital Controls?,” 79-80.

[16] In all fairness, it is important to recognize that movements within the Left did rise to challenge the capitalist welfare state. Such movements tended, however, to be in the minority and were ultimately defeated or expelled. See Leo Panitch and Colin Leys, *The End of Parliamentary Socialism: From New Left to New Labour* (London: Verso, 1997), chapter 1.

the impetus for change, nevertheless describes such a *choice* being made in the British context:[17]

> For the Labour Party, the 1976 crisis was a dramatic demonstration of the incompatibility of a Labour government's domestic political imperatives with Britain's external economic constraints. Under intense bilateral, multilateral, and structural pressures, this incompatibility was resolved through a sacrifice of the domestic imperatives rather than a lessening of the international constraints.

The lesson for the Left may be that capital, if given the political power and the adequate opportunity, will always seek to use that power and opportunity to advance its interests. This may seem to be an obvious statement to make, as no one would deny that self-interest is the driver of the capitalist system. However, much of the moderate Left viewed the Bretton Woods era and the welfare state that it accompanied as the creation of a mutually beneficial stasis between capital and labour, where labour allowed capital the unquestioned opportunity to grow and trade and maximize profits and the sole discretion over the control of those profits, while capital was expected to continue to recognize the position of organized labour as a representative of workers and an actor in the economy and to negotiate with it in good faith.[18] This shortsighted view, held by many and still frequently used to describe the era of the welfare state, seemed to hold that capital would grow internationally, but yet not use any of the increasing bargaining power it acquired to revolt against the status quo, shifting it toward a new arrangement where labour would be increasingly subservient to capital.

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[17] Mark D. Harmon, *The British Labour Government and the 1976 IMF Crisis* (New York: St. Martin's Press, 1997), 233.

[18] A description of the postwar era as the rise and fall of an informal Capital-Labour Accord is described in Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf, *Beyond the Wasteland: A Democratic Alternative to Economic Decline* (New York: Anchor, 1985), 72-89.

The Incompatibility of Financial Liberalization with Progressive Economic Policies

Previous to examining the rationale for the implementation of capital controls, it is wise to examine the arguments put forth against capital controls and for financial liberalization. As Akyüz explains,[19] the neo-liberal argument is that free financial markets will result in the most efficient allocation of investment capital, by facilitating the flow of capital from developed countries with excess savings and low-return investment opportunities to countries with low savings and high-return investment opportunities. Furthermore, proponents of financial liberalization argue that such markets penalize governments that decide to pursue "inappropriate" policies, namely those that interfere in the marketplace or that allow corruption and inefficiency. Akyüz points out that the empirical evidence in favour of each of these arguments is weak and, in each case, sometimes points to the exact opposite relationship of what neo-liberals typically claim.

While it is important to challenge the arguments of proponents of financial liberalization, this alone does not suffice as an argument in favour of Left adoption of capital controls. Numerous arguments exist that serve to illustrate the detrimental consequences and costs associated with financial liberalization. The first of these is that the free flow of financial capital increases the degree to which governments must rely on external constraints, as described earlier, when setting policy, a result that can have devastating consequences for the ability of elected governments to implement policies that will benefit the majority of its citizens. Assuming that governments do operate, at least to some degree, in the interests of their electorates, it can be stated that the unregulated free

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[19] Yilmaz Akyüz, "Taming International Finance," in *Managing the Global Economy*, ed. J. Michie and J. G. Smith (Oxford: Oxford University Press, 1995), 68-70.

flow of capital represents a limit on the democratic will of those electorates.[20] This, of course, runs completely counter to strongly held beliefs in the Left that a people have a collective right to determine their own destiny and lives.

For the Left, which sees the exploitation and inequalities of power and wealth inherent in capitalism, self-determination and the promotion of democratic policies necessarily involve subjecting capital to democratic control. Though while many on the Left would hold that liberal democracies and the governments that are elected under such systems are, at least to some degree, a corruption of the principle of self-determination, clearly the power of unrestrained financial capital only reduces democratic control over capital. In other words, the ability of speculators to move and allocate capital wherever they see fit, regardless of the potentially devastating consequences of their actions on the lives and wishes of ordinary citizens, is an undermining both of democracy and of the Left's goal of furthering the democratic control of capital. Capital controls would constitute a basic challenge to the neo-liberal notion of unregulated financial markets as the most efficient means of allocating capital by positing that such markets must be subject to the democratic will of those whose lives are impacted by such capital allocations. By itself, the victory of having capital controls implemented would only minutely subject the capitalist system to democratic pressures, but would be a major victory in challenging neo-liberal assertions that governments and other non-market actors have no role to play in determining where capital is allocated.

[20] The notion of 'democratic will' is expressed here in a Marxist sense rather than a liberal one, on the basis that diametrically opposed interests exist within electorates, including rentier interests for whom financial liberalization is largely beneficial. It is argued that financial liberalization has served to maximize the interests of capital at the expense of the remainder of the population.

A second reason in favour of capital controls is that the free flow of financial capital inevitably results in financial crises in different countries. Neo-liberals have traditionally argued that only those countries following "inappropriate policies" are likely to be subject to debilitating financial crises, an assertion rejected by recent analyses by Buira, for the Mexican devaluation crisis of 1994, and by Akyüz.[21] Even some neo-liberal economists have argued that the current regime of financial liberalization is prone to crises because fluid capital reacts far more quickly than do other markets, meaning that financial markets are essentially too efficient and should be subject to some limitations.[22]

Crises can begin with a small exodus of capital from a particular state resulting, within mere hours, in a massive drain of capital from that country and others that are nearby or who are perceived to have similar economic policies.[23] The most recent and telling example is the Thai baht crisis of July 1997, which quickly spread throughout Asia and impacted countries all over the world.[24] A herd mentality takes effect among speculators wanting to limit their losses and the overall effect can be seen as a run on the currency which, if left on its own, might continue unabated, having severely debilitating

[21] Akyüz, "Taming International Finance," 68-70; Ariel Buira, "Reflections on the Mexican Crisis of 1994," in *Private Capital Flows to Emerging Markets after the Mexican Crisis*, ed. G. A. Calvo, M. Goldstein and E. Hochreiter (Washington, DC: Institute for International Economics, 1996), 313-5. Also see Robert Wade, "From 'Miracle' to 'Cronyism': Explaining the Great Asian Slump," *Cambridge Journal of Economics* 22 (1998) and Wendy Dobson, "Fallout From the Global Financial Crisis: Should Capitalism be Curbed?" *International Journal* 54 (Summer 1999): 378-9 on 'crony capitalism', the term used to describe the set of inappropriate policies argued by the U.S. as being the cause of the Asian crisis.

[22] See, for example, James Tobin, "A Proposal for International Monetary Reform," *Eastern Economic Journal* 4 (July/October 1978) and Lawrence H. Summers and Victoria P. Summers, "When Financial Markets Work Too Well: A Cautious Case for a Securities Transactions Tax," *Journal of Financial Services Research* 3 (1989).

[23] This theory is substantiated by a growing literature on "contagion" and cross-border speculative attacks. See, for example, Reuven Glick and Andrew K. Rose, "Contagion and Trade: Why are Currency Crises Regional?" *Journal of International Money and Finance* 18 (1999).

[24] Robert Wade and Frank Veneroso, "The Gathering World Slump and the Battle Over Capital Controls," *New Left Review* 231 (Sept/Oct 1998): 14-15. For a discussion of some of the origins of the Baht crisis, see Mitchell Bernard, "East Asia's Tumbling Dominoes: Financial Crises and the Myth of the Regional Model," in *Socialist Register 1999*, ed. L. Panitch and C. Leys (London: Merlin Press, 1999).

effects on that country's economy. Even if neo-liberals were correct in their assertions that financial liberalization best facilitates the efficient allocation of capital for investment and consumption, it is doubtful that the added gains from such efficiency could match the costs associated with risking financial crisis.

In the face of a currency crisis, governments, many of whom are ironically likely to have been preaching the merits of non-intervention in markets, are often forced to intervene in an attempt to stabilize the falling currency by quickly purchasing as much as it can afford. Buying up the currency in this way reduces the money supply, helping to limit its decline and push its value back up. In turn, this reassures anxious speculators and hopefully reduces the transfer of capital out of the country and ends the run on the currency.

It is important to analyze what is happening when a government decides to support its currency with a large influx from its reserves. Such influxes of currency can often be almost cripplingly huge – in the billions of dollars, most of which is basically to replace a portion of the currency that has left for other markets. For example, the total cost of Mexico's bailout from its 1994 financial crisis exceeded $56 billion.[25] Because this expense of government is essentially to replace the capital of speculators that has left and is made necessary by their exodus, such government expenditures often constitute a forced subsidization of currency speculators. This point requires further elaboration. Currency speculators exist simply because there are lucrative profits to be made in currency speculation. Hence, when profits are available to be made in financial markets, they are considered the rightful gains of speculators who were willing to risk their capital in the

marketplace. However, speculators do not really bear the full risks associated with speculation because, when the currency falls, they are able to flee to minimize their losses, though leave the major brunt of the costs to be picked up by governments who intervene to support the currency. Governments are the last resort supporter of the currency then, since if they do not intervene, they face potentially harmful economic consequences.

It is arguable that governments that have invested to shore up their currency could sell off some of the currency later if it regains some ground, therefore earning back any money they may have lost during the crisis. This is a limited argument, though, as there is certainly no guarantee that they will make anywhere near all of their costs back, particularly when considering a number of other costs that are related to the government's central bank intervention. These related costs include the opportunity costs, including domestic investment, of the huge sums they were forced to spend, interest payments on sums they may have borrowed to finance the intervention, costs associated with the shift in the currency itself, such as an increase in the cost of imports or, at worse, an economic recession, and further loss of economic sovereignty if substantial amounts of capital were borrowed from the IMF or a foreign lender. Speculators and private investors, in sum, net almost all of the gains associated with currency speculation, though pass off much of its costs to governments and the citizens who live under those governments. The end result is thus a form of government subsidization of private financial interests.

As a result of having to bail out a plummeting currency, governments often face a restriction of political power that comes with having to borrow the funds to do so. This is especially true, but not restricted to, governments of a lower or middle economic stature.

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[25] Calculated by the author from figures given in Ilene Grabel, "Rejecting Exceptionalism: Reinterpreting the Asian Financial Crisis," in *Global Instability: The Political Economy of World Economic*

More often than not, the U.S. government or the IMF, operating with direction from the U.S. Treasury, will offer aid or loans but have economic demands to trade as the price for such loans.[26] In return for assistance in recovering from the Asian crisis, the IMF has demanded liberalization of finance and markets and policies that restrict domestic demand. Such currency crises are, therefore, likely to enhance the hegemony of the U.S., whose currency and powerful domestic capital interests already make it the world's economic hegemon, and, as well, benefit other wealthy world powers and any financial interests involved in the lending. The lending out of capital as a means of subjugation by financial interests and wealthy nations is certainly nothing new or specific to financial crises. But, as such crises become a long-term characteristic of the system, the binding of victim countries to the dictates of the IMF and the wealthy countries it serves becomes increasingly institutionalized.

The hegemony of the powerful advanced capitalist nations is strengthened further when one considers that economic crises caused by currency crashes open up the suffering country's economy to increased foreign ownership.[27] This is because investment opportunities become cheaper in two ways. The first is due to dropping asset prices caused the economic recession that tends to follow the currency crisis, while the second is a result of the lowered currency itself, resulting in a more favourable exchange rate for any foreign capitalists wanting to invest in the suffering country's economy. As the investor is likely to originate from the U.S. or another wealthy country, the country suffering the recession is

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Governance, ed. J. Michie and J. Grieve Smith, (London: Routledge, 1999), 37-42.

[26] See Harmon, *The British Labour Government* on the UK and Wade, "The Coming Fight over Capital Flows," 44-45 on Asia.

[27] Much of Asia believes that the recent Asian financial crisis has resulted in "bargain hunting" by foreign firms, resulting in a massive transfer of ownership into foreign hands. See Wade, "The Coming Fight over Capital Flows," 49-50.

put even more greatly at the mercy of the economic hegemon as greater portions of its economy become owned and operated by the foreign interests. The inevitable result is, as with other aspects of the crisis, increased restraints on the democratic self-determination of nation-states.

A further consequence of financial liberalization that bodes ill for the Left is that the implementation of full employment policies is made extremely difficult without some sort of controls over capital. As Andrew Glyn has argued, a serious goal of the Left should be a new political arrangement that involves state commitment to egalitarian full employment policies.[28] While this is definitely a goal of the Left that is to be lauded, Crotty and Epstein have rightly pointed out that such a policy is essentially impossible without capital controls and trade restraints or at least the viable threat of the implementation of these.[29] Their argument is that capital and trade restraints would be effective in curtailing the power of capital internationally, thereby linking capital more closely to the domestic economy and reducing their power relative to that of labour. In the absence of such policies or even the promotion of such policies, capital has no interest in straying from the current neo-liberal agenda and, as a result, full employment policies would require adjustment costs to be borne by the workers, in the form of, for example, reduced hours, poorer wages, or limited benefits. By implementing capital controls, this power of capital can be somewhat curtailed, allowing a return to full employment policies, which would in turn curtail the power of capital even further relative to that of labour.

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[28] Andrew Glyn, "Social Democracy and Full Employment," *New Left Review* 211 (1995).

[29] Crotty and Epstein, "In Defence of Capital Controls," 119-121. Their argument is further sustained by Jeffry A. Frieden, "Invested Interests: The Politics of National Economic Policies in a World of

Practical and Theoretical Considerations in the Adoption of Capital Controls

A strong argument for capital controls, aside from the perils of financial liberalization, is that they have played a role in nearly all of the economic successes of the late 20th century; Japan, South Korea, Sweden, Germany, and not to mention much of the First World throughout the "Golden Age", all used capital controls for decades to achieve stunning levels of economic growth and well-being for its citizens.[30] Of course, this is not to say that the Left should necessarily follow one of those models; Japan and Korea's economic strategies have included a harsh suppression of labour. Rather, the point is that capital controls have been used in the past to achieve impressive levels of growth and prosperity – why could they not do the same today?

One fundamental difficulty with instituting capital controls, is that if it is done unilaterally, the country imposing controls might be singled out and punished in the form of capital flight and a dearth of future foreign investment, a run on the currency in advance of the controls, bilateral threats both directly and through international organizations, and various other forms of retaliation. The opposition will likely be greatest from the U.S. since financial liberalization is a way for it to tap the savings of other countries. Its savings rate is extremely low relative to other states and, in order for it to maintain its levels of investment and consumption, it must be able to borrow from the rest of the world.[31] If capital controls were implemented on a global scale, the U.S. might be forced to increase its savings rate by cutting back on domestic consumption and likely causing an economic recession. Considering the potential costs of capital controls for the U.S., it

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Global Finance." *International Organization* 45 (Autumn 1991), whose study finds that financial liberalization has distributional impacts that are largely in the favour of capital at the expense of labour.

[30] Crotty and Epstein, "In Defence of Capital Controls," 143-4.

stands to reason that it will stop at little to keep any serious proposals for capital controls off the agenda and prevent their implementation. The best option in the face of such a powerful opposition would likely to be the implementation of capital controls in several countries at once; if several countries of reasonable political and economic stature agree to all implement capital controls, the relative power of the U.S. to impede their success would be lessened. Of course the political power of the United States is not limitless; Malaysia has so far successfully imposed capital controls in open defiance of the U.S.

Domestic actors are likely to constitute a much greater impediment to capital controls; the combination of domestic financial and industrial capital interests is a potent force that few governments would dare actively challenge. This is especially true in countries with powerful financial sectors, such as the U.S., the U.K. and Germany. Industrial capital, particularly that operating internationally, is likely to form a strong impediment as well as it tends to prefer financial liberalization. Unfortunately, it may take another crisis, perhaps more severe and more threatening than the Asian financial crisis, to convince sufficient numbers of political and economic elites that financial crises threaten their interests in that they cause social dislocation that might pose an even greater threat to capital than do capital controls.

Capital controls are often dismissed as being infeasible on the grounds that innovative and ingenious investors and financial interests will always find ways to evade such controls in the same way that offshore and Eurodollar markets evaded the Bretton Woods era controls.[32] While some evasion is always likely to occur and would indeed

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[31] Wade, "The Coming Fight over Capital Flows," 45-6; see also Sara L. Gordon, *The United States and Global Capital Shortages: The Problem and Possible Solutions* (Westport, CT: Quorum Books), 1995.

[32] Michael Moran, *The Politics of the Financial Services Revolution: The USA, UK and Japan* (New York: St. Martin's, 1991), 10-13 describes the power of innovation and ingenuity as driving forces.

pose a challenge to any new controls that would be implemented, this falls short of making the adoption of capital controls futile. Tobin notes that ingenious methods of evasion would carry associated costs that would, in themselves, have some of the same impact as capital controls by making short term speculative capital flows more costly.[33] Summers and Summers, who state that international cooperation and harmonization could eliminate the problem of evasion, argue that capital control proposals such as a security transactions tax are not as unenforceable as its opponents often describe; it could even be based upon voluntary reporting much like the U.S. income tax that is paid on capital gains made outside the U.S. by U.S. citizens.[34] The point is that some evasion is always likely to occur, much like the evasion of income taxes, and that this one of the costs of maintaining capital controls. The most effective way of reducing evasion may be some combination of the transactions taxes mentioned above with multilaterally-based regulatory controls. Crotty and Epstein have proposed stand-by controls requiring any country to return capital that crossed borders in violation of any country's laws.[35] Regular review and updating of capital controls so that they remain effective might be also necessary.

One possible practical impediment to the adoption of capital controls by nation-states might be structural in the sense that competition can force the lowering of capital controls. This can be referred to as a form of regime competition[36], where regimes are forced to compete to attract capital investment. Countries that seek access to capital might very well engage themselves in a competitive reduction of capital controls in order to

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[33] Tobin, "A Proposal for International Monetary Reform," 159.

[34] Summers and Summers, "When Financial Markets Work Too Well," 280-2.

[35] Crotty and Epstein, "In Defence of Capital Controls," 137.

[36] The term is that used by Wolfgang Streeck, "The Social Dimension of the European Economy," in *Public Interest and Market Pressures: Problems Posed by Europe 1992*, ed. D. Mayes, W. Hager, A. Knight, and W. Streeck (New York: St. Martin's Press, 1993).

attract the greatest amount of mobile investment capital. Panić has used this argument to explain why creating a new Bretton Woods would be essentially impossible; countries are too dependent on and desperate for the investment of transnational corporations to challenge their power.[37] While this might seem to be a reasonable impediment from the outset, this argument against the adoption of capital controls is limited when examined in greater detail.

The argument that the power of capital that is due to its mobility and that enables it to impede policies such as capital controls is exactly the reason why capital controls should be adopted as progressive economic policy.[38] The power of capital should lead the Left to seek to curb it rather than to give up on challenging it. Certainly, struggling to re-implement controls over capital will be an uphill battle as is any challenge versus the economic elite. Since the Asian financial crisis, the idea of capital controls has resurfaced as a serious option in economic debates and provides an opportunity for the Left to advance its cause.

Another challenge to the regime competition argument would be that states do not equally seek capital; Asian states, in particular, have significantly higher savings rates and, as a result, they are not dependent on the availability of foreign capital for investment. So it must be recognized that some countries have sufficient access to capital, while others, such as the U.S., must either borrow the capital from other states for the purpose of investment. It should be noted, of course, that there may be some alternatives to borrowing capital from other states, namely by encouraging increases in savings or by devising publicly sponsored investment programs.

[37] Panić, "The Bretton Woods System," 53.

A third challenge to the argument of regime competition as a defeat of capital controls is that states, even if they are dependent on foreign reserves of capital or the foreign investment of capital, surely do not have financial crises in their interest. If they realize that a complete absence of any controls or limitations over financial capital will leave them much more susceptible to financial crises, and perhaps even increase the inevitability of such crises, then they would surely be prepared to place a limit on financial liberalization. Many countries have yet to be convinced that financial and currency crises are a function of the free flow of capital, and instead believe that they are a product of inconsistent adoption of neo-liberal policies and the Washington Consensus. The role of the Asian financial crisis may mark the beginning of a shift in this regard, as it will be increasingly difficult for the IMF or the United States to blame each new crisis on "poor" economic policies or 'crony capitalism', as they have in the past. In light of this, it seems difficult to imagine increased financial liberalism to be a sustainable trend in the long run.

The almost certain financial crises that will erupt, with ripple effects around the world, provide the opportunity for the Left to organize and build an alternative strategy and set of economic proposals around the idea of capital controls. The development and promotion of a well-developed alternative involving capital controls would be seen as filled with foresight and brilliance shortly after a painful financial crisis, much the same as were progressive economic policies following the Great Depression and WWII. The Left should not wait and react defensively to crises as they appear, but anticipate them and be ready with an alternative for when these do appear. To do otherwise is to fail to adequately challenge the neo-liberal project.

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[38] This observation has been made by Crotty and Epstein, "In Defence of Capital Controls," 121, 142-3, who also warn that the threat is often highly exaggerated.

The existing personnel and institutions that manage the state and coordinate policies on an international basis pose several problems to the Left implementing capital controls. One problem is that whenever there is a crisis, the crisis managers tend to be economists, bankers, lawyers, financial regulators and other professionals who have been trained and tend to think in terms of neo-classical economics.[39] Secondly, some institutions and international agreements have bans or strict limits to the implementation of capital controls and many of those that do not have such bans have increasingly put the removal of financial regulations on the agenda. Examples include the Maastricht Treaty, NAFTA, the 1984 Japan-U.S. agreement, and recent IMF plans, momentarily shelved, to make the adoption of capital controls only allowable in extreme emergency situations.[40] Therefore, even if the Left does come to power on a platform that involves capital controls and progressive economic policies, it will find that the implements it has to achieve its aims are all endemically neo-liberal. This is a hurdle not easily overcome, though it serves to illustrate the critical need for the Left to have a well-developed plan in advance of coming to power, rather than trying to design one afterward.

The existence of transnational agreements poses a threat not only to the adoption of capital controls, but to their continued existence once they have been adopted. For example, it is imaginable that the U.S. might request a removal of capital controls from Latin American countries as a prerequisite to being accepted within NAFTA. Progressive economic strategy then must challenge international agreements, many of which are

[39] Moran, *The Financial Services Revolution*, 33-43, chronicles the rise and interconnectedness of these professionals, who played a strong role in the major financial regulatory changes that occurred from the 1960s to the 1980s.

[40] Wade, "The Coming Fight over Capital Flows," 47; Akyüz, "Taming International Finance," 64; Leslie Elliot Armijo and David Felix, *Reform of the Global Financial Architecture: Who Wants What and Why?* Paper presented at the Annual Meeting of the APSA, Atlanta, GA., 2-5 September 1999, 15.

designed for the primary purpose of institutionalizing neo-liberal economic policies, and seek to have them radically revised, abolished, or superceded by progressive agreements. For a Leftist strategy to be successful then, it would seem that such agreements would have to be attacked multilaterally as unilateral demands for revisiting them are unlikely to be taken seriously.

A pitfall for the Left lies in the moment when progressive demands for capital controls and other policies attain sufficient popularity for capital interests to take them seriously. The danger lies in the potential for conservative interests to hijack the debate and implement moderate or even illusionary reforms as a means of stalling progressive demands and co-opting members of the Left into the neo-liberal project. The incorporation of labour into the "Golden Age" welfare state or to the degree it has happened with the current neo-liberal project of globalization or labour's support of increased economic integration in the EU all serve as good examples.[41] The co-option of much of the Left and labour is a particularly relevant current danger if international organizations, such as the IMF, agree to initiate discussions with labour and various NGOs with the intention of only superficially taking their interests into consideration. The Left could very well find itself in the self-defeating position of defending such international organizations while seeing their interests only minimally and temporarily addressed. This would be another illustration of why adoption of capital controls or any progressive policies must always be focused on as the means to achieve further change rather than a policy end.

[41] See Gerard Greenfield, "The ICFTU and the Politics of Compromise," in *Rising From the Ashes? Labor in the Age of "Global" Capitalism*, ed. E. M. Wood, P. Meiksins and M. Yates (New York: Monthly Review Press, 1998). For a look at labour in Europe, see Streeck, "The Social Dimension of the European Economy."

The pitfall of having a progressive strategy hijacked by the Right is a particularly real danger when considering that capital controls could be implemented by the capitalists themselves as a form of investor bail out. George Soros, for example, has argued in favour of an international insurance scheme run under the IMF that would be designed to "soften" speculative currency crises by guaranteeing private loans, up to a certain amount, that are made to countries.[42] A main purpose of this other than to facilitate a degree of state subsidization of speculator losses is, as Soros explains, to prevent or "head off" the adoption of more restrictive capital controls such as those implemented by Malaysia in response to the recent Asian financial crisis. One could imagine a popular campaign by the Left arousing awareness of and support for capital controls, only to have political elites respond by adopting proposals that are far from what the Left had intentioned.

What Kind of Capital Controls?

There are numerous proposals for reform of the global financial system. Of particular interest to the Left, I have argued, are those policies advocated by 'financial stabilizers', to use Armijo and Felix's term.[43] Such policies seek to restrain the ability of financial capital to move relatively unhindered, in turn limiting financial crises that such capital movement causes and allowing countries to pursue relatively autonomous macroeconomic policies. Several likely options for the adoption of capital controls exist and are examined; these include a Security Transfer Excise Tax (STET) or "Tobin tax", Chile's model of restrictions on capital inflows, and a stabilized exchanged rate system with 'soft margins'.

[42] George Soros, "Capitalism's Last Chance?" *Foreign Policy* n.s. 113 (Winter 1998-99): 61-4.
[43] Discussed in Armijo and Felix, *Reform of the Global Financial Architecture*.

One option is an internationally coordinated transactions tax or "Tobin Tax".[44] It is an internationally levied small percentage tax on all foreign exchange transactions and is designed to discourage short-term speculation while still allowing longer-term efficient flows of capital. While a tax of this sort would certainly be superior to having no tax at all, several problems would present themselves if such a tax were to be adopted as the central type of capital controls adopted by the Left. The first limitation is that it must be levied globally or at least in all major financial sectors worldwide or else capital is likely to flow toward untaxed locales thus undermining its usefulness. As well, it still cannot prevent massive outflows of capital causing a financial crisis. A final important aspect is that the tax is small, thus only hindering short-term speculative capital flows, which will still continue to work against "ill-advised" (i.e. non-neo-liberal) policies. Hence, although the tax can be considered desirable, it operates in conjunction with the financial market and does not at all go far enough in preventing the destabilizing effects of speculative capital.

One possible option is to look at ways to stabilize the exchange rate system through the establishment of target zones or 'soft margins' whereby wide margins (for example plus and minus 10 percent) are allowed within which the currency must fluctuate.[45] This allows for relative flexibility for the currency to absorb shocks but sets a limit to the impact of such shocks. It is unsure if such a proposal would work because it would have to be enforced by governments and regarded as credible by the markets. Also, this would have to be coordinated on a multilateral basis in order to work. Exchange rate stabilization

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[44] Tobin, "A Proposal for International Monetary Reform" and Summers and Summers, "When Financial Markets Work too Well" have proposed such a tax while Crotty and Epstein, "In Defence of Capital Controls," 137-8 have discussed its limitations.

[45] Discussed by Akyüz, "Taming International Finance," 79-83; a similar idea is proposed by John Grieve Smith, "A New Bretton Woods: Reforming the Global Financial System," in *Global Instability: The Political Economy of World Economic Governance*, ed. J. Michie and J. G. Smith (London: Routledge, 1999), 238-40.

seems to be an attractive option as it inhibits destabilizing financial crises and allows for greater economic autonomy.

The Chilean model of capital controls[46] only applies to capital inflows, based on the realization that inflows must precede destabilizing outflows. Until very recently, Chile imposed a tax on bank lending to non-residents; borrowers had to place a portion of the loan, proportional to its size, in a non-interest bearing account. The higher the interest rate that exists, the higher is the foregone interest and the higher would be the overall tax. This type of system inhibits short-term speculative flows since capital must be invested in the country for a period sufficient to enough recoup the losses accrued due to the tax. Problems with this tax are that it is somewhat easy to evade; local residents can borrow from a local bank and lend to a foreigner. Also, in the event of a major crisis, capital can still flee, leading to a significant decline in the value of the currency. While its adoption elsewhere would be positive, the Chilean model does not go far enough in subjecting capital to limits.

Some forms of regional cooperation can exist as elements of a strategy as well. Wade and Veneroso, for example, have called for a regional strategy for Asia as way of preventing future crises.[47] Three components of this regional strategy are advanced. The first is the development of an Asian Monetary Fund (AMF), along the lines of the one that Japan had unsuccessfully proposed early into the crisis. The second would involve pegging each of the Asian currencies to a yen-dominated basket of currencies that would allow some flexibility but limit drastic shifts in value. The third element would be

[46] Discussed in Crotty and Epstein, "In Defence of Capital Controls," 139; Bhaduri, "Implications of Macroeconomic Theory," 157-8; Stephany Griffith-Jones, *Global Capital Flows* (New York: St. Martin's Press, 1998), 49-51.

[47] Wade and Veneroso, "The Gathering World Slump."

adoption of Chilean-style capital controls. All these would be plausible and could facilitate progressive policies in the East, but such a regional strategy could not be used everywhere. For example, Canada's only realistic geographic choice in adopting a regional progressive strategy would be the U.S. or possibly a Latin American country and, based on U.S. policy, this is extremely unlikely to facilitate progressive economic policies.

Depending on the type and on the strength of capital controls, they could have the potential of raising funds that could be used for domestic purposes. This is particularly relevant for tax-based capital controls, which could potentially take the form as a progressive tax that is levied on speculators and those with greater incomes or wealth. Naturally, there is no way to determine how revenues from such tax-based capital controls would be allocated after they are received by governments, though their contribution into government coffers makes sense as it is the government that will be required to intervene in the event of an economic crisis or a run on the currency.

Designing and Promoting a Left Alternative Strategy

The current viability of capital controls has been vastly increased in light of the Asian financial crisis, as the IMF and its policies have been considerably discredited while Japan has become tacitly supportive of capital controls in other Asian countries.[48] The actions and policies, particularly the restrictions on the free flow of capital, of China, India, and Malaysia, and to some degree, Taiwan and Hong Kong, have clearly been influential in this shift, illustrating both the strong effect that a crisis can have and the potential popularity of capital controls that can result if at least several countries take them seriously. While a strategy of the Left must include capital controls, these cannot represent

an end in terms of a policy objective. Rather capital controls really must represent a beginning point of a greater strategy that seeks to further reduce the exploitative power of capital. The fact that many neo-liberals have suggested the adoption of some form of capital controls indicates that they are far from ever fundamentally challenging the capitalist system. Capital controls, however, are likely to weaken the domestic alliance of industrial and financial capital and allow for greater policy autonomy on a national basis; this merely provides an opening in which policies of the Left can be furthered but are, by no means, Left in and of themselves.

The first part of selling the strategy of capital controls as a strategy of the Left will have to be to the Left itself. This will likely require a countering of the Third Way fad and variations of it that have been pervasive in social democratic parties as of late. To some degree, the moderation of social democrats and acceptance of neo-liberal dictums can be traced to the power of domestic capital and their relative weakness and timidity in being able to challenge this power. Inevitably, the Third Way will suffer a backlash from its supporters when it finds that it is unable to deliver both progressive social policy and liberal economic policies. And any re-evaluation of social democratic party policies can only lead to a leftward shift as such parties have likely moved as far to the right as is politically possible for social democrats.

An alternative discourse must be articulated from that used quite successfully by the neo-liberals; ideas and economic policies are always argued in instrumental terms and with loaded terminology.[49] The Left, instead of defensively debating policy on the

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[48] Wade, "The Coming Fight over Capital Flows," 45, 48.

[49] See Sam Gindin, "Notes on Labor at the End of the Century: Starting Over?" in *Rising From the Ashes? Labor in the Age of "Global" Capitalism*, ed. E. M. Wood, P. Meiksins and M. Yates (New York: Monthly Review Press, 1998), 191-3 and Gregory Albo, "A World Market of Opportunities? Capitalist

grounds of competitiveness, growth, and efficiency, needs to center its arguments on democracy, empowerment, and ecological sustainability before it can successfully advance a socialist alternative. The neo-liberal ideology was successfully sold not because it won a debate with the Left, but rather because it was able to switch the topic and language of the debate.

Changing the debate is crucial for the success of changing the policy agenda. Many of those on the Left are calling for a reduction of global free trade and a return to tariffs, as many of the supposed benefits of free trade are believed to be mythical. Global free trade, as it is propounded by neo-liberals, is indeed based on a large degree of trumpeting about the incredible benefits, for which the empirical evidence is sketchy, accorded to all through comparative advantages, economies of scale, and efficient market equilibriums. Neo-liberal arguments, even if free trade does produce economic growth, ignore the negative consequences of trade, including the loss of capital that is based domestically, downward pressure on labour and environmental standards through regime competition, and greater susceptibility to economic recessions and crises in other countries. Furthermore, as argued earlier on in this paper, free trade allows domestic industrial capital to internationalize, making it less dependent on the domestic market and more likely to side with the financial industry in promoting financial liberalization.

Crotty and Epstein have identified additional consequences of free trade, which act to undermine full employment policies.[50] Their argument is that the increased income due to full employment will result in an increase in imports, thereby reducing the balance of trade. As this occurs, the positive multiplier effect of expansionary government policy will

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Obstacles and Left Economic Policy," in *The Socialist Register 1997*, ed. L. Panitch (London: Merlin Press, 1997), 28, 31 on arguments about competitiveness, democracy, free trade and protectionism.

be reduced, the exchange rate will likely fall – potentially causing an outflow of speculative capital – and economic growth and wage levels may be hurt. All of these factors would work to undermine the effectiveness of and the political support for full employment policies. The negative impact of free trade shows that, even with relatively successful capital controls, a full employment policy could still be undermined by the workings of capital. As a result, the Left must also look at challenging free trade as part of the development of a progressive economic strategy.

Free trade is perhaps the holiest of neo-liberal dogmas and successfully challenging it will not be accomplished very easily. A challenge against free trade will also require the development of an alternative economic model. For example, if governments increase protectionist barriers to redevelop their domestic economies, a way must be found to compensate underdeveloped countries, many of whose economic strategies currently depend upon trying to sell into the wealthy capitalist markets. The Left must be able to articulate responses to such worries; in this case, perhaps a certain proportion of tariffs collected could go into an international development fund that could assist in economic development, but without the current adjustment programs often required by current international institutions offering assistance or loans such as the IMF. Third world debt forgiveness is also an option that has oft been promoted as a progressive strategy.

Crotty and Epstein argue that battling free trade must start with a defense, that takes the form of resistance and challenges to NAFTA, the EU, the WTO, the IMF and other multinational institutions.[51] This argument can only be taken so far, however. Before the Left can work transnationally on promoting a global alternative, such as global capital

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[50] Crotty and Epstein, "In Defence of Capital Controls," 132.
[51] Crotty and Epstein, "In Defence of Capital Controls," 136-7.

controls or positive engagement of international institutions, it must start small, building national movements in each state. Gindin has pointed out that it makes little sense to work toward some sort of transnational strategy or to lobby and negotiate with international institutions when many national movements remain relatively weak; building strong national movements first will give any transnational movements the bargaining power they need if and when they are built.[52]

Building movements, challenging the status quo, and changing the agenda to open the way for further progressive policies provide massive challenges and struggles for the road ahead. Some of the successes along the way will provide opportunities for the wealth of Left policies that can be implemented beyond those discussed thus far in this paper. Community-based alternatives and planning, such as the establishment of community job boards, are particularly attractive and powerful ideas that can be advanced.[53] The Left should look at reducing the length of the workday, promoting greater opportunities to further democratization, empowering victims of poverty and inequality, and facilitate ecologically sustainable economic activity. It is the implementation of these types of policies that will be most abetted by the implementation of substantial capital controls and trade restrictions.

Conclusion

Progressive economic policies have been made much more difficult with financial liberalization. The Bretton Woods regime that allowed for full employment policies also mandated the internationalization of trade that led to its own demise. Free trade, in turn,

[52] Gindin, "Notes on Labor," 201-2.
[53] Gindin, "Notes on Labor," 199-201; Albo, "A World Market of Opportunities?" 37-38.

allowed domestic industrial capital to internationalize, making it both more powerful and more supportive of financial liberalization. Its political alliance with domestic financial interests helped to promote neo-liberal ideology and successfully revolt to diminish the rights of labour, putting the Left in a defensive position and in a crisis of strategy.

The current ability of financial capital to flow relatively freely between states, subjecting those states to pressures and crises unjustly harms its citizens and, at its core, amounts to state subsidization of capital. In addition, it is completely counter to the socialist goal of increased democratization and rather strengthens the power of capital over labour. As a result, the Left must adopt and promote capital controls as one component of an overall progressive economic strategy to the current economic regime. Along with limits on international free trade and a challenging of core neo-liberal tenets and rhetoric, this would facilitate the ability of the Left to advance core ideals such as democratization, egalitarianism, and ecological sustainability.

The implementation of capital controls and a shift in the current agenda will clearly not result without the winning of some very crucial struggles. Nevertheless, the use of capital controls to restrict the free flow of financial capital appears to have somewhat greater plausibility today than might have been the case anytime in the last fifteen or so years. The Left needs to increasingly focus on building national movements to challenge capital at every turn and ultimately advance the position of society against that of the capitalist elite.

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