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## GLOBALISATION, UNIONS AND THE DEMISE OF THE LABOURIST PROJECT

Thomas Bramble

Recent experience of labour or social democratic governments around the world suggests a clear rightward shift in their policies and practice. Why is this the case? In this article, I suggest that this trend is part of a longer-term problem arising out of the historical exhaustion of the social democratic project in an era of internationalised capital accumulation and economic stagnation. The article critically examines various ways in which the changing relationship between capital and state can be understood and its implications for the classical social democratic project. The arguments of the globalisation theorists and their social democratic critics are considered before moving onto a Marxist approach based on the work of British and Australian writers Chris Harman and Dick Bryan, who have (independently) sought to elucidate the crucial features of the new world order as regards state-capital relations. The article argues that increased international integration has led to a weakening of state sovereignty and the reformist project in their old forms, but that this does not mean that social democracy (or labourism) within the Australian working class is close to extinction.

### Social Democracy Past and Present

It is important first to differentiate between *social democracy* and the classical *social democratic project*. The mass basis for *social democracy* is the recognition by workers of differences between labour and capital and thus of a consciousness of class differences, but also the belief that these differences can be managed, to mutual benefit, within the context

of national government. Social democracy is particularly strong where workers aspire to achieve improvements in their conditions of life but look to established agencies of political rule to carry these out. Mass action may be used, but only as a tool or tactic, not as the first step of an insurrectionary strategy posing the potential for working class self-emancipation. Within modern capitalism, social democratic sentiment is expressed politically through the agency of the labour movement leadership (in the Australian case, the leadership of the ALP and ACTU). Although there are a variety of differences between basic forms of Anglo-Australasian labourism and ideal-typical Scandinavian social democracy, such differences are not fundamental and nor do they materially affect the argument in this article. Both forms of reformism follow the same broad lines and both may be contrasted with the rival working-class current of revolutionary Marxism. The terms social democracy, labourism and reformism are therefore used interchangeably in what follows.

It is this social democratic leadership that develops the programme and seeks to implement the *social democratic project*, which involves managing the state in such a way as to minimise class antagonisms while also effecting, if possible, improvements in working-class living standards. In the post-war decades, the social democratic project involved the idea:

- that the state has an important welfarist or redistributive role in the economy, and that this requires relatively high levels of taxation;
- that workers will not push wage demands 'too far', and they will confine their strategic perspective to a reform of capitalism not its abolition, in exchange for high levels of social security provision; and
- that employers will accept full employment and intervention by governments to achieve this goal.

In its more developed Scandinavian forms, the social democratic project involved:

- considerable workplace co-determination;
- active labour market policy and indicative planning; and

- “solidaristic” wages policies, by which higher paid, skilled workers curbed their wage demands in order to raise minimum wages for low-skilled workers.

Critically to this article, the social democratic project is inherently nationalist, and labour movement nationalism has historically been based on the notion that workers' interests are tied to the economic and military needs of the domestic state. This feature has resulted from the close connections between the growth of the working class and the expansion of the national productive forces and national market in the two golden ages of reformism. The first of these was the period from 1890 to 1914, which was characterised by the legalisation of German social democracy and the establishment of labour parties in several European countries as well as Australasia during a period of rapid but uneven union growth. The second golden age was the 30-year period after the end of World War Two when social democratic governments were in office or close to power in national or regional governments in Scandinavia, Holland, Britain, West Germany, Austria and Australasia.

Certainly, the Australian labourist project has been intimately bound up with nationalism, with the ALP since its inception being the most ardently nationalist of all Australia's mainstream parties.<sup>1</sup> The turn of the century Deakinite settlement of arbitration, protectionism and White Australia was promoted by the ALP and cemented in place what was to become 70 years of close relations between labourism and the state, with the state providing the infrastructure within which private capital was relatively unfettered in its pursuit of opportunities for expansion.

The golden ages of reformism are now gone, and the past two decades have been notable for the collapse of the national reformist project. Social democratic governments in France, Spain, Greece, Australasia and even Sweden have delivered us into an era of ‘reformism without reforms’ and have been duly punished by their working-class support base. Even in opposition, social democratic parties continue to adhere to the same policies that discredited them while in government.

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<sup>1</sup> Kuhn (1996) has also made this case with reference to the ALP's foreign policy over the course of the 20th century.

Why has this occurred? We might point to the triumph of rightist factions in the social democratic parties of Australia, New Zealand or Britain, but this still does not answer the question of why such factions won out. We might look to the low levels of industrial and political mobilisation by workers in Western Europe, North America and Australasia since the mid-1970s. Undoubtedly, low levels of working class self activity and the decline of combativeness and membership of most union movements have assisted this process, just as they did during a similar conservative shift in western labour movements at the height of the Great Depression. However, one of the most significant factors is the undermining of the nationalist basis of the reformist project itself. This is a long-term phenomenon which is occurring in the context of a steady but substantial weakening of corporate profitability, the mainspring of economic vitality in the advanced Western nations.<sup>2</sup> In what follows I consider current trends affecting the viability of the national social democratic project before returning to the implications of these trends for social democracy itself.

### Rival Interpretations of Current Trends

There are three rival interpretations of current trends in state-capital relations in the current era - one based on the strong variant of the globalisation hypothesis ('the nation state is dead: the social democratic project is dead'); the second based on social democratic criticisms of this hypothesis ('the nation state can play a role in international governance: the social democratic project can be renovated'); and the third based on a Marxist analysis ('the role of the nation state is still crucial but the social democratic project is in steady decline').

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2 See Harman (1993: 9-15) for a summary of the data from the major OECD powers and EPAC (1988) for evidence of the same phenomenon in Australia. Harman provides graphs indicating a sharp decline in the US profit rate from 18% in the early 1950s to 7% in 1970, followed by fluctuations around this figure. The return on capital in the European Community fell continuously from 1960 to 1980, from 13% to 4%, at which point it stabilised. Although different methods of calculation would provide different absolute figures, the overall trend is clear.

**“The Social Democratic Project is Dead: Long Live Globalism!”**

To the extent that the social democratic project required state management or influence over corporations which were domestically-based and, outside parts of Northern Europe, fundamentally oriented to the home market, it is argued (either explicitly or implicitly) by globalisation theorists that the social democratic project is now dead (Ohmae, 1990 and 1996; Julius, 1990; Dicken, 1992; Horsman and Marshall, 1994). A brief review of some of the data will indicate the challenge to existing regulatory institutions which formed the bedrock of the reformist project.

Since about 1960 there has occurred a rapid expansion of international trade and finance, and with it growing international integration of production by means of multinational corporations (MNCs). Foreign direct investment (FDI) has grown alongside international trade and, since 1985, at a faster rate (Hirst and Thompson, 1996: 54-55). In 1995 alone worldwide FDI increased by 40 per cent to \$400 billion (*World Investment Report 1996*). Australia is solidly implicated in this process, as exports and stocks of FDI have grown sharply over the past fifteen years at an annual rate of just a shade under 20%.

MNCs, which are usually large companies based in one home site but with productive operations in at least two or three other major markets, play a fundamental role in world trade. Hirst and Thompson (1996: 53) cite figures from the 1993 UN World Investment Report that suggest that there are 24,000 MNCs operating out of 14 major developed OECD countries. Eighty per cent of US international trade is conducted by MNCs, and this figure is in line with figures for most other developed countries. In 1990, the largest 100 MNCs accounted for one-third of total stock of FDI and 14 per cent of the flow in that year (Hirst and Thompson, 1996: 53). Further, it is not just the MNCs that are responsible for intensification of international linkages but also the networked Chinese family enterprises in SE Asia, together with strategic alliances and networks of subcontractors involving other small and medium-sized firms.

Internationalisation of trade relates not just to production chains in, for example, the vehicle industry, but also to activity in the burgeoning

services sector, with companies specialising in professional services such as property management, hotel management, and business consultancy, tourism, education and the media sectors all becoming significant players in the field (V. Taylor, 1996: 2-3). It is amongst the banks and non-bank financial institutions, however, that internationalisation trends are most evident. The financial sector is awash with billions of relatively footloose dollars which course through the world's foreign exchange and bond markets. Such flows heavily restrict the ability of central banks or national governments to significantly affect exchange rates for any prolonged period.

Globalisation theorists use these data to suggest that we are proceeding beyond the stage of internationalisation characteristic of the 1960s and 1970s towards a truly globalised system of production, trade and exchange. Such globalisation can be understood as taking economic, political and cultural forms, as illustrated in Table 1. In this article I concentrate on the economic and political forms.

**Table 1: Dimensions of Globalisation**

DIMENSION	HISTORICAL TRENDS	IDEOLOGICAL INTERPRETATIONS
ECONOMIC	Expansion of capital, labour and trade markets	Economic globalisation demands competitiveness and efficiency of domestic industries without state regulation
POLITICAL	Mobilisation of organisations, groups and forces beyond state jurisdiction and efficacy	Political globalisation neutralises state policies and necessitates tariff reductions, labour market deregulation and economic rationalism
CULTURAL	Development of means of communications and information technology encouraging transmission of ideas and information	Cultural globalisation encourages international best practice, new production systems, HRM and flexible specialisation

Source: Hall and Harley (1995).

As a result of this apparent shift towards a globalised world system, globalisation theorists assert that capital is more detached from the nation state and more disconnected from a national identity than at any time in history. The implication is that any notion that social democracy can capture the state and exercise significant leverage over key economic flows is bankrupt. Such conclusions are drawn not just by rightist business consultants (Ohmae, 1990; 1996) and political scientists (Catley, 1996), but also by social democrats such as Reich (1992), Jessop (1990), and Marxists, such as Harris (1991: 80-81), who argues that:

The role of the state is being changed, from representing a national society and capital to the world (the old corporatist 'social democratic' alliance of state, business and labour in Britain), to enforcing on the domestic economy and society the imperatives of a global economy; from promoting the interests of domestic capital to seeking to capture and keep a share of global capital; from managing a relatively diversified and supposedly autonomous national economy to managing flows of goods and services which start and end far beyond the authority, or even the knowledge of the state ... It is this major material change which has destroyed the agenda of the left.

In practice, this interpretation suggests that governments are now required to develop inviting domestic environments of low taxes, effective infrastructure, and well-educated but docile labour in the name of 'competitive advantage', to enable maximum opportunities for profit making in order to attract footloose MNCs (this case is argued forcefully in Australia by the Bureau of Industry Economics, 1993). These trends are strongly encouraged by the key agencies of internationalised capitalism, the IMF and World Bank, which urge the dismantling of all remnants of previous nationalist policies of import substitution and state planning to permit unfettered access by Western banks and international credit flows.

In the globalisation scenario of footloose capital and stateless corporations, peak unions groups such as the International Metalworkers Federation and the International Confederation of Free Trade Unions (ICFTU) are concerned that labour (which is relatively fixed in time and space) is placed at a distinct disadvantage. In the private sector, labour

faces at least two sets of problems. First, strong unionism and aggressive wage demands can generate strong resistance by companies or even capital flight.<sup>3</sup> Second, globalised companies may subcontract functions to take advantage of cheap but highly skilled labour power in India, parts of Latin America, Eastern Europe and the former Soviet Union. Both factors give capital strong bargaining leverage in negotiations with organised labour in high wage countries. Unions also face the problem that low-tax regimes designed to attract mobile capital means little or no capacity to reward public-sector employees. Finally, the political power of unionism is undermined by the preference of the IMF, OECD and World Bank not just for the dismantling of tariffs but also the weakening of collective bargaining. In the view of the globalisation theorists, it is the combination of these factors that help explain the collapse of the traditional social democratic project.

**“Globalisation is Overblown: the Social Democratic Project can be Renovated at an International Level”**

A second interpretation of current trends is based on a social democratic perspective, best exemplified by Hirst and Thompson (1996), who suggest that (i) the globalisation hypothesis is much exaggerated, (ii) the state is still able to exercise significant power over economic activity within its relevant national space and (iii) there is therefore scope for the social democratic project to be renovated, but at the international level. These arguments are now taken in turn.

**(i) Globalisation is exaggerated**

Hirst and Thompson question first the extent to which international flows are leading to genuine globalisation, rather than simply further internationalisation. In the US, for example, the ratio of exports to GDP in 1994 was still 10%, just as it was in 1980, whereas in Japan, the ratio actually fell from 12% to 9% over the same period (Hirst and Thompson,

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3 See Cooke's unpublished 1995 report (cited in Frenkel and Royal, 1996) for evidence on the desire of US multinationals to locate in countries where unions are weak, and where wide use of management prerogative is accepted.

1996: 128). Trade flows have become more concentrated in the past 20 years, rather than more dispersed: 80% of world trade and investment flows is now accounted for by the OECD (Hirst and Thompson, 1996: 196). In the early 1990s three-quarters of total world overseas investment was concentrated in North America, Western Europe and Japan (Hirst and Thompson, 1996: 63), with the ten most important developing countries accounting for 16.5%, the rest of the world (with approximately two-thirds of the world's population) receiving only 8.5% (Hirst and Thompson, 1996: 68).<sup>4</sup>

As for multinationals, it is clear that there are relatively few genuinely *transnational* corporations (Hirst and Thompson, 1996: 95). Almost all MNCs from the US and Japan are locked into their home base, which accounts for a dominant share of these companies' assets, employment, R&D, and management headquarters (see Table 2). The situation is somewhat different in the case of Germany and Britain - German MNCs now have extensive assets and sales in neighbouring countries, whereas British capital has long had an important stake in the American and ex-Dominion markets. In no case, however, do MNCs range freely around the world, but concentrate their investments in a handful of advanced and newly industrialising countries, taking advantage of access to major markets and the presence of large numbers of skilled workers, which compensate for higher wage costs.

A further point established by the critics of globalisation is that globalisation theorists have short memories. If international integration is the key, Hirst and Thompson (1996: 30) argue, the British Empire of the late 19th century was the most globalised entity that the world has seen. They also argue that the Gold Standard regime of 1879-1914 allowed less autonomy to nation states than do international capital flows today. This earlier period also saw proportionately greater flows of migrants than in recent decades, which have seen not the globalisation of labour flows but their tighter restriction (Hirst and Thompson, 1996: 26). Hirst and Thompson also argue that capital has been free to move internationally since telegrams were developed in the late 19th century.

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4 See also the UN's *World Investment Report 1996* for the most recent data on investment flows.

All these phenomena indicate that 'globalisation' is not a new feature on the world scene, and nor is it something that cannot be reversed.

**Table 2: Proportion of MNC Sales and Assets (Manufacturing and Service Industries) Located in Home Country, 1992**

	Manufacturing		Services	
	Assets (%)	Sales (%)	Assets (%)	Sales (%)
US	70	64	74	75
Japan	97	75	92	77
Britain	39	36	61	61

Source: Hirst and Thompson, 1996: 91-94.

In summary, social democratic critics of globalisation accept that flows of production and finance have increased over the past 35 years, but contend that the result is not a globalised world, but an *internationalising* world with continuing national differences (Hirst and Thompson, 1996: 16). Crucially, then, we are not therefore yet at a stage of *ungovernability*.

**(ii) States retain their power to intervene: Possibilities from East Asia**

The possibilities for governance are demonstrated by globalisation critics such as Hirst and Thompson by reference to already existing forms of international governance of trade and investment flows. Weiss (1996), by contrast, focuses not on relations between the economic superpowers, the chief concern of these writers, but on internal relations between state and capital in the East Asian economic 'tigers'. Weiss compares the Asian state-capital partnership favourably to that evident in many Western countries besotted by economic rationalism. She suggests that the emphasis of globalisation theorists on the Anglo-American bastions of neo-liberalism overlooks the fact that the failure of governments in these countries to do much to foster national economic development is a product more of their intellectual biases than a genuine incapacity to intervene. Weiss suggests that the impotence that Anglo-American governments experience is part fact, in that the fiscal difficulties arising

out of long-term weakening of profitability in the corporate sector in the context of 20 years of economic uncertainty leave them little room to manoeuvre. However, she argues, most of their fiscal difficulties arise from government strategies to cut taxes, not because of globalisation *per se*. Neo-liberal governments use the pressure of 'globalisation' as a rationale for their strategy of TINA ('there is no alternative') (Weiss, 1996).

In contrast to such examples of governmental paralysis, Weiss and Hobson (1995) point to Japan and other East Asian states ('developmental states') which have actively pursued industrial growth plans. Such governments do govern effectively on capitalist criteria by using 'institutions of good governance' capable of mobilising high rates of domestic saving and investment, thereby enabling such societies to shift from low-wage industrialisation to capital-intensive production. Close government-business relations ensure that the government role is seen as legitimate and there is routine cooperation between government and business (Bierling and Murray, 1995). Weiss and Hobson (1995) conclude from their comparison of Anglo-American and East Asian societies that there are varieties of state capacity, that domestic institutions can make a difference, and that the ability of the state to intervene in western societies is not therefore self-evidently destroyed by increased global capital flows.

### (iii) The social democratic project can be renovated

- Having made the case that states can still play a significant role, Hirst and Thompson (Chapters 6-8) contend that the social democratic project can be renovated but at an international level. This may take two forms.

#### *Improved international governance*

Hirst and Thompson argue that governments should extend their present international summits into more systematic forms of ongoing economic cooperation which might take some combination of the following forms:

- through agreement between the major advanced states, and particularly the US, Germany and Japan;

- through a substantial number of states creating international regulatory agencies for some specific dimension of economic activity, like the World Trade Organisation;
- through the control of large economic areas by trade blocs such as the European Union (EU) or the North American Free Trade Area partnerships (NAFTA);
- through national-level policies that balance co-operation and competition between firms and the major social interests;
- through regional-level policies of providing collective services to industrial districts (Hirst and Thompson, 1996: 189).

With these in place, Hirst and Thompson (1996: 199-200) are confident that:

International co-ordination, governance by cooperation between the major trade blocs, and national-level mobilization in favour of such international objectives offer possibilities for creating a newly ordered and prosperous world economy.

### *Social clauses*

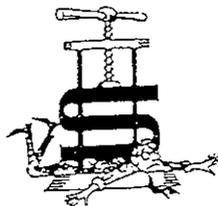
The push within social democratic circles for increased international governance is echoed within the labour movement by the call for social clauses to be inserted into the charters of international bodies such as NAFTA, the EU and APEC in addition to the provisions that already exist through the US and European governments' Generalised System of Preferences (Sengenberger and Campbell, 1994; Evatt Foundation, 1995; *Free Labour World*, 1996; R. Taylor, 1996). The fear is that Western governments may be driven to force down labour standards to those prevailing in Asian countries characterised by unions with low and declining membership coverage, limited power, little autonomy and highly stunted organisational capacity. Union supporters of social clauses seek to ensure that certain practices, such as child labour, slave labour, and military repression of unionism, will not be tolerated amongst participants of trading blocs, and that certain core labour standards will be enforced.

Thus, during negotiations over NAFTA, Canadian and US governments came under intense pressure from their respective union movements (and some employer groups) fearful of the impact of low-wage Mexican competition. Unions lobbied to ensure that labour standards were included in negotiations, leading to the signing of the North American Labor Co-operation Agreement by the three governments in 1994. Since this agreement was signed, unions in the three countries have developed stronger solidarity links campaigning (albeit with only moderate success) against employers seeking to play unions off against each other, against public-sector austerity plans, and against privatisation. In Australia, under pressure from the ACTU, the Keating Labor Government established a Tripartite Working Party on Labour Standards to consider the union case for labour standards to be promoted through APEC (McCreadie, 1995; Tripartite Working Party, 1996).

In summary, some social democrats believe that the social democratic project is capable of recovery but that to be successful will have to deal with the demands of an increasingly internationalised world economy.

**“The role of the state is crucial, but the social democratic project is in steady decline”**

Finally, we turn to a Marxist school of thought on the issue which agrees with much of the social democratic critique of globalisation but also believes that there is something ultimately unsatisfying about its analysis of recent developments in state-capital relations. In particular, it challenges the social democratic attempt to renovate the social democratic project in the international sphere and poses an alternative strategy for western labour movements.



**(i) A critical Review of the Attempt to Renovate the Social Democratic Project**

*The East Asian models*

First, we have to question the case that is made for "East Asian models" of state-capital relations, a project that is far too extensive to be more than touched upon here. Severe doubt must be cast on the idea that such societies represent a model which is free from many of the internal economic tensions and contradictions apparent in other regions during their periods of industrial take-off. First, and most obviously, Japan, the pioneer of this model, has entered into a state of economic stagnation after its phenomenal growth spurt ended in 1990. Second, there are the limits to East Asian growth that have been identified by Krugman (1994) and Young (1994). One of the most important of these is the fact that many of the resources that were extensively exploited in the early stages of industrial growth (for example, the exodus of labour from rural to urban areas) are now close to exhaustion in some of the more developed Asian societies (Hirst and Thompson, 1996: 112). In terms of the maturation of these economies and the move towards later generation technological methods of production, it is clear that most are still heavily dependent upon a newly resurgent US economy for new products and techniques. Stock market declines of between 10 and 25 per cent through 1996 in India, South Korea, and Thailand and stagnation in industrial output in Hong Kong and Taiwan (Financial Review, 24 October 1996) also point to internal problems in the area more generally.

Although it is true that East Asian states have developed quite different forms to those in most western countries, the differences between them are just as marked. The dependence of each country on factors ranging from US military expenditure and strategic location, to untapped rural resources, manufacturing growth vs. services growth, colonial linkages, and financial integration with Europe and North America has varied enormously. Further, strong economic growth patterns are generating quite different outcomes - Taiwan with a massive capital surplus, Thailand with yawning current account deficits. South Korea with the potential for rapid revival of its militant labour movement and two former presidents close to the hangman's noose, and Indonesia still being run by a familial kleptocracy. All illustrate the basic point that any

attempt to emulate the 'East Asian model' begs the question, *which* model?

Finally, we have to consider whether the East Asian model really represents a counter or a continuation of the globalisation model. The more advanced the state of industrial development, the more integrated that these states are into world economic flows of goods and capital, and the more contingent is state control of the domestic economy. The vast holdings of US Government debt in Japanese hands is an indicator both of the strength of the Japanese trading performance through the 1980s but also its increased vulnerability to decisions taken outside its control, in this case by the US Federal Reserve. Similarly, the flooding of the world market by South Korea's computer chip industry has contributed to a halving of chip prices in 1996 and thus to excess capacity and economic slowdown in South Korea itself.

Leaving aside the *economic* feasibility of replicating anything close to East Asian models in advanced Western states, there is the question of whether this is *politically* feasible or desirable. In the case of the former, it is clear that the political power of Asian governments in terms of disciplining nascent and relatively infant (or otherwise weakened) domestic capitalists in the post-war decades cannot be compared to government-business relations in societies such as Australia where private capital is in a much stronger position to dictate terms to the state. Nor, for that matter, is it likely that the ACTU will ever act as an adjunct to government quite as closely as its peers in Singapore, Indonesia or Malaysia. As to the *desirability* of such models for those on the Left, one only has to consider the fate of independent unionists in countries varying from Japan in the 1950s to Indonesia in the 1990s to cast doubt on the wisdom of social democrats switching attention from the long-term object of their affection, Sweden, to the East Asian miracle (Burkett and Hart-Landsberg, 1996). Whereas the former involved union intervention to a significant degree, East Asian growth was achieved without any input from, indeed the active suppression in many cases of, independent unionism.

*International governance*

If the East Asian models do not offer a useful way forward for western social democracy and perhaps only limited use for Western capitalists, what are the limits of calls for greater 'international governance'? First, it is clear from two decades of economic summits that such summits cannot successfully regulate the world economy. They resemble not supra-national decision making in the interests of globalised capital, but horse-trading sessions involving rival governments each pushing the interests of the dominant capitals located inside their borders (Harman, 1996: 21). Groupings of states can take concerted action on the occasions that their interests coincide. They can combine, for example, in demands that third countries open their markets to their products, or when the most powerful (most obviously, the US) browbeats the others into submission (Harman, 1996: 21). However, since APEC, for example, is not a single political entity but a collection of rival states, such groupings are usually shot through with conflict, and this is most evident in the military build-up in East and South-East Asia.

Even in the case of Europe, where certain supranational institutions exist and the prospect for international governance is most evident, such governance, in the context of economic stagnation, actually comprises the imposition of harsh and regressive demands by the most powerful capitalist states on the labour movements of the region. The Maastricht agreement and accompanying convergence criteria, for example, are driving austerity budgets across Europe. Many of these limitations are recognised by Hirst and Thompson in their consideration of the European experience, but because they are wilfully blind to the class nature of the European states, they believe forlornly that such obstacles can be overcome with an act of will on the part of governments (1996: 17; 74-75; 124-25; 164).

*Social clauses*

As for the third arm of the renovation of the social democratic project, the major problem for unionists with the strategy of social clauses is the unlikelihood that one's 'own' capitalists or their trading partners would unite sufficiently to agree to them. The more internationally-oriented Western blocs of capital are steadfastly opposed to any attempt to put

significant pressure on offending repressive or 'cheap labour' governments for fear of endangering trade access. The latter, as indicated in the 1995 Delhi Declaration by non-aligned and developing countries, are quite happy for their part to maintain their rigid repression of labour rights as they pursue a low-wage path of industrialisation. Most APEC countries have signed no more than three of the seven ILO conventions relating to core labour conditions (Tripartite Working Party, 1996: 102), and their attempts to repress labour activism in the 1990s as much as during the Cold War do not lend any support to the prospects of success in this matter.

Furthermore, it is not just the less developed countries that oppose social clauses. The report by the Tripartite Working Party made clear that Australian unionists are faced with the fact that even their 'own' Labor Government was opposed to the entire notion of conditionality ('placing strings'), whether in respect of social clauses (either within the World Trade Organisation (WTO) or APEC), the granting of foreign aid, or access to loans from the IMF and World Bank. Employer and Government representatives also declared against bans on the importation of products made using 'exploitative child labour' or prison labour. Other than vague commitments to action at governmental level at some future point, the only measures actively countenanced by the Committee were voluntary codes of conduct, product labelling and "consumer-driven measures" (Tripartite Working Party, 1996: ix-xii). Given the change of government and the consistent opposition of employer groups,<sup>5</sup> the prospects of success in this area have receded still further. This was clear at the December 1996 Singapore meeting of the WTO when the Australian government sided strongly with ASEAN and Indian governments in opposition to pressure by American and some European governments for the WTO to make a joint commitment to core labour standards (*The Australian*, 6 December 1996).

In the case of North America and the EU, most governments do officially support social clauses, resulting in the North American Labor Co-operation Agreement (NALCA), the Social Chapter Protocol of the Maastricht Treaty, and lobbying at the Marrakesh and Singapore

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5 See also Kennedy (1995).

meetings of the WTO in 1994 and 1996 (Tripartite Working Party, 1996: 9). In practice, however, beyond these documents and the occasional rhetorical flourish, intervention by the dominant sections of capital in all major western countries ensures that these clauses are so weak as to be almost worthless. NALCA, for example, does nothing to raise the standing or bargaining power of unions in any of the three partners, calling only on each government to abide by its own national labour laws! Even where collective bargaining rights are promoted, as in Europe, there is no genuine enforcement of such rights and it is only when unions are strong enough on the ground to turn formal legal rights into effective industrial rights that they become real. By contrast, the recent history of member governments has been to weaken union bargaining power either by direct legislative assault or large scale budget cutbacks. Outside Europe, unions are further hampered by the absence of any supra-national state institutions capable of enforcing minimum labour standards.

The fact that for most governments the commitment to social clauses is more cosmetic than real is clear from the de-linking of China's 'most favoured nation' (MFN) status from human rights considerations by the US Government in 1994 despite the country's notorious and well-documented abuses of labour, including massive use of prison labour. The subsequent re-ratification of China's MFN status in 1995 and 1996 only confirmed this basic point. This superficiality is also evident in the failure of peak union federations such as the International Metalworkers Federation and ICFTU to make any ground in their efforts to improve the standing and rigour of social clauses at various UN and OECD summits over the course of 1995 and 1996 (*IMF News* No.4, 1996; *Free Labour News*, January and April 1996).

## (ii) A Fresh Approach to State-Capital Relations

It is clear from this brief review that there are major problems with the first two schools of thought regarding state-capital relations. Both the first, which is premised on the globalisation of the world economy and the effective dissolution of the national state form, and the second, which is based on renovating state power at an international level, have proved either incapable of capturing what is really going on, or lead to utopian solutions. What then is the alternative? In what remains of this article, I

suggest that the world economy and state-capital relations clearly have changed in the past 20 years. These changes have brought us into a period where states still retain significant powers, while also losing others as capital shifts borders with increasing ease. We have moved out of the old world without arriving at a new one and the accompanying sense of transition is likely to be extremely prolonged and racked by contradiction, with conflicts between nations increasing rather than decreasing as nation states jockey for power. The argument that is put forward relies heavily on the work of Bryan and Harman who, while differing in their assessment of the extent of globalisation, agree in their general evaluation of the future role of the state and prospects for revival of the traditional social democratic programme.

### *Something is afoot*

It is important to reinforce the fact that something is afoot as regards relations between states and capitals in present conditions of long-term capitalist stagnation. We might consider the mania for privatisation and neo-liberalism which now appears strongly on the agenda even in the bulwarks of social democracy in Scandinavia (Wilks, 1996). We can observe the collapse of the state capitalist model in its extreme form in the former USSR and Eastern Europe, and in its less severe form in post-colonial societies such as Tanzania or India. Likewise the rejection by more recent 'liberation governments', such as Nicaragua and South Africa (and even Iran), of the state capitalist model pioneered by the USSR, and the ditching of this model by one of its last systematic exponents, Vietnam, suggests that major changes are occurring. An idealist interpretation might blame the influence of American-trained economists or, in Third World countries, of Western skullduggery. We might also point to some of the appalling state mismanagement in China or India. However, these contingent factors are not sufficient to explain a worldwide trend towards a dumping of nationalist forms of development and a changing role of the state. So what is going on?

### *State and capital: back to first principles*

To understand the particular nature of current state-capital relations, we have to return to first principles. As Marx argues in *Capital* Volume II, capital is not a bloc but takes three inter-connected forms, with each

process of capital accumulation requiring repeated changes from one form to another. The first form is *money capital* which is used to buy means of production, raw material and labour power. These constitute *productive capital*, which is then used in the production process to turn out commodities (*commodity capital*). These commodities are then exchanged for money, which is then used to buy a fresh round of raw materials and labour power, and so forth. Whereas money capital appears to be completely footloose, mature capitalism requires productive capital to subordinate commodity and money capital to itself, for only productive capital guarantees a growing pool of surplus value and with it the source of profits for capitalists of all sorts (Harman, 1991: 9).

Each form of capital has a different relationship with the state. Money capital has the least obvious relationship with the state. Gold, for example, could circulate in pre-capitalist societies regardless of state structures. However, *fiat* money requires national state backing to validate its worth. Commodity capital has some reliance on the state in terms of protection of trade and customs duties to assist local production, and productive capital has the greatest degree of dependence on the state as it requires state guarantees of its ownership of the means of production and state intervention to ensure a 'free' labour force.

Capitalist state structures have arisen to protect capital in its various forms, creating a structural interdependence between state and capital. States are obviously dependent upon capitals for the provision of tax revenues: if threatened, capital can move its liquid assets overseas. However, the willingness of capital to do so is highly conditioned by its interdependence with the state. Despite appearances, capital is not footloose, as movement from the protection of one state to another involves tremendous dislocation costs.

In the first half of the 20th century, the classic period of state capitalism, close relations between state and capital saw a tendency towards nationalist forms of economic development heavily backed by interventionist states. In the 1960s, however, trade between the major developed states began to increase markedly, thereby laying the basis for a renewed internationalisation of production. This latter point is critical: finance and trade have always shifted across national borders, as is pointed to by critics of the globalisation thesis. What is new is that some

production chains are being organised across borders in a manner far more sophisticated than occurred with the British Empire which simply integrated extractive industries into the production needs of the 'mother state'. The result of this international integration is that by the late 1980s most industries were required to work out strategies based upon buying up, merging with, or establishing strategic alliances with firms in other countries (Harman, 1991: 28). Thus the process of multi-nationalisation accelerated, and this has become particularly evident in industries with relatively high fixed costs, such as computers, cars, aircraft manufacture, construction equipment, and engineering. As might be expected, however, the process has gone furthest in the case of finance. These processes have been identified quite rightly by proponents of the globalisation thesis as indicative of significant trends.

There are, however, strong limits to the process of multi-nationalisation and global integration and thus to the plausibility of the globalisation thesis. The great majority of manufacturing corporations in the two major powers, the US and Japan, still have the majority of their assets concentrated in their home base which is at the same time their major market for goods and services. Thus companies are required to sustain long-term relations with their home states. They also have to develop good relations with host states as strategic business alliances are created not just to take advantage of economies of scale, but also to get access to national markets and national political influence. The result is that:

The giant company does not end its link with the state, but rather multiplies the number of states - and national capitalist networks - to which it is linked. The successor to state capitalism is not some non-state capitalism but rather a capitalism in which capitals rely on the state as much as ever, but try to spread out beyond it to form links with capitals tied to other states - perhaps best described as 'trans-state' capitalism. (Harman, 1991: 33).

The implication of this is that:

The regulatory function of the nation state is increasingly extra national, associated with the increasing international mobility of money and commodities, and the attempt by the nation state to

meet national policy objectives in the wider environment where capital moves (Bryan, 1996: 1).

The modern Western capitalist state is therefore forced to look both internally, to secure the domestic conditions of accumulation, including class relations, and externally, to integrate domestic accumulation into wider processes of international accumulation (Bryan, 1995a: 429).

*Crisis and contradiction in state-capital relations*

The need for individual capitalists to maintain close relations with nation states only increases as economic uncertainty becomes more evident. At the same time, however, the international scale of capitalist operations also places large integrated companies in a stronger position vis a vis the individual state. Hence the interest by states in creating regional blocs, most evidently the European Union, whose formation and development are testimony to the new dynamic. However, the old divisions between states continue to surface and new ones develop such that the international diversification of state interests into regional blocs does not foreshadow a new period of harmony, but prolonged conflict, as European wrangles over matters as prosaic as tainted beef draw the most ferocious verbal wars between national ministers.

According to Harman (1991: 47): "We have therefore moved beyond straightforward national state capitalism but are not yet in an era of either regional state capitalism nor of fully-fledged internationalisation". Harman argues that we have entered a 'messy half world', "in which there is free trade and protectionism, reliance on the state and cutting loose from the state, peaceful competition between multinational firms and military conflicts between states to which some of them are connected" (Harman, 1991: 47). This is what is meant by a transitional period and one which shows no signs of moving into a fresh period of stability. Indeed, political stability can only re-emerge in conditions of sustained economic upswing or if one state becomes strong enough to impose its will on all others (as in the Cold War). The former does not currently appear likely and the latter may only emerge in the aftermath of a third world war.

*Labourism in practice, 1983-96*

The political practice of the ALP Government of 1983-96 reflected underlying international trends in state-capital relations.<sup>6</sup> The Party in government clearly followed the international trend in social democracy towards the right and this was reflected in its fixation on the persistently high current account deficit. Given the failure of the floating exchange rate to solve the problem, the Government took measures to boost the trade balance to offset the persistently high deficit on income flows (the result of capital market liberalisation and the long-term failure of Australian business to generate sufficient funds domestically). This took the form of an obsession with 'competitiveness' whose key component was competition with other national working classes over rates of productivity, involving reductions in the price of labour power and increasing absolute and relative surplus value (Bryan, 1995b: 2).

Despite all the talk of deregulation and market rules, the Australian state under Hawke and Keating pursued an interventionist strategy based on boosting Australia's 'competitive advantage'. In the period from 1982-83 to 1989-90, state and federal governments paid out approximately \$7.3 billion to manufacturing industry in the form of bounties, subsidies for R&D, small business grants, infrastructure assistance, and assistance in tendering for local government contracts (figures derived from Bell, 1991: 127). This was in line with the long term growth of expenditure on industry assistance, from 0.17 per cent of GDP in 1978 to 0.38 per cent in 1990 (Bell, 1991: 127). Such assistance was aimed at improving Australian capital's terms of interaction with cycles of international accumulation. Thus the Government's obsession with the 'Clever Country', the expansion of secondary and tertiary education, benchmarking, workplace reform, and the focus on the 'big picture'.

Consequently "so-called deregulation has not left Australia's industry structure to the international market: on the contrary, state regulation has sought to sustain industry structure, but with an internationalised

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6 See Catley (1996) and Wiseman (1996) for two sharply contrasting recent overviews of Labor's record in office, both of which situate Labor's changing programme in the context of globalisation.

orientation" (Bryan, 1996: 10). Catley (1996) has also traced this process from the perspective of a participant and supporter.

A further feature of Labor in power (and one which tends to confirm the notion that the social democratic project is a spent force) was the failure of any left faction to seriously challenge the new agenda of labourism.<sup>7</sup> The conclusion drawn by the ALP from the failure of the more traditional social democratic agenda pursued in Victoria (1982-92) was that the Cain and Kirner Governments had been fiscally irresponsible, and in July 1996, the Victorian parliamentary Labor caucus endorsed a proposal by its leader, John Brumby, to follow the path set out by the British Labour Party in developing a "modern, forward-looking" Victorian ALP which could more explicitly pursue a neo-liberal economic agenda when returned to office (*The Australian*, 24 July 1996).

As for the unions, loyalty to labourism meant that the ACTU followed the Labor Government in reversing its historical preference for tariffs and semi-autarchic development of secondary industry in favour of state support for greater international integration. The consequence was union promotion of the 'high-skill, high-wage' option of economic restructuring, involving a shift of resources into the tradeable goods sector of the economy, the agenda of strategic unionism or 'progressive competitiveness'. In practice, this translated into support for labour shedding evident in public sector reform and in the private sector in manufacturing, the banking industry and other service industries.<sup>8</sup>



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7 As evident in the national ALP Left's document 'National Directions for Labor: Towards 2000 and Beyond' (November 1995), analysed perceptively by Ewer (1996).

8 See Albo (1994), Panitch (1994) and Wiseman (1996) for critiques of the progressive competitiveness agenda within Western labour movements.

## Where Now for Working Class Politics ?

### Reformism and the Reformist Project

From this brief review of trends in state-capital relations and of the Australian labourist project in practice, this article has sought to uncover some of the more significant reasons for the international shift rightwards of social democracy in the past 10-15 years and the advent of our present era of 'reformism without reforms'. These factors suggest that the rightward shift of the social democratic project is not merely a temporary aberration. The gap between working-class aspirations and what reformist parties actually deliver in government will therefore continue to widen. As mentioned, one factor that could prevent the continuation of this tendency for a period is a sustained economic recovery, on the lines of the post-war decades, but given that there is no sign of this occurring this may be a forlorn hope.

Despite the weakening of the social democratic project, it is important to affirm that *reformism*, as the expression of working class interests within capitalism, will continue to survive. To the extent that the reformist project appears unable to deliver real material improvements to its working-class support base, reformism is weakened. However, this does not mean that reformism will disappear, for it has both a material and an ideological component. For so long as workers sustain a basic level of class consciousness, while also feeling powerless to change their circumstances by direct political action, reformism will maintain its hold, even if the reformist party no longer pursues an agenda of social amelioration. Indeed, under some circumstances, the hold of reformism might recover strongly. This could occur in the context of an upturn in industrial struggle which could give rise to a repackaged reformism, with union and parliamentary leaders shifting ground to capitalise on the movement. This may be particularly successful if the ALP has not been in office for some time and the memories of previous betrayals somewhat dimmed with time. As it is, even after 13 years of neo-liberal Labor government, the class basis of the Labor vote in the March 1996 election was still evident, albeit battered.

### Prospects for an Alternative Politics

The pursuit by both Labor and Coalition governments of the agenda of 'national competitiveness' means that the prospect for state-sponsored redistribution of income and wealth from rich to poor has virtually vanished from the political scene. Given this gloomy prognosis, what future is there for Australian workers?

One suggested solution is what might be called the national-regulationist. This commonly counterposes on the one hand an internationally integrated economic system being overseen by a neo-liberal minimalist state following economic rationalist policies of 'deregulation', and on the other, a highly regulated, nationally self-reliant, interventionist, Keynesian state form (Bryan, 1996). In Australia, both social democratic intellectuals (Broomhill, 1995) and Disraeli-ite 'One Nation' conservatives (e.g. Carroll and Manne, 1992) unite on an essentially idealist analysis that focuses on the ascendancy of neo-classical economists in Treasury and the machinations of TNCs. Bryan notes the common thread to such arguments: "all critics equate deregulation with the market supplanting the state, and all, though with various agendas, assert the need for the Australian state to 're-regulate' the economy" (Bryan, 1996: 11).<sup>9</sup>

However, as we have noted, this is to misunderstand the changing role of the state. It is not a question of more or less role for the state or support versus betrayal of the 'national interest'. Rather, the Labor Government's strategy was a reflection of the underlying interests of dominant Australian capitals in terms of pursuing a national response to increasingly international processes of accumulation. As Bryan (1996: 13) argues, attempts to encourage the state to "stiffen its resolve and defend the national basis of regulation must be seen as propositions superseded by history".

A more sophisticated form of national regulationism is that proposed by a series of contributors to the 1994 *Socialist Register* volume on

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9 See Parker (1996) for a recent exposition of this argument.

globalisation. Panitch (1994: 88), for example, who critiques both the 'progressive competitiveness' agenda and the notion that the state is withdrawing, returns to the nation state form as a path forward. Arguing for the "transformation of the material and ideological capacities of states so that they can serve to realise popular, egalitarian and democratic goals and purposes", he proposes an "inwardly-oriented economy" (p. 89), which will involve a challenge to the priorities of both domestic and international capital. Likewise, Bienefeld (1994) calls for a "positive nationalism" and Albo (1994) for "inward industrialisation".

While there may be some merit in specific elements of this approach, the strategy offered by these authors is still fundamentally flawed. First, any schema based upon a return to nationalist development is historically counter-productive. At a system-wide level, the history of all past and current modes of production tends to suggest that the forces of production can only be developed further in the future on the basis of deeper internationalisation, not through a retreat into the local and domestic. Further, to the extent that Panitch et al's recommendations revolve around the nation state, they also involve seeking to *transform* the existing state, rather than *overturn* it. However, as the history of European and Latin American social democracy has proven time and again, the capitalist tiger has devoured all those who have come before who have sought to skin it claw by claw!

Even if the notion of inward industrialism were to be accepted, Panitch still proposes no means of giving effect to his recommendations. His strategy, therefore, appears completely utopian. Indeed, when the task of moving from the general to the strategic and tactical is posed, the work of Panitch and fellow writers becomes entirely abstract. Thus Wiseman (1996: 108, 113 & 102), for example, seeks refuge in "re-imagining political ideals and programmes", "imagining and creating new democratic institutions" involving "fair distribution, co-operative citizenship and democratic sovereignty". Meaningful political strategy, however, has to go beyond recourse to flights of imagination (Lennonism?).

A real alternative to social democracy must be firmly rooted in internationalism, not of the type promoted by capital but that of the world's working class. In this task, the working class is assisted by the

fact that internationalisation cuts both ways. International companies only appear strong so long as workers are industrially passive. However, the world's working class, which has nearly doubled in size from 1.3 billion to 2.5 billion in the past 30 years (World Development Report, 1995: 9) is constantly thrown into struggle, willy nilly. And as soon as workers start to move the very integration of international production linkages causes capital problems, even at the strongest multinational. Thus a strike by 3,500 General Motors (GM) workers in Ohio in March 1996 caused a parts shortage throughout the company's operations, forcing the company to stop production in 26 GM plants across the US, Canada and Mexico. The result was a partial backdown by the company over its attempt to outsource component production (*The Australian*, 25 March 1996). Although militant unionism faces the possibility of capital flight, this must not allow the labour movement to be paralysed, for is also true that cheap labour does not necessarily drive companies to relocate, as Australian data confirm (Bureau of Industry Economics, 1993: 102). Indeed, it is only a revival of union militancy that can actually give force to MNC codes of conduct.

To the extent that increased international integration and a government desire to cut company taxes to restore profit margins forces national governments to slash their social welfare frameworks, internationalisation can provoke backlashes. The mid-1990s have seen successive mass strikes of public sector workers in Italy (1994), France (1995) and Germany and Canada (1996) against austerity programmes. The succession of mass strikes of this nature can enhance an understanding by workers of the common interests that they share across borders, while the very forms of communication that allow capital to be transferred across the world in a split second can also be used by workers to communicate with each other to link up their struggles against the activities of companies and governments.

Whether the potential for international linkages is realised is, of course, a critical question. Workers face many problems in forging common links across borders (Haworth and Ramsay, 1988; 1990). However, effective action does not have to start out with an explicitly internationalist agenda. The working classes of the world are, by and large, forged on a national basis. Most struggles will start with an exclusively national

focus, making demands on their own governments or employers. Precisely because the capitalist state is not withering away, it is important to challenge its logic and priorities. However, this does not mean accepting the politics of inward industrialisation. Even the most basic action by workers and unions to prevent wage cutting, deterioration of conditions or retrenchments is intrinsically an internationalist stand in that it represents a break from the ideology of national competitiveness on which all national labour movements are currently transfixed. Union action to resist employer efforts to ratchet up the rate of exploitation in one country, thereby raising the standards to be met by workers in other countries, creates the potential for labour solidarity to be turned from platitudes to concrete action.

The problem with adherence to some version or another of the historically dominant philosophies of social democracy is that its inherently competitive and class-collaborative nature consistently cuts against this type of action and thus ensures that internationalisation takes place entirely on capital's terms.

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