multiculturalism of the US. The case of Singapore is particularly instructive. It has combined neoliberalism in the marketplace with draconian coercive and authoritarian state power, while invoking moral solidarities based on the nationalist ideals of a beleaguered island state (after its ejection from the Malaysian federation), Confucian values, and, most recently, a distinctive form of the cosmopolitan ethic suited to its current position in the world of international trade.[26] The British case is particularly interesting. Margaret Thatcher, through the Falklands/Malvinas war and in her antagonistic posture towards Europe, invoked nationalist sentiment in support of her neoliberal project, though it was the idea of England and St George, rather than the United Kingdom, that animated her vision—which turned Scotland and Wales hostile.

Clearly, while there are dangers in the neoliberal dalliance with nationalism of a certain sort, the fierce neoconservative embrace of a national moral purpose is far more threatening. The picture of many states, each prepared to resort to draconian coercive practices while each espousing its own distinctive and supposedly superior moral values, competing on the world stage is not reassuring. What seems like an answer to the contradictions of neoliberalism can all too easily turn into a problem. The spread of neoconservative, if not outright authoritarian, power (of the sort Vladimir Putin exercises in Russia and the Communist Party exercises in China), albeit grounded very differently in different social formations, highlights the dangers of descent into competing and perhaps even warring nationalisms. If there is an inevitability at work, then it arises more out of the neoconservative turn than out of eternal truths attaching to supposed national differences. To avoid catastrophic outcomes therefore requires rejection of the neoconservative solution to the contradictions of neoliberalism. This presumes, however, that there is some alternative: and that question will be addressed later.

4

Uneven Geographical Developments

The Moving Map of Neoliberalization

A moving map of the progress of neoliberalization on the world stage since 1970 would be hard to construct. To begin with, most states that have taken the neoliberal turn have done so only partially—the introduction of greater flexibility into labour markets here, a deregulation of financial operations and embrace of monetarism there, a move towards privatization of state-owned sectors somewhere else. Wholesale changes in the wake of crises (such as the collapse of the Soviet Union) can be followed by slow reversals as the unpalatable aspects of neoliberalism become more evident. And in the struggle to restore or establish a distinctive upper-class power all manner of twists and turns occur as political powers change hands and as the instruments of influence are weakened here or strengthened there. Any moving map would therefore feature turbulent currents of uneven geographical development that need to be tracked in order to understand how local transformations relate to broader trends.[1]

Competition between territories (states, regions, or cities) as to who had the best model for economic development or the best business climate was relatively insignificant in the 1950s and 1960s. Competition of this sort heightened in the more fluid and open systems of trading relations established after 1970. The general progress of neoliberalization has therefore been increasingly impelled *through* mechanisms of uneven geographical developments. Successful states or regions put pressure on everyone else to follow their lead. Leapfrogging innovations put this or that state (Japan, Germany, Taiwan, the US, or China), region (Silicon Valley, Bavaria, Third Italy, Bangalore, the Pearl River delta, or

Botswana), or even city (Boston, San Francisco, Shanghai, or Munich) in the vanguard of capital accumulation. But the competitive advantages all too often prove ephemeral, introducing an extraordinary volatility into global capitalism. Yet it is also true that powerful impulses of neoliberalization have emanated, and even been orchestrated, from a few major epicentres.

Clearly, the UK and the US led the way. But in neither country was the turn unproblematic. While Thatcher could successfully privatize social housing and the public utilities, core public services such as the national health-care system and public education remained largely immune. In the US, the 'Keynesian compromise' of the 1960s had never got close to the achievements of social democratic states in Europe. The opposition to Reagan was therefore less combative. Reagan was, in any case, heavily preoccupied with the Cold War. He launched a deficit-funded arms race ('military Keynesianism') of specific benefit to his electoral majority in the US south and west. While this certainly did not accord with neoliberal theory, the rising Federal deficits did provide a convenient excuse to gut social programmes (a neoliberal objective).

In spite of all the rhetoric about curing sick economies, neither Britain nor the US achieved high levels of economic performance in the 1980s, suggesting that neoliberalism was not the answer to the capitalists' prayers. To be sure, inflation was brought down and interest rates fell, but this was all purchased at the expense of high rates of unemployment (averaging 7.5 per cent in the US during the Reagan years and more than 10 per cent in Thatcher's Britain). Cutbacks in state welfare and infrastructural expenditures diminished the quality of life for many. The overall result was an awkward mix of low growth and increasing income inequality. And in Latin America, where the first wave of forced neoliberalization struck in the early 1980s, the result was for the most part a whole 'lost decade' of economic stagnation and political turmoil.

The 1980s in fact belonged to Japan, the East Asian 'tiger' economies, and West Germany as competitive powerhouses of the global economy. Their success in the absence of any wholesale neoliberal reforms makes it difficult to argue that neoliberalization progressed on the world stage as a proven palliative of economic stagnation. To be sure, the central banks in these countries

generally followed a monetarist line (the West German Bundesbank was particularly assiduous in combating inflation). And gradual reductions in trade barriers created competitive pressures that resulted in a subtle process of what might be called 'creeping neoliberalization' even in countries generally resistant to it. The Maastricht agreement of 1991, for example, which set a broadly neoliberal framework for the internal organization of the European Union, would not have been possible had there not been pressure from those states, such as Britain, that had committed themselves to neoliberal reforms. But in West Germany the trade unions remained strong, social protections were kept in place, and wage levels continued to be relatively high. This stimulated the technological innovation that kept West Germany well ahead of the field in international competition in the 1980s (though it also produced technologically induced unemployment). Export-led growth powered the country forward as a global leader. In Japan, independent unions were weak or non-existent and rates of labour exploitation were high, but state investment in technological change and the tight relationship between corporations and banks (an arrangement that also proved felicitous in West Germany) generated an astonishing export-led growth performance in the 1980s, very much at the expense of the UK and the US. Such growth as there was in the 1980s did not depend, therefore, on neoliberalization except in the shallow sense that greater openness in global trade and markets provided the context in which the export-led success stories of Japan, West Germany, and the Asian 'tigers' could more easily unfold in the midst of intensifying international competition. By the end of the 1980s those countries that had taken the stronger neoliberal path still seemed to be in economic difficulty. It was hard not to conclude that the West German and Asian 'regimes' of accumulation were deserving of emulation. Many European states therefore resisted neoliberal reforms and embraced the West German model. In Asia, the Japanese model was broadly emulated first by the 'Gang of Four' (South Korea, Taiwan, Hong Kong, and Singapore) and then by Thailand, Malaysia, Indonesia, and the Philippines.

The West German and the Japanese models did not, however, facilitate the restoration of class power. The increases in social

inequality to be found in the UK and particularly in the US during the 1980s were held in check. While rates of growth were low in the US and the UK, the standard of living of labour was declining significantly and the upper classes were beginning to do well. The rates of remuneration of US CEOs, for example, were becoming the envy of Europeans in comparable positions. In Britain, a new wave of entrepreneurial financiers began to consolidate large fortunes. If the project was to restore class power to the top elites, then neoliberalism was clearly the answer. Whether or not a country could be pushed towards neoliberalization then depended upon the balance of class forces (powerful union organization in West Germany and Sweden held neoliberalization in check) as well as upon the degree of dependency of the capitalist class on the state (very strong in Taiwan and South Korea).

The means whereby class power could be transformed and restored were gradually but unevenly put into place during the 1980s and consolidated in the 1990s. Four components were critical in this. First, the turn to more open financialization that began in the 1970s accelerated during the 1990s. Foreign direct investment and portfolio investment rose rapidly throughout the capitalist world. But it was spread unevenly (Figure 4.1), often depending on how good the business climate was here as opposed to there. Financial markets experienced a powerful wave of innovation and deregulation internationally. Not only did they become far more important instruments of co-ordination, but they also provided the means to procure and concentrate wealth. They became the privileged means for the restoration of class power. The close tie between corporations and the banks that had served the West Germans and the Japanese so well during the 1980s was undermined and replaced by an increasing connectivity between corporations and financial markets (the stock exchanges). Here Britain and the US had the advantage. In the 1990s, the Japanese economy went into a tailspin (led by a collapse in speculative land and property markets), and the banking sector was found to be in a parlous state. The hasty reunification of Germany created stresses, and the technological advantage that the Germans had earlier commanded dissipated, making it necessary to challenge more deeply its social democratic tradition in order to survive.

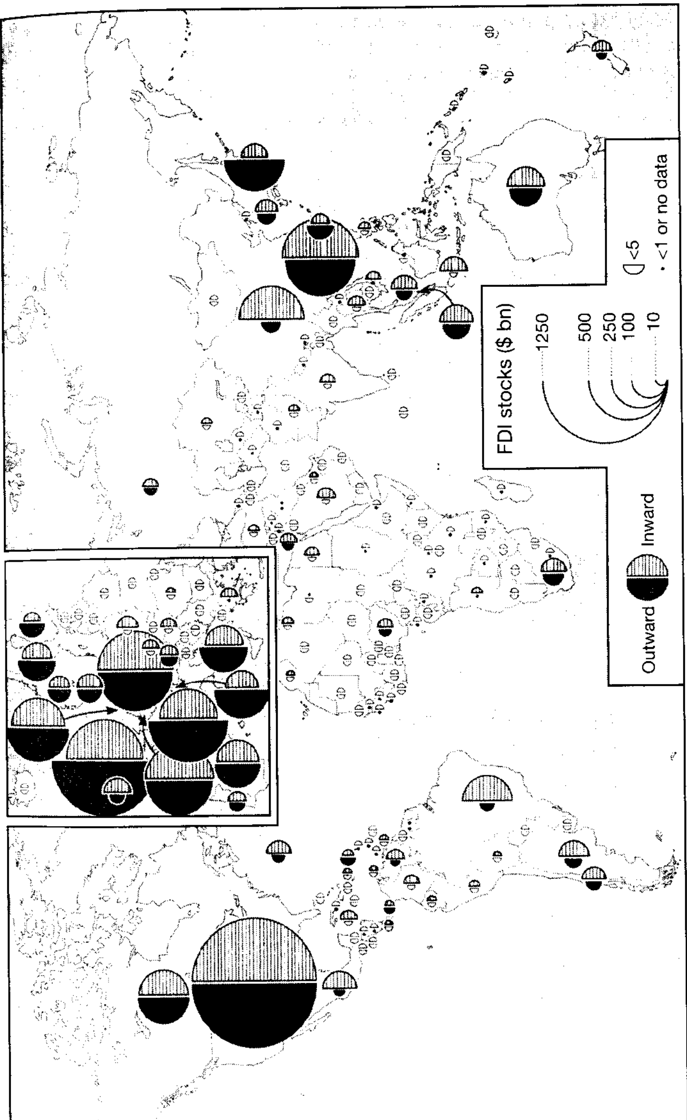

Figure 4.1 Global pattern of foreign direct investments, 2000
Source: Dicken, *Global Shift*.

Secondly, there was the increasing geographical mobility of capital. This was in part facilitated by the mundane but critical fact of rapidly diminishing transport and communications costs. The gradual reduction in artificial barriers to movement of capital and of commodities, such as tariffs, exchange controls, or, even more simply, waiting times at borders (the abolition of which in Europe had dramatic effects) also played an important role. While there was considerable unevenness (Japan's markets remained highly protected, for example), the general thrust was towards standardization of trade arrangements through international agreements that culminated in the World Trade Organization agreements that took effect in 1995 (more than a hundred countries had signed on within the year). This greater openness to capital flow (primarily US, European, and Japanese) put pressures on all states to look to the quality of their business climate as a crucial condition for their competitive success. Since degree of neoliberalization was increasingly taken by the IMF and the World Bank as a measure of a good business climate, the pressure on all states to adopt neoliberal reforms ratcheted upwards.[2]

Thirdly, the Wall Street–IMF–Treasury complex that came to dominate economic policy in the Clinton years was able to persuade, cajole, and (thanks to structural adjustment programmes administered by the IMF) coerce many developing countries to take the neoliberal road.[3] The US also used the carrot of preferential access to its huge consumer market to persuade many countries to reform their economies along neoliberal lines (in some instances through bilateral trade agreements). These policies helped produce a boom in the US in the 1990s. The US, riding a wave of technological innovation that underpinned the rise of a so-called 'new economy', looked as if it had the answer and that its policies were worthy of emulation, even though the relatively full employment achieved was at low rates of pay under conditions of diminishing social protections (the number of people without health insurance grew). Flexibility in labour markets and reductions in welfare provision (Clinton's draconian overhaul of 'the welfare system as we know it') began to pay off for the US and put competitive pressures on the more rigid labour markets that prevailed in most of Europe (with the exception of Britain) and Japan. The

real secret of US success, however, was that it was now able to pump high rates of return into the country from its financial and corporate operations (both direct and portfolio investments) in the rest of the world. It was this flow of tribute from the rest of the world that founded much of the affluence achieved in the US in the 1990s (Figures 1.8 and 1.9).[4]

Lastly, the global diffusion of the new monetarist and neoliberal economic orthodoxy exerted an ever more powerful ideological influence. As early as 1982, Keynesian economics had been purged from the corridors of the IMF and the World Bank. By the end of the decade most economics departments in the US research universities—and these helped train most of the world's economists—had fallen into line by broadly cleaving to the neoliberal agenda that emphasized the control of inflation and sound public finance (rather than full employment and social protections) as primary goals of economic policy.

All of these strands came together in the so-called 'Washington Consensus' of the mid-1990s.[5] The US and UK models of neoliberalism were there defined as the answer to global problems. Considerable pressure was put even on Japan and Europe (to say nothing of the rest of the world) to take the neoliberal road. It was, therefore, Clinton and then Blair who, from the centre-left, did the most to consolidate the role of neoliberalism both at home and internationally. The formation of the World Trade Organization was the high point of this institutional thrust (though the creation of NAFTA and the earlier signing of the Maastricht accords in Europe were also significant regional institutional adjustments). Programmatically, the WTO set neoliberal standards and rules for interaction in the global economy. Its primary objective, however, was to open up as much of the world as possible to unhindered capital flow (though always with the caveat clause of the protection of key 'national interests'), for this was the foundation of the capacity of the US financial power as well as that of Europe and Japan, to exact tribute from the rest of the world.

None of this is particularly consistent with neoliberal theory except for the emphasis on budgetary restraints and the continued fight against what by the 1990s was an almost non-existent inflation. Of course, there were always considerations of national

security which would inevitably upset any attempt to apply neoliberal theory in pure terms. While the fall of the Berlin Wall and the end of the Cold War generated a seismic geopolitical shift in imperial rivalries, they did not end the sometimes deadly dance of geopolitical jockeying for power and influence between major powers on the world stage, particularly in those regions, such as the Middle East, that controlled key resources, or in regions of marked social and political instability (such as the Balkans). It did, however, lessen the US commitment to support Japan and the East Asian economies as bastions in the frontline of the Cold War. The supportive economic role that the US had played in South Korea and Taiwan before 1989 was not available to Indonesia and Thailand in the 1990s. But even within the neoliberal frame there were many elements, such as the activities of the IMF or of the G7, which functioned less as neoliberal institutions than as centres of raw power mobilized by particular powers or collections of powers seeking particular advantage. The theoretical neoliberal critique of the IMF never went away. The preparedness to intervene in currency markets by agreements such as the Plaza Accord of 1985, which artificially lowered the dollar against the Japanese yen, followed shortly thereafter by the Reverse Plaza Accord, which sought to rescue Japan from its depressed state in the 1990s, were instances of orchestrated interventions attempting to stabilize global financial markets.[6]

Financial crises were both endemic and contagious. The debt crisis of the 1980s was not limited to Mexico but had global manifestations (see Figure 4.2).[7] And in the 1990s there were two sets of interrelated financial crises that yielded a negative trace of uneven neoliberalization. The 'tequila crisis' that hit Mexico in 1995, for example, spread almost immediately, with devastating effects on Brazil and Argentina. But its reverberations were also felt to some degree in Chile, the Philippines, Thailand, and Poland. Why, exactly, this particular pattern of contagion occurred is hard to explain because speculative movements and expectations in financial markets do not necessarily rely on hard facts. But unregulated financialization plainly posed a serious danger of contagious crises. The 'herd mentality' of the financiers (no one wants to be the last one holding on to a currency before devaluation) could produce

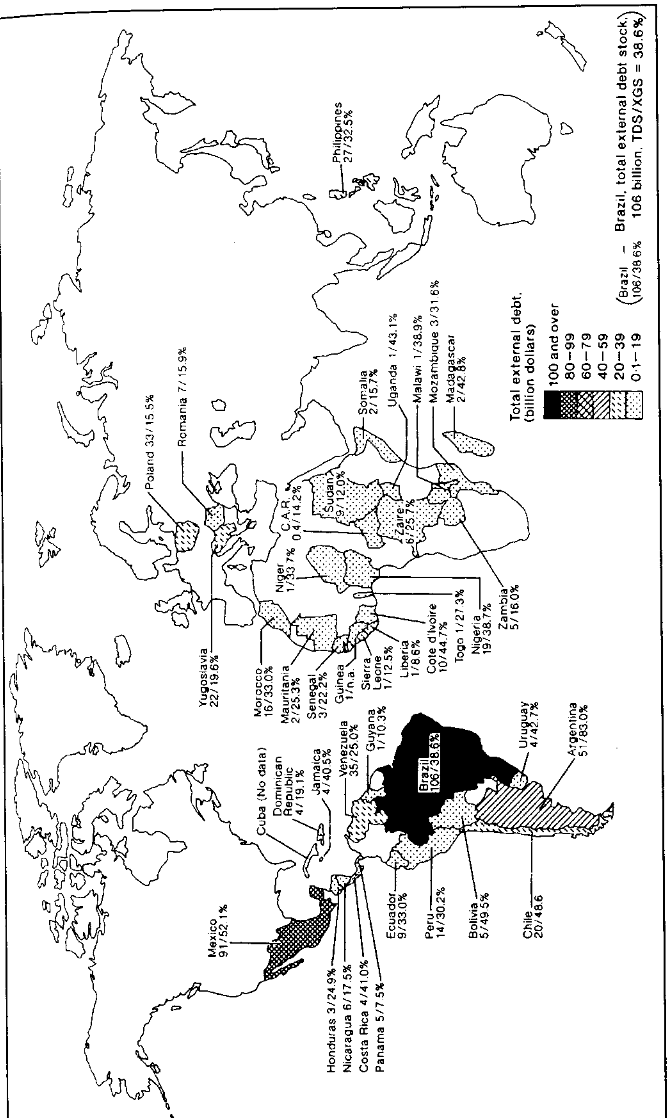

Figure 4.2 The international debt crisis of 1982–1985
Source: Corbridge, *Debt and Development*.

self-fulfilling expectations. These could have aggressive as well as defensive manifestations. Currency speculators made billions when they forced European governments to loosen the European Exchange Rate Mechanism in July 1993, and, in October of that year, George Soros alone made nearly $1 billion in two weeks, betting against the ability of Britain to keep the pound within ERM limits.

The second and much broader wave of financial crises began in Thailand in 1997 with the devaluation of the *baht* in the wake of the collapse of a speculative property market. The crisis first spread to Indonesia, Malaysia, and the Philippines, and then to Hong Kong, Taiwan, Singapore, and South Korea. Estonia and Russia were then hit hard, and shortly afterwards Brazil fell apart, with serious and long-lasting consequences for Argentina. Even Australia, New Zealand, and Turkey were affected. Only the US seemed immune, although even there a hedge fund, Long Term Capital Management (with two Nobel prizewinning economists as key advisers), which had bet the wrong way on Italian currency movements, had to be bailed out to the tune of $3.5 billion.

The whole 'East Asian regime' of accumulation facilitated by 'developmental states' was being put to the test in 1997–8. The social effects were devastating:

> As the crisis progressed, unemployment soared, GDP plummeted, banks closed. The unemployment rate was up fourfold in Korea, threefold in Thailand, tenfold in Indonesia. In Indonesia, almost 15 per cent of males working in 1997 had lost their jobs by August 1998, and the economic devastation was even worse in the urban areas of the main island, Java. In South Korea, urban poverty almost tripled, with almost a quarter of the population falling into poverty; in Indonesia, poverty doubled . . . In 1998, GDP in Indonesia fell by 13.1 per cent, in Korea by 6.7 per cent, and in Thailand by 10.8 per cent. Three years after the crisis, Indonesia's GDP was still 7.5 per cent below that before the crisis, Thailand's 2.3 per cent lower.[8]

As Indonesia's GDP fell and unemployment surged, the IMF stepped in to mandate austerity by abolishing subsidies on food and kerosene. The riots and violence that followed 'tore the country's social fabric' apart. The capitalist classes, mainly ethnic

Chinese, were widely blamed for the debacle. While the wealthiest Chinese business elite decamped to Singapore, a wave of revenge killings and attacks on property engulfed the rest of the Chinese minority, as ethnonationalism reared its ugly head in search of a scapegoat for the social collapse.[9]

The standard IMF/US Treasury explanation for the crisis was too much state intervention and corrupt relationships between state and business ('crony capitalism'). Further neoliberalization was the answer. The Treasury and the IMF acted accordingly, with disastrous consequences. The alternative view of the crisis was that impetuous financial deregulation and the failure to construct adequate regulatory controls over unruly and speculative portfolio investments lay at the heart of the problem. The evidence for this latter view is substantial: those countries that had not liberated their capital markets—Singapore, Taiwan, and China—were far less affected than those countries, such as Thailand, Indonesia, Malaysia, and the Philippines, that had. Furthermore, the one country that ignored the IMF and imposed capital controls—Malaysia—recovered faster.[10] After South Korea likewise rejected IMF advice on industrial and financial restructuring it also staged a faster recovery. Why the IMF and the US Treasury continues to insist on neoliberalization is an apparent mystery. The victims increasingly propose a conspiratorial answer:

> The IMF first told countries in Asia to open up their markets to hot short-term capital. The countries did it and money flooded in, but just as suddenly flowed out. The IMF then said interest rates should be raised and there should be fiscal contraction, and a deep recession was induced. Asset prices plummeted, the IMF urged affected countries to sell their assets even at bargain basement prices . . . The sales were handled by the same financial institutions that had pulled out their capital, precipitating the crisis. These banks then got large commissions from their work selling the troubled companies or splitting them up, just as they had got large commissions when they had originally guided the money into the countries in the first place.[11]

Behind this conspiratorial view lies the shadowy and largely unexamined role of the New York-based hedge funds. If Soros and other speculators could make billions at the expense of European

governments by betting against their ability to stay within the guidelines of the ERM, then why could not the hedge funds, armed with trillions of dollars of leveraged funds from the banks, engineer an attack upon not only East and South-East Asian governments but some of the most successful corporations in global capitalism, simply by denying them liquidity at a point of minor difficulty? The resulting flow of tribute to Wall Street was immense, boosting stock prices at a time when internal savings rates in the US were plunging. And after bankruptcy had been declared throughout much of the region, a wave of foreign direct investment could flood back in to buy up perfectly viable companies, or (as in the case of Daewoo) bits of companies, for a song. Stiglitz rejects the conspiratorial view and proposes a 'simpler' explanation: the IMF was simply 'reflecting the interests and ideology of the Western financial community'.[12] But he ignores the role of the hedge funds, and it never occurs to him that the increasing social inequality that he so frequently bemoans as a side-product of neoliberalization might have been its *raison d'être* all along.

Dispatches from the Frontlines

Mexico

The Partido Revolucionario Institucional (PRI) was the sole governing party in Mexico from 1929 until Vicente Fox's election in 2000. The party created a corporatist state that proved adept at organizing, co-opting, buying off, and if necessary suppressing oppositional movements among the workers, peasants, and middle classes that had formed the basis of the revolution. The PRI pursued a state-led modernization and economic development model mainly focused on import substitution and a vigorous export trade with the US. A significant monopoly state sector emerged in transport, energy, and public utilities, as well as in some basic industries (such as steel). Controlled entry of foreign capital under the maquila programme, which allowed mainly US capital to produce in Mexico's border zone, using cheap labour unhindered by any tariffs or restrictions on commodity movements, had begun in 1965. In spite of relatively strong economic development in the

1950s and 1960s, the benefits of growth had not spread very far. Mexico was not a good example of embedded liberalism, but episodic pay-offs to restive groups (peasants, workers, middle classes) did redistribute incomes to some degree. The violent suppression of the student movement protesting social inequalities in 1968 left a bitter legacy that threatened the PRI's legitimacy. But the balance of class forces began to shift in the 1970s. Business interests strengthened their independent position and deepened their links to foreign capital.

The global crisis of the 1970s hit Mexico badly. The PRI's response was to extend the public sector by taking over failing private enterprises, maintaining them as sources of employment to stave off the threat of working-class unrest. The number of state enterprises more than doubled between 1970 and 1980, as did the number of their employees. But these enterprises were losing money and the state had to borrow to fund them. The New York investment banks, awash with petrodollars to invest, obliged. Mexico's oil discoveries made lending to it an attractive bet. The foreign debt rose from $6.8 billion in 1972 to $58 billion by 1982.[13]

Then came Volcker's high interest rate policy, the recession in the US that diminished demand for Mexican products, and the slump in oil prices. Mexican state revenues fell and the cost of servicing the debt soared. Mexico declared bankruptcy in August 1982. The massive capital flight already under way in anticipation of a devaluation of the peso accelerated, and President Portillo nationalized the banks as an emergency measure.[14] The business elite and the bankers disapproved. De la Madrid, who assumed the presidency just a few months later, had to make a political choice. He sided with business. One could say this was inevitable, but the political power of the PRI did not necessarily make it so. De la Madrid was reform-minded, less embedded in the traditional politics of the PRI, and had close relations with capitalist class and foreign interests. The new combination of the IMF, the World Bank, and the US Treasury pulled together by James Baker to bail Mexico out of its difficulties put additional pressure on him. They not only insisted on budgetary austerity; they insisted, for the first time, on broad neoliberal reforms, such as privatization, reorganization of the financial system in ways more consistent with foreign

interests, the opening of internal markets to foreign capital, lowering tariff barriers, and the construction of more flexible labour markets. In 1984 the World Bank, for the first time in its history, granted a loan to a country in return for structural neoliberal reforms. De la Madrid then opened Mexico to the global economy by joining GATT and implementing an austerity programme. The effects were wrenching:

> From 1983 to 1988 Mexico's per capita income fell at a rate of 5 per cent per year; the value of workers' real wages fell between 40 per cent and 50 per cent; inflation, which had oscillated between 3 and 4 per cent per year in the 1960s, had gone up to the mid teens after 1976, and surpassed 100 per cent in several of those years . . . At the same time, due to government fiscal problems and the re-orientation of the country's governing economic model, state expenditure on public goods declined. Food subsidies were restricted to the poorest segments of the population, and the quality of public education and health care stagnated or declined.[15]

In Mexico City in 1985 this meant that resources were 'so scarce that expenditures on critical urban services in the capital plummeted 12 per cent on transport, 25 per cent on potable water, 18 per cent on health services, 26 per cent on trash collection'.[16] The crime wave that followed turned Mexico City from one of the more tranquil into one of the most dangerous of all Latin American cities within a decade. This was a rerun, though in many respects more devastating, of what had happened to New York City ten years before. Much later, in a symbolic event, Mexico City awarded a multi-million-dollar contract to Giuliani's consultancy organization to teach them how to deal with crime.

De la Madrid saw that one way out of the debt dilemma was to sell off public enterprises and use the proceeds to pay down the debt. But the initial steps towards privatization were both tentative and relatively minor. Privatization entailed the wholesale restructuring of labour contracts and this provoked conflict. Fierce labour struggles broke out in the late 1980s only to be put down ruthlessly by the government. The attack on organized labour intensified under the Salinas presidency that took over in 1988. Several labour leaders were gaoled for corruption, and new and more compliant leaders were installed in key labour organizations

under the PRI's control. Troops were called out more than once to break strikes, and the independent power of organized labour, such as it was, was diminished at every turn. Salinas accelerated and formalized the process of privatization. He was US-trained and looked to US-trained economists for advice.[17] His economic development programme was couched in language close to neoliberal orthodoxy.

Opening Mexico up further to foreign direct investment and competition became one of the key elements in Salinas's reform programme. The maquila programme expanded rapidly along the northern border to become fundamental to Mexico's industrial and employment structure (Figure 4.3). He began and successfully completed the negotiations with the US that produced NAFTA. Privatization proceeded apace. Employment in the state sector was cut in half between 1988 and 1994. By 2000 the number of state-owned firms had been reduced to barely 200 compared to the 1,100 that had existed in 1982.[18] The terms of privatization were increasingly set to encourage foreign ownership. The banks that had been so hastily nationalized in 1982 were re-privatized in 1990. To conform with NAFTA, Salinas also had to open up the peasant sector and agriculture to foreign competition. He had, therefore, to attack the powers of the peasantry that had long formed one of the key pillars of the PRI's support. The 1917 Constitution from the Mexican Revolution protected the legal rights of indigenous peoples and enshrined those rights in the *ejido* system that allowed land to be collectively held and used. In 1991 the Salinas government passed a reform law that both permitted and encouraged privatization of the *ejido* lands, opening them up to foreign ownership. Since the *ejido* provided the basis of collective security among indigenous groups, the government was, in effect, divesting itself of its responsibilities to maintain that security. The subsequent lowering of import barriers delivered yet another blow, as cheap imports from the efficient but also highly subsidized agribusinesses in the United States drove down the price of corn and other products to the point where only the most efficient and affluent Mexican farmers could compete. Close to starvation, many peasants were forced off the land, only to augment the pool of unemployed in already overcrowded cities, where the so-called

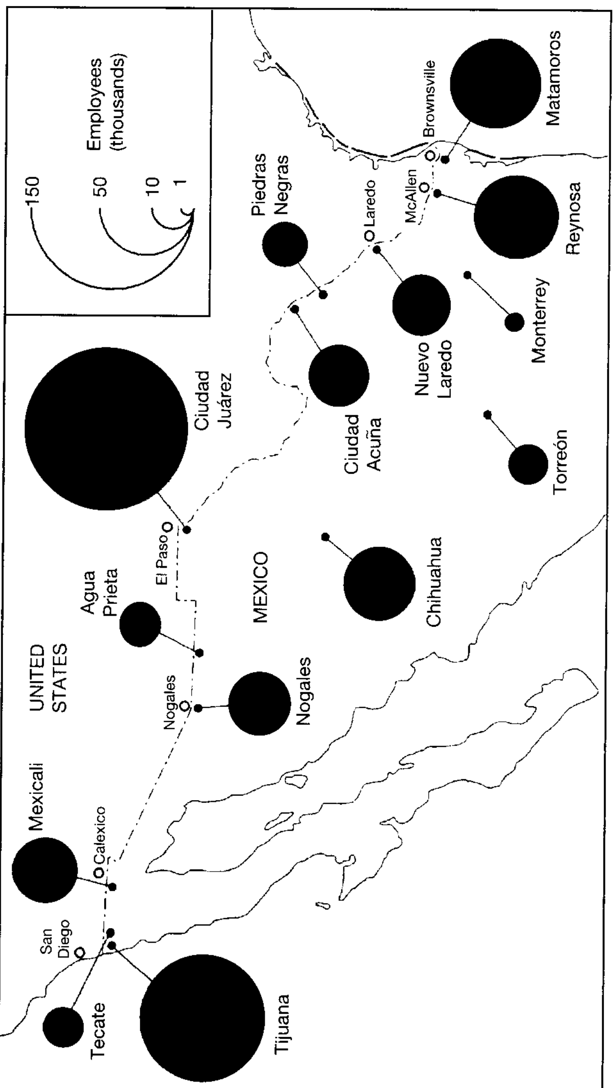

Figure 4.3 Employment in the major maquila sectors in Mexico in 2000
Source: Dicken, *Global Shift*.

informal economy (for example street vendors) grew by leaps and bounds. Resistance to the *ejido* reform was, however, widespread, and several peasant groups supported the Zapatista rebellion that broke out in Chiapas in 1994.[19]

Having signed on to what became known as the Brady Plan for partial debt forgiveness in 1989, Mexico had to swallow, mainly voluntarily as it turned out, the IMF's poison pill of deeper neoliberalization. The result was the 'tequila crisis' of 1995, sparked, as had happened in 1982, by the US Federal Reserve raising interest rates. This put speculative pressure on the peso, which was devalued. The trouble was that Mexico had earlier taken to issuing dollar-denominated debt (called *tesobonos*) to encourage foreign investment, and after the devaluation could not mobilize enough dollars to pay them off. The US Congress refused to help, but Clinton exercised executive powers to put together a $47.5 billion rescue package. He feared a loss of jobs in those US industries exporting to Mexico, the prospect of increasing illegal immigration, and, above all, the loss of legitimacy for neoliberalization and the NAFTA agreements. As a convenient side-effect of the devaluation, US capital could then rush in and buy up all manner of assets at fire-sale prices. While only one of the Mexican banks privatized in 1990 was foreign-owned, by 2000 twenty-four out of thirty were in foreign hands. The exaction of tribute from Mexico by foreign capitalist class interests then became unstoppable. But foreign competition also began to be a problem. Mexico lost a significant number of maquila jobs after 2000 as China became a much cheaper and therefore preferred location for many foreign firms looking to employ low-wage labour.[20]

The effects of all this, particularly the privatizations, on concentrations of wealth within Mexico were marked:

> In 1994, Forbes magazine's list of the richest people in the world revealed that Mexico's economic restructuring had produced twenty-four billionaires. Of these, at least seventeen participated in the privatization programme, buying banks, steel mills, sugar refineries, hotels and restaurants, chemical plants, and a telecommunications firm as well as concessions to operate firms within newly privatized sectors of the economy, such as ports, private toll highways, and cellular and long distance telephony.[21]

Carlos Slim, Mexico's richest man, was twenty-fourth on the Forbes list, and he controlled four of Mexico's twenty-five largest firms. His entrepreneurial interests spread beyond Mexico's borders and he became a major player in telecommunications throughout all of Latin America, as well as in the US. His strategy for cellphone service became renowned: capture and monopolize the high-density and affluent markets and leave the low-density and poorer markets without service. By 2005 Mexico ranked ninth in the world (ahead of Saudi Arabia) for its number of billionaires. It is a moot point whether we call this the *restoration* or the *creation de novo* of class power. Plainly, the attack on labour, on the peasantry, and on the standard of living of the population had worked in Mexico. Their lot became markedly worse as wealth accumulated both within Mexico and beyond in the hands of a small group of magnates backed by their financial and legal apparatuses of power.

The Argentinian Collapse

Argentina emerged from its period of military dictatorship heavily indebted and rigidly locked into a corporatist, authoritarian, and quite corrupt system of governance. Democratization proved difficult, but in 1992 Carlos Menem came to power. Though a Peronist, Menem set about liberalizing the economy, partly to curry favour with the US but also to re-establish Argentina's credentials in the international community in the wake of the revelations of the 'dirty war' that sullied its reputation. Menem opened the country to foreign trade and capital flows, introduced greater flexibility into labour markets, privatized state-owned companies and social security, and pegged the peso to the dollar in order to bring inflation under control and provide security for foreign investors. Unemployment rose, putting a downward pressure on wages, while the elite used privatization to amass new fortunes. Money flooded into the country and it boomed from 1992 until the 'tequila crisis' spilled over from Mexico:

> Within weeks, the Argentine banking system lost 18 per cent of its deposits. The economy that had grown at an average annual rate of 8 per cent from the second half of 1990 to the second half of 1994 fell into a steep recession. Gross domestic product contracted by 7.6 per cent from the last quarter of 1994 to the first quarter of 1996 . . . the government's interest burden increased by more than 50 per cent from 1994 to 1996. There was a massive capital outflow and shrinkage of foreign exchange reserves.[22]

Unemployment soared to 18 per cent. While the peso was clearly overvalued, devaluation (in contrast to the situation in Mexico) was precluded by insistence upon maintaining the security of the dollar peg. A brief recovery based on foreign capital inflows followed, until the effects of the Asian economic crisis of 1997–8 spread first to Russia and then to neighbouring Brazil. With that and high interest rates pushing the domestic budget into deficit, an unbearable pressure was put upon the Argentine peso. Foreign and domestic capital began to decamp in anticipation of devaluation. Argentina's debt more than doubled between 1995 and September 2001, while foreign exchange reserves were fast disappearing. The interest payment due on the debt soared to $9.5 billion by 2000. The IMF, which had backed the dollar peg and which was firmly set against devaluation for fear of inflationary consequences (as it had been in Russia and Brazil with, in Stiglitz's judgement, disastrous consequences in both cases), bailed Argentina out with a $6 billion loan (the second largest in IMF history).

But even this could not stanch the outflow. In 2001 the Argentine banking system lost more than 17 per cent of its deposits ($14.5 billion). Perhaps as much as $2 billion was lost on 30 November alone. The IMF refused an emergency loan on the grounds that Argentina had not cured its budgetary imbalance. Argentina defaulted on its debt. The government restricted bank withdrawals on 1 December to $250 per week and regulated all foreign account transactions over $1,000. The riots that ensued left twenty-seven people dead, and President de la Rua resigned, along with Domingo Carvallo, the architect of his economic policy. By 6 January 2002, the new president, Duhalde, had abandoned the dollar peg and devalued the peso. But he also decided to freeze all savings accounts above $3,000 and eventually to treat the dollar deposits as if they were pesos, thus reducing savings to about one-third of their former value. $16 billion in purchasing power had

been transferred from savers to the banks and through them to a political-economic elite. The consequences in terms of social unrest were dramatic and far-reaching. Unemployment soared and incomes fell. Idle factories were occupied by militant workers and set to work, neighbourhood solidarity committees were set up to seek better collective means of survival and the *piqueteros* (street pickets) blocked transportation networks and mobilized around key political demands.[23]

In the face of popular opinion, which held the banks, foreign investors, and the IMF in total contempt, Kirchner, the newly elected populist president who succeeded Duhalde, could only snub the IMF, default on $88 billion in debts, and initially offer to pay off outraged creditors at the rate of 25 cents on the dollar.[24] Interestingly, Kirchner's economics team does not have a single US-trained economist in it. Locally trained, they take the 'heterodox' view that while the repayment of the external debt is important it should not entail a collapse of living standards in Argentina. With signs of recovery in 2004, particularly in the manufacturing sector helped by the devaluation, the big problem for Argentina is to face down fierce competition from Brazil and, in the near future, from China as the latter conforms to WTO rules and gains open access to Argentine markets.

This story of Argentina's rollercoaster experience with neoliberalization illustrates all too well how little neoliberal theory has to do with practice. As a member of the neoliberal Ludwig von Mises Institute has pointed out, the 'confiscatory deflation' that occurred in Argentina was quite properly interpreted by its Argentine victims as 'bank robbery by the political elites'.[25] Or, as Veltmeyer and Petras prefer to characterize it, the whole episode reeks of 'a new imperialism: pillage of the economy, growth of vast inequalities, economic stagnation followed by profound and enduring depression and massive impoverishment of the population as a consequence of the greatest concentration of wealth in Argentine history'.[26]

South Korea

South Korea emerged from the war of 1950–3 a devastated country in a parlous economic and geopolitical position. Its economic turn-

around is usually dated from the military coup of 1961 which brought General Park Chung Hee to power. Per capita income was less than $100 in 1960 but now stands at more than $12,000. This astonishing economic performance is often cited as the perfect example of what any developmental state might do. South Korea had, however, two initial geopolitical advantages. Since the country was at the frontline of the Cold War the US was prepared to support it militarily and economically, particularly in the early years. But, less obviously, the ex-colonial relationship with Japan conferred benefits that varied from familiarity with Japanese economic and military organizational strategies (Park was trained in the Japanese Military Academy) to active Japanese assistance in penetrating foreign markets.

Korea was still basically an agrarian country in 1960. Under Park's dictatorial rule, the state set out to industrialize. The capitalist class was weak but by no means insignificant. After arresting the main business leaders for corruption, Park came to an accommodation with them. He reformed the state bureaucracy, set up an economic planning ministry (following the successful Japanese model), and nationalized the banks to gain control over credit allocation. He then relied on the entrepreneurial vigour and investment strategies of a nascent group of industrial capitalists who were invited to enrich themselves in the process.[27] During the early 1960s industrialists became export-oriented because Japan increasingly used them as an offshore platform to re-export its own partially manufactured goods to the US market. Joint ventures with the Japanese flourished. Koreans used them to gain technology and experience of foreign markets. The Korean state supported this export-led strategy by mobilizing internal savings, rewarding successful businesses, and encouraging their merger into *chaebols* (large integrated firms such as Hyundai, Daewoo, and Samsung) through easy access to credit, tax advantages, procurement of inputs, control over the labour force, and support in gaining access to foreign (particularly US) markets. With support from a heavy-industry development strategy (focusing on steel, shipbuilding, petrochemicals, electronics, automobiles, and machinery) several *chaebols* switched focus and became global players in these industries from the mid-1970s on. They also became the locus of power

of an ever more wealthy domestic capitalist class. As their size and resources grew (by the mid-1980s three *chaebols* accounted for one-third of the national product) the relationship between *chaebol* and state changed. By the mid-1980s, they 'wielded enough power and influence to launch a successful campaign for the steady dismantling of the state's impressive regulatory apparatus'. No longer dependent on the state given their well-established position in international trade and independent access to credit, the capitalist class came to favour its own version of neoliberalization.[28]

This version rested on protecting its privileges while shedding regulatory controls. The banks were in effect privatized. The close and often corrupt nexus of power that bound the leadership of the *chaebols* and the state so closely together proved very hard to break, and the Korean banks lent as much on the basis of political favours as they did for sound investment reasons. Korean businesses also needed liberalization of trade relations and of capital flows (something that was also forced from outside through the Uruguay Round in 1986) so that they could invest surplus capital freely abroad (Figure 4.4). Korean capital explored offshore production using cheaper and more compliant labour forces. So began the export of degrading labour practices through Korean-owned subcontracting networks that reached into Latin America and South Africa as well as across much of East and South-East Asia. After the revaluation of the yen in 1995, Japan shifted to offshore production in lower-cost locations in Thailand, Indonesia, and Malaysia. This, together with China's entry into the world market, intensified intra-regional competition. While the Chinese initially challenged South Korea (and other countries in the region) in low-value-added sectors of production (such as textiles) it quickly moved up the value-added chain. The South Korean response was to offshore a lot of production into China through direct investment, which may have been good for Korean corporations but was not good for employment at home.

After a boom in exports in the late 1980s, Korean industry succumbed to the competition, experiencing a loss of export markets and a collapse of profitability after 1990. The *chaebols* resorted to borrowing, increasingly from foreign banks. Korean businesses acquired a very high debt-to-equity ratio and therefore became

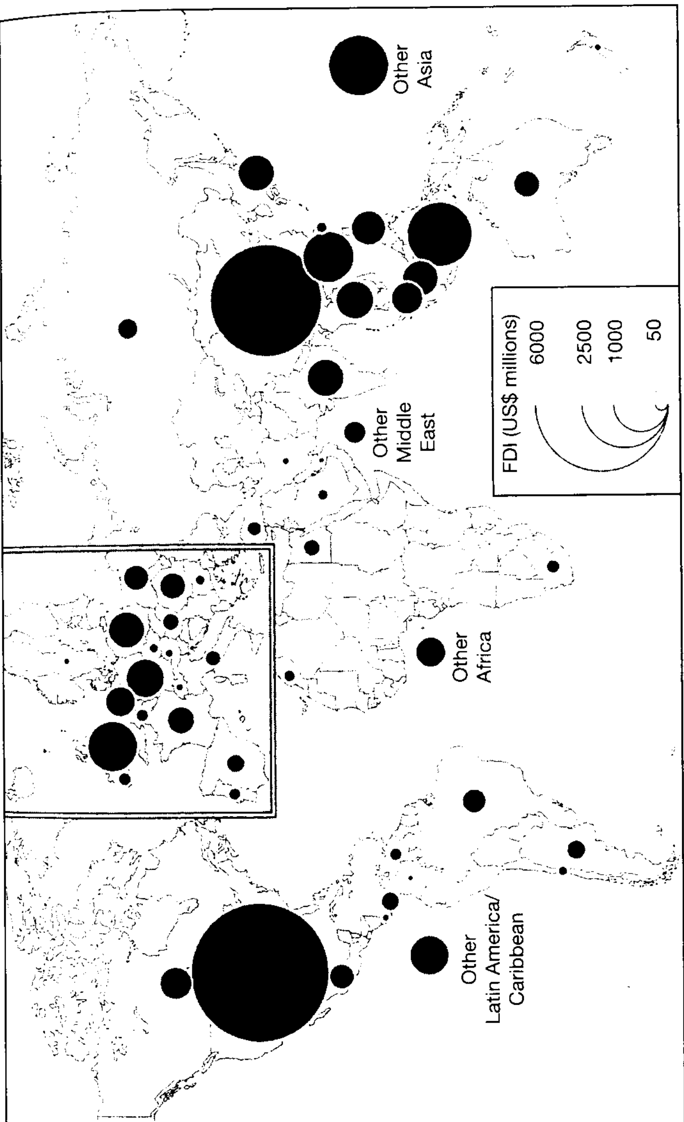

Figure 4.4 South Korea goes abroad: foreign direct investment, 2000
Source: Dicken, *Global Shift*.

vulnerable to any rapid rise in interest rates.[29] Internally, South Korea also had to deal with the rising power of organized labour. Massive industrialization entailed equally massive proletarianization and urbanization, which favoured labour organization. In the early years, independent union organizations were fiercely repressed. But Park's assassination (by his own director of intelligence) in 1979, followed by a brutal massacre of civilian protesters in Kwangju in 1980, sparked a popular movement of students, citizens, and workers for democratization. This was formally achieved in 1987. Wages then rose as unions consolidated their power in the face of continuing governmental repression. Employers wanted more flexible labour markets, but successive governments found this hard to deliver. The formation and legalization of the democratic Korean Confederation of Trade Unions in 1995 confirmed the growing power of organized labour.[30]

The declining ability of the state to discipline capital during the 1990s was exacerbated by the crisis of 1997–8. Foreign capital had long campaigned for easier access to a traditionally protected domestic market as well as for further financial liberalization. The evolving architecture of international trade and finance ensured a modicum of success on that front during the early 1990s. Clinton's price for supporting Korea's incorporation into the OECD had been a strong dose of financial liberalization. The outbreak of the crisis was preceded, however, by labour unrest targeting the *chaebols* (then seeking to lay off thousands of workers) and protesting repressive government policies towards the unions. In March 1997 the government passed a new labour code that introduced a far higher level of flexibility into labour relations and so tacitly sanctioned the lay-offs.[31] Many of the *chaebols*, however, were heavily indebted to increasingly suspicious foreign lenders and to national banks that already had a preponderance of non-performing loans. The government had such a weak foreign reserve position that it could do nothing. Several *chaebols*, such as Hansin and Hambo Steel, declared bankruptcy in the first half of 1997 before the currency crisis hit. When it erupted, the foreign banks withdrew support from Korea, forcing many more *chaebols*, as well as the country itself, close to bankruptcy.[32]

The US saw no reason to offer financial support (the Cold War

was over) and instead followed the dictates of Wall Street, which had long pushed for financial liberalization for its own specific reasons of profitability. Stiglitz recognized that US national interests were being sacrificed for narrow Wall Street financial gains.[33] When the Asian crisis broke, South Korea was encouraged by the IMF to raise interest rates to defend its currency and in so doing plunged its own economy even deeper into recession. This forced many companies with a high debt-to-equity ratio into bankruptcy. High unemployment, falling wage rates, and even more *chaebol* bankruptcies (Daewoo went under, and Hyundai came very close) immediately followed. The government appealed to the IMF and the US. In exchange for a $55 billion bail-out it agreed to open up financial services to foreign ownership and to let foreign firms operate freely. These bail-out terms were not convincing, and ten days later, in the face of imminent default, another agreement had to be struck in which the lending banks rescheduled Korean debt (a 'bail-in') in return for a privileged lock on future income (shades of the New York City solution). As a result 'Koreans suffered through massive bankruptcies of big and small firms, and a recession that contracted national income by seven per cent, bringing down wages for the average worker by ten per cent and sending the jobless rate to nearly nine per cent'.[34] From this two lessons can be drawn. First, 'Koreans learned in the hardest possible way that at the moment of their financial ruination, the United States had chosen to further its parochial self-interest'; secondly, the US now defined that self-interest entirely in terms of Wall Street and finance capital.[35] The Wall Street–Treasury–IMF alliance had, in effect, done to South Korea what the investment bankers had done in the mid-1970s to New York City. The subsequent revival of the Korean economy (in part based on ignoring IMF advice on restructuring as well as on a much less militant labour situation) has first and foremost augmented the flow of tribute into the coffers of Wall Street and thereby augmented concentrated elite class power in the US. The power of the *chaebols* has been either shattered or reconstituted as foreign capital moved in on a wave of mergers and acquisitions engineered by what became impolitely known as 'vulture capital' from abroad. The internal class structure is in flux as South Korean capital transforms relations to both

the state and the global market. But behind this the data show that income inequality and impoverishment surged during and after the crisis. The increasing casualization and 'flexibilization' of the labour force (particularly deleterious for women), backed by yet another round of state repression of labour and community movements, signals a renewed class offensive against the least well off that can only presage the usual consequences for the accumulation of class power both within and without the country.

Sweden

Probably nowhere in the Western world was the power of capital more democratically threatened in the 1970s than in Sweden. Ruled by the Social Democrats since the 1930s, Sweden's balance of class forces had been stabilized around a strong centralized trade union structure that bargained collectively with the Swedish capitalist class directly over wage rates, benefits, conditions of contract, and the like. Politically, the Swedish welfare state had been organized around the ideals of a redistributive socialism with progressive taxation and a reduction of income inequality and poverty achieved in part through the provision of elaborate welfare services. The capitalist class, though small, was extremely powerful. Unlike many other social democratic and dirigiste states, Sweden had refrained from nationalizing any of the commanding heights of the economy (with the exception of transportation and public utilities). While there were many small businesses, a few families owned a disproportionate share of the means of production.

As in almost all advanced capitalist societies, labour unrest burgeoned in the late 1960s, sparking a wave of regulatory reform that curbed the power of capital and extended the power of labour even into the workplace. The proposal that most threatened the capitalist class was the Rehn–Meidner plan. A 20 per cent tax on corporate profits would flow into wage earner funds controlled by the unions to be reinvested in the corporations. The effect would be to steadily reduce the significance of private ownership and to build towards collective ownership managed by the representatives of the workers. This amounted to 'a frontal assault on the sanctity of private ownership'. However generous the terms of the buy-out may have been, the capitalist class was threatened with

gradual annihilation as a distinctive class. And it responded accordingly.[36]

From the mid-1970s onwards, the Swedish Employers' Federation (doubtless emulating its counterpart in the US) increased its membership, mobilized a massive war-chest, and launched a propaganda campaign against excessive regulation and for the increasing liberalization of the economy, the reduction of the tax burden, and the rolling back of excessive welfare state commitments which, in its view, caused economic stagnation. But when a centre-right Conservative Party came to power in 1976, replacing the Social Democrats for the first time since the 1930s, it failed to act on the employers' proposals. The labour unions were too strong and the public was not persuaded. When it became clear that direct confrontation with the labour unions through lock-outs and non-collaboration in wage negotiations did not work either, the employers moved more towards undermining rather than confronting the institutional arrangements of the corporatist state. In 1983 they refused to participate in central bargaining. Thenceforth, wage and benefits negotiations would have to proceed on a company-by-company basis. They managed to persuade one union to go along with this, and so seriously damaged the collective power of labour.

But most efficacious of all was the propaganda campaign waged by the employers. They used their control over the Nobel Prize in Economics to consolidate neoliberalism within Swedish economic thinking. Long-standing complaints on the part of intellectuals and professionals regarding the oppressive universalisms and high taxation policies of the Swedish state were assiduously cultivated through a rising tide of rhetoric lauding individual liberties and freedoms. These debates reverberated throughout the media and gained increasing currency in the popular imagination. Above all, the employers' think-tank—the Center for Business and Policy Studies (SNS)—funded serious research on economic structures and prospects (like the NBER in the US) that again and again proved 'scientifically' to policy elites and to the public that the welfare state was the fundamental cause of economic stagnation.[37]

The real shift towards neoliberalism came with the election of a Conservative government in 1991. But the way had already been

partially prepared by the Social Democrats, who were increasingly pressed to find ways out of the economic stagnation. Their partial implementation of some parts of the neoliberal agenda suggested acceptance of the persuasive analyses of the SNS. It was the left rather than the right that now lacked ideas. The unions were persuaded to exercise wage restraint in order to raise profits and encourage investment. Deregulation of banking (which led to a classic speculative bubble in credit allocation and the housing market) and tax cuts for the wealthiest (again supposedly to encourage investment) had already occurred in the late 1980s. The central bank (always Conservative) finally switched its mission to fighting inflation rather than maintaining full employment. The collapse of the speculative bubble in asset prices that followed upon the oil price rise of 1991 led to capital flight and internal bankruptcies that cost the Swedish government dear. The blame for the crash was instinctively placed upon the inefficiencies of the welfare state and the Conservative government that came to power listened sympathetically to the Swedish Chamber of Commerce's plan for the complete privatization of the welfare state.

Blyth considers that the proposed remedies were wholly inappropriate to the circumstances. The problem, he argues, was 'cognitive locking'—the inability to think of any other policy solution than that prescribed by neoliberal orthodoxy. 'It was this homogeneity of personnel and ideas, coupled with the politicization of business, that thrust these new ideas onto the agenda and ultimately led to the transformation of Swedish liberalism.' The practical result was a serious depression that diminished output and doubled unemployment rates in two years. With the government losing public confidence, another way had to be found to sustain the neoliberal reforms. The answer was to join the European Union, a move that is 'perhaps best understood as an attempt by business and the Conservatives to let the economic ideas and institutions of the EU achieve by international convergence what they had failed to do through domestic reform'. Joining the EU in 1993–4 deprived the state of many of the tools it had previously maintained to fight unemployment and advance the social wage.[38] The result was that even when the Social Democrats returned to power in 1994, the neoliberal programme of 'deficit reduction,

inflation control and balanced budgets rather than full employment and an equitable distribution of income became cornerstones of macroeconomic policy'.[39] Privatization of pensions and of welfare provision was accepted as inevitable. Blyth interprets this as a case of 'path dependency'—a certain logic of decision-making powered by hegemonic ideas carries all before it. Embedded liberalism was eroded, but by no means fully dismantled. The public still remained broadly attached to its welfare structures. Inequality certainly increased, but by no means to the levels seen in the US or the UK. Poverty levels remained low and levels of social provision remained high. Sweden is an example of what might be called 'circumscribed neoliberalization', and its generally superior social condition reflects that fact.

Forces and Fluxes

The evidence assembled here suggests that uneven development was as much an outcome of diversification, innovation, and competition (sometimes of the monopolistic sort) between national, regional, and in some instances even metropolitan models of governance as it was an imposition by some hegemonic outside power, such as the US. A more fine-grained analysis suggests a wide range of factors that affected the degree of neoliberalization in particular instances. Most conventional analyses of the forces at work concentrate on some combination of the power of neoliberal ideas (held to be particularly strong in the cases of Britain and Chile), the need to respond to financial crises of various sorts (as in Mexico and South Korea) and a more pragmatic approach to reform of the state apparatus (as in France and China) to improve competitive position in the global market. While these have all been elements of some significance, the lack of any examination of the class forces that might be at work is quite startling. The possibility, for example, that the ruling ideas might be those of some ruling class is not even considered, even though there is overwhelming evidence for massive interventions on the part of business elites and financial interests in the production of ideas and ideologies: through investment in think-tanks, in the training of technocrats, and in the command of the media. The possibility

that financial crises might be caused by capital strikes, capital flight, or financial speculation, or that financial crises are deliberately engineered to facilitate accumulation by dispossession, is ruled out as far too conspiratorial even in the face of innumerable suspicious signs of co-ordinated speculative attacks on this or that currency. We need, it seems, a somewhat broader frame for interpreting the complicated and geographically uneven paths of neoliberalization.

Some attention must be paid to contextual conditions and institutional arrangements, since these vary greatly from Singapore to Mexico, Mozambique, Sweden, and Britain, and the ease of conversion to neoliberalism has varied as a consequence. The South African case is particularly troubling. Emerging in the midst of all of the hopes generated out of the collapse of apartheid and desperate to reintegrate into the global economy, it was partly persuaded and partly coerced by the IMF and the World Bank to embrace the neoliberal line, with the predictable result that economic apartheid now broadly confirms the racial apartheid that preceded it.[40] The changing internal balance of class forces within a particular state over time has also been a crucial determinant. To the degree that organized labour has managed to maintain or acquire (in the case of South Korea) a powerful presence, neoliberalization has faced strong and in some instances insurmountable barriers. Weakening (as in Britain and the US), bypassing (as in Sweden), or violently destroying (as in Chile) the powers of organized labour is a necessary precondition for neoliberalization. By the same token, neoliberalization has frequently depended upon the increasing power, autonomy, and cohesion of businesses and corporations and their capacity as a class to put pressure on state power (as in the US and Sweden). This capacity is most easily exercised directly via financial institutions, market behaviours, capital strikes, or capital flight, and indirectly through influencing elections, lobbying, bribery and corruption or, even more subtly, through commanding the power of economic ideas. The degree to which neoliberalism has become integral to common-sense understandings among the populace at large has varied greatly depending on the strength of belief in the power of social solidarities and the importance of traditions of collective social responsibility and provision. Cultural and political

traditions that underpin popular common sense have therefore had their role to play in differentiating the degree of political acceptance of ideals of individual liberty and free market determinations as opposed to other forms of sociality.

But perhaps the most interesting aspect of neoliberalization arises out of the complex interplay of internal dynamics and external forces. While in certain instances the latter may reasonably be construed as dominant, in most cases the relationships are far more intricate. In Chile, after all, it was the upper classes that sought US help in mounting the coup, and it was they who accepted neoliberal restructuring as the path forward, albeit on the basis of advice from US-trained technocrats. And in Sweden it was the employers who sought European integration as the means to lock in a neoliberal domestic agenda that was in difficulty. Even the most draconian of IMF restructuring programmes is unlikely to go forward without a modicum of internal support from someone. It sometimes seems as if the IMF merely takes the responsibility for doing what some internal class forces want to do anyway. And there are enough successful cases of rejections of IMF advice to suggest that the US Treasury–Wall Street–IMF complex is not as all-powerful as is sometimes claimed. It is only when the internal power structure has been reduced to a hollow shell and when internal institutional arrangements are in total chaos, either because of collapse (as in the ex-Soviet Union and central Europe), or because of civil wars (as in Mozambique, Senegal, or Nicaragua), or because of degenerative weakness (as in the Philippines), that we see external powers freely orchestrating neoliberal restructurings. And in these instances the success rate tends to be poor precisely because neoliberalism cannot function without a strong state and strong market and legal institutions.

It has undoubtedly also been the case that the burden on all states to create 'a good business climate' to attract and retain geographically mobile capital has played its part, particularly in the advanced capitalist countries (such as France). But what is odd here is the way in which neoliberalization and a good business climate are so often held as equivalent, as in the 2004 World Bank *Development Report*.[41] If neoliberalization produces social unrest and political instability of the order of that in Indonesia or

Argentina in recent years, or if it results in depression and restrictions on the growth of internal markets, then it could just as easily be said that neoliberalization repels rather than encourages investment.[42] Even when some aspect of neoliberal policy with respect to, say, flexible labour markets or financial liberalization has been solidly implanted it is not clear that this is in itself sufficient to lure mobile capital. And beyond this there is the even more serious problem of what kind of capital is being attracted. Portfolio capital is just as easily attracted by a speculative boom as it is by solid institutional and infrastructural arrangements that might attract high-value-added industries. Attracting 'vulture capital' hardly seems a worthwhile venture, but this in effect is what neoliberalization has all too frequently accomplished (as critics like Stiglitz freely acknowledge).

Contingent geopolitical considerations have also played their part. South Korea's position as a frontline state in the Cold War initially gave it US protection for its developmentalism. Mozambique's position as a frontline state led to a civil war fomented by South Africa to undermine Frelimo's attempt to construct socialism. Heavily indebted as a result of the war, Mozambique fell an easy prey to the IMF's penchant for neoliberal restructuring.[43] US-backed counter-revolutionary governments in Central America, Chile, and elsewhere have frequently produced similar outcomes. Even a particular geographical position, such as Mexico's proximity to the US and its peculiar vulnerability to US pressures, has played its part. And the fact that the US no longer needs to defend against the threat of communism means that it no longer has to worry unduly if neoliberal restructurings spark massive unemployment and social unrest in this place or that. It failed, much to the chagrin of loyal Thais who had supported the US throughout the Vietnam War, to bail out Thailand in its distress. Indeed, US as well as other financial institutions acted the part of vulture capital with considerable relish.

But one persistent fact within this complex history of uneven neoliberalization has been the universal tendency to increase social inequality and to expose the least fortunate elements in any society—be it in Indonesia, Mexico, or Britain—to the chill winds of austerity and the dull fate of increasing marginalization. While

such a trend has been ameliorated here and there by social policies, the effects at the other end of the social spectrum have been quite spectacular. The incredible concentrations of wealth and power that now exist in the upper echelons of capitalism have not been seen since the 1920s. The flows of tribute into the world's major financial centres have been astonishing. What, however, is even more astonishing is the habit of treating all of this as a mere and in some instances even unfortunate byproduct of neoliberalization. The very idea that this might be—just might be—the fundamental core of what neoliberalization has been about all along appears unthinkable. It has been part of the genius of neoliberal theory to provide a benevolent mask full of wonderful-sounding words like freedom, liberty, choice, and rights, to hide the grim realities of the restoration or reconstitution of naked class power, locally as well as transnationally, but most particularly in the main financial centres of global capitalism.