Beyond the Competitiveness Debate

AN INTERNATIONALIST AGENDA

George DeMartino and Stephen Cullenberg

It is tempting to believe that we live in an era when powerful international economic forces have overwhelmed the ability of progressive constituencies to affect the quality of life and other social and economic circumstances in developed and developing countries alike. How, after all, are organizations of labor, women, environmentalists, and others—all still largely domestically situated and substantially fragmented—to make a meaningful imprint on the course of affairs when the center of historical gravity seems to have shifted to global institutions that we cannot even generally identify, let alone control? In particular, one might be forgiven for concluding that intensified economic competition in global markets—an effect in part of the extension of neoliberalism to the international arena—compels all governments to promote the competitiveness of domestic firms and to subordinate progressive agendas to this paramount goal.[1]

The purpose of this essay is to begin to envision new forms of internationalist politics and policies that are appropriate to the context in which we live. We take as our focus the new competitiveness debate which has emerged in the U.S. over the past decade. This debate goes to the heart of the questions raised here. Many economists and other social analysts attribute much of the social dislocation in evidence today—including but not limited to the stagnation of real incomes—to the erosion of U.S. competitiveness in global markets.[2] The implication drawn is that these social ills can be solved only through restored U.S. economic hegemony. If this view is correct, it would seem, progressives have little choice but to join the national hunt for renewed industrial competitiveness.

Indeed, a striking convergence has emerged in recent years among most orthodox and many heterodox economists along precisely these lines. What we call the "competitiveness-enhancing" school of thought comprises economists of diverse theoretical and political orientations, joined in the shared perception that renewed social progress is tightly bound to the renewed competitiveness of U.S. firms.

In our view, this convergence is troublesome for all that it takes for granted. It presumes that firms and, derivatively, workers, communities, and nations around the globe must compete according to the emerging neoliberal rules of the game. These rules, reflected in recent trade and investment agreements such as the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on

Tariffs and Trade (GATT), privilege the market (over the state) in determining economic outcomes such as trade flows, capital mobility, wage rates, and prices. The neoliberal rules and institutions (commonly referred to as a "regime") restrict the authority of political entities to enact regulations to control the behavior of foreign and domestic capital—all in the name of "free trade." Moreover, neoliberalism is conceived as the natural outcome of a process of institutional evolution and hence beyond substantial reform or reversal. With these as givens, the conversation turns abruptly (even among heterodox thinkers) to strategies for enhancing the competitiveness of domestic firms.

For those with internationalist concerns, the illegitimacy of the end (displacement) disqualifies the means (enhanced competitiveness).

A dissenting view which challenges the neoliberal regime has emerged in recent years within academia and across progressive social movements, especially among those with internationalist sensibilities. This "competition-reducing" school of thought understands regimes that govern international economic integration to be decisive determinants of the character and outcome of capitalist competition. More to the point, this school rejects all naturalist perspectives on institutional development, viewing regimes not as simple evolutionary products but as the complex outcomes of social struggles. This perspective encourages an interrogation of existing political and economic regimes to explore how they affect balances of power between and among nations, firms, workers, and other constituencies, how they condition labor exploitation and environmental degradation, and so forth.[3] This orientation, then, promotes a politics of contest over regimes—over institutional configurations and the rules of the game—in the name of economic and social justice, but also in the name of democracy. From this perspective, and as we demonstrate below, the panoply of "new" competitiveness-enhancing strategies on offer today might be expected *at best* to displace social dislocations such as declining living standards onto others, rather than to eliminate them. For those with internationalist concerns, the illegitimacy of the end (displacement) disqualifies the means (enhanced competitiveness).

The competition-reducing approach faces challenging political and theoretical questions, however. What kinds of new international regimes (if not neoliberalism) might promise universal social progress? What kinds of regimes, that is, might induce an upward harmonization in the quality of life across developed and developing countries? That this is not a trivial matter is evidenced by the deep divisions among progressives about trade protection and related policies: such measures might protect the quality of life for some workers in developed countries while punishing the least advantaged in the developing world. And even if we can envision such new regimes, we face daunting questions about the kinds of mobilizations that might be necessary to secure them and about the conditions under which such mobilizations might be expected to emerge.

We purposely raise the issues of policy and politics together to highlight the fact that they cannot be thought of as substitutes for achieving social progress. When meaningful improvements in the quality of life of working people are attained, they are generally achieved through mobilization and struggle against established interests and privileges that have become embedded in existing institutions and rules. For these reasons, mobilizations succeed in part to the degree that they secure new regimes. Moreover and finally, just as mobilizations affect the kinds of regimes that can be secured, so too do the emerging regimes influence future struggle, and not always for the better (Davis 1986; Piven and Cloward 1971). Hence, we must keep in view the dialectical interplay between politics and regimes, as alternating means and ends.

We proceed as follows. First, we examine critically the dominant competitiveness-enhancing view, focusing on important heterodox contributions. Then we explore the oppositional, competition-reducing perspective, which draws implicitly on neo-Marxian and institutionalist traditions. This perspective inspired efforts to secure an expansive social charter in Europe and underlay the pressure on the Clinton administration, emanating from unions and environmentalists, to secure protective codicils before granting final approval to NAFTA. We argue that of these two heterodox positions, the competition-reducing approach merits theoretical elaboration and political support. To this end, we offer an alternative theoretical framework for understanding capitalist competition, one which emphasizes the degree to which its nature and effects are historically contingent. We then develop a social index tariff structure (SITS), a new approach to trade policy that might foster global human development by promoting an upward harmonization in economic and social aspects of life across developed and developing countries. We offer the SITS as an example of an attainable regime that both requires and enables new avenues of progressive, internationalist politics.

The Competitiveness-Enhancing Approach: Promoting Innovation

The orthodox view of U.S. decline was articulated with particular force by the neoliberal ideologues of the Reagan administration. Supply-side tax cuts were intended to increase savings to rekindle the flame of investment, entrepreneurship, and productivity. Deregulation and deunionization would create greater industrial flexibility while cutting costs. Welfare reform would increase work incentives and effort at market-determined wages. Reduced trade barriers would level the playing field, giving U.S. corporations fair access to foreign markets.

The historical marriage of corporation and community has been wrenched apart by technological revolutions in transportation and telecommunications (and various associated social and economic changes), which have unleashed powerful corrosive forces of international competition.

At the same time that many orthodox economists were endorsing these macroeconomic initiatives, some industrial management theorists offered complementary microbased diagnoses of the nation's economic problems. Michael Porter (1990), one of the most influential, argues that vigorous domestic competition is a necessary component in the forging of internationally competitive business. Porter urges the government to enforce antitrust legislation and resist calls by domestic producers for trade protection. In addition, the government must educate a first-rate workforce with the ability to generate and adapt to rapid industrial innovation. In short, the government must ensure that industrial managers feel intense competition while being provided with the capable workforce needed to meet the competitive challenge.

The heterodox competitiveness-enhancing contributions echo certain of Porter's themes, especially concerning the need for improved educational services and an environment conducive to increased rates of innovation. Robert B. Reich (1991), secretary of labor in the Clinton administration, dismisses as nostalgic the conception of a typical corporation sinking deep roots into a community and tying its fate to the resources and productivity of its home base. The historical marriage of corporation and community has been wrenched apart by technological revolutions in transportation and telecommunications (and various associated social and economic changes), which have unleashed powerful corrosive forces of international competition. Global "enterprise webs" are replacing home-based corporations, linking diverse, globally dispersed operations through a new international division of labor.

Reich identifies three classes of jobs: routine production workers, in-person servers, and symbolic analysts. The first two face intense wage competition from the boundless supply of unskilled labor throughout the developing countries. Symbolic analysts, on the other hand, occupy a privileged structural position in the global labor market as researchers, managers, creative problem solvers, and other high-level corporate experts. These jobs require high levels of skill and education, add high levels of value to production, and consequently command high wages. In Reich's (1990a:59) view, "Well-trained workers attract global corporations, which invest and give workers good jobs; the good jobs, in turn, generate additional training and experience." The U.S. must therefore invest in human capital through enhanced universal education while supporting R&D and facilitating direct foreign investment, all in order to encourage multinational firms to locate their most desirable work here.

Other heterodox economists focus on corporate governance and industrial organization as the levers to accelerated innovation. This emerging school has been influenced by the pathbreaking work of Piore and Sabel (1984), who explore the competitive advantages of intrafirm flexible specialization and regional interfirm cooperation in their explanation of the success of Japanese and "Third Italy" industries.[4]

Within this framework, for example, William Lazonick (1991) distinguishes between innovative firms that emphasize "value creation" (the production of useful commodities at low cost) through technological advance and adaptive firms that squeeze profits out of existing social and technological arrangements (as through the sweating of labor). To prosper over the long run, a nation needs a critical mass of innovative firms that outperform their foreign rivals.

The innovative firm seeks constant technological change to reduce the per unit cost of production. But such a firm is confronted by a dilemma: To realize the potential cost savings promised by new technologies, the firm must secure the good faith of its workforce. This is because the successful exploitation of new technologies depends upon the development of new skills and knowledge by the workforce through experimentation on the shop floor. And this good faith must be earned through cooperative labor-management relations, by the inclusion of workers in the corporate community. This requires high and rising pay, long-term employment protection, skill enhancement, and some influence over workplace decisions.[5] Cooperation thus serves as the foundation for technological innovation, which generates a net gain in value creation that can be shared by management and labor.

These various heterodox contributions share a progressive content. All envision an improving standard of living, in terms of wages, opportunities, and public services, as a *means* to the *end* of enhanced competitiveness. An innovative workforce must be both *able* (Reich) and *willing* (Lazonick) to promote perpetual change via problem anticipation, identification, and solution. These approaches share a commitment, then, to educational reform (as in Porter), poverty elimination, and greater income equality. They therefore turn the orthodox Reagan-Bush prescription on its head: improved quality of life is to be a *precondition* for greater competitiveness, rather than merely its deferred *effect*.

An Internationalist Critique

This approach is objectionable on two counts: first, these prescriptions are unlikely to yield a solution to the competitiveness problem; second, the proposals reinforce parochial political identities by defining workers' interests along national lines, thereby widening cleavages that currently debilitate international efforts to resist exploitation.

With respect to the former objection, these theorists search in vain for an enduring benevolent solution to the contradictions of capitalist competition. The goal must be not simply to secure a high rate of labor productivity or innovation but to secure a *perpetual competitive advantage.* Only if a nation can create a superior environment for producing innovation (or, in Reich's case, symbolic analysts) can it expect to win the competitive race.

None of these theorists, however, poses the difficult question whether it is reasonable to expect any country to achieve an enduring competitive advantage in the context of the economic and technological conditions and neoliberal regime prevailing at the end of this century. Historically, capitalist competition has proven to be an exceedingly dynamic, uneven, and contradictory process in which yesterday's innovations often transform into today's fetters. This is because countries become institutionally committed to established forms of production and the broad matrix of social, political, and economic practices with which they become associated (Hollingsworth et al. 1994). As a result, they often sacrifice their earlier dynamism and hence find it difficult to respond to new competitors (see, e.g., Lazonick 1991). Making matters worse, this century has certainly witnessed what might be called "accelerating competitive advantage obsolescence"—partly the result of the very same forces that these theorists cite as driving the internationalization of the world economy, namely, the technological revolutions in telecommunications, transportation, and data processing that today allow corporations to shift not only production but also planning, engineering, and managing around the globe. Internationalization has also been driven by the increasing transnational flow of information, education, and even symbolic analysts. Consequently, the rate at which national fortunes change has quickened, diminishing the period necessary for rising nations (or sectors therein) to achieve competitiveness and the period in which hegemonic nations can enjoy that status.[6]

If this thesis is correct, then the pursuit of restored competitiveness on neoliberal terms is misdirected, and the progressive content of the new competitiveness-enhancing approach (e.g., better-funded universal education) will be held hostage to an imposing test—not whether it stands to improve the quality of life but whether it is apt to yield perpetual competitive advantage. In a world of accelerating competitive advantage obsolescence, this is an insecure basis for justifying these important social reforms. If other nations are able to achieve comparable levels of training or worker commitment (whether through democratic or authoritarian means) but are also willing to accept longer hours of work for lower pay and/or to tolerate environmental degradation, minimal corporate or personal taxation, or other aspects of what might be considered a more congenial environment for capital accumulation, then surely they might be expected to outcompete the U.S., either through the generation of their own firms or through the securing of direct foreign investment.[7]

Our principal objection to these proposals concerns not their viability, however, but their political orientation. These proposals seek nothing more, after all, than the restoration of U.S. economic hegemony. In Reich's view, for instance, the inevitable disparity between "good" and "bad" jobs compels the U.S. to outcompete other nations in securing the lion's share of the former while exporting the latter. In this vision, developing countries experience an inflow of low-paid employment as a consequence of the "comparative advantage" that their poverty affords. There is simply no mechanism here to deliver an upward harmonization in the conditions of work across nations. Rather, the vision on offer is one in which the gains of the U.S. come at the expense of other nations. We would argue that this is, indeed, the common denominator of all such competitiveness-enhancing strategies, no matter the progressive sensibilities of their proponents.[8]

As a political intervention, the competitiveness-enhancing view has implications of a related sort. This perspective constructs and seeks to mobilize identities defined by national and/or corporate affiliation. These identities are laden with political significance: they are seen to determine in an unproblematic way the interests of the U.S. (or the GM) worker. In this vision of identities, the interests of the U.S. worker are therefore determined in large part in opposition to those of workers of other national origins. At best, then, the competitiveness-enhancing perspective threatens to reproduce international divisions among labor at a time when the effective expression of labor's interests *as labor* requires a degree of unity scarcely achieved in the past.[9]

These shortcomings arise out of the unwillingness of the competitiveness enhancers to interrogate the *regime* that demarcates the terrain on which competition is allowed to unfold. They consequently pose the question, How can the U.S. win? rather than the question, How can working people the world over secure a decent and improving standard of living in the face of intensifying international capitalist competition? Policy discussions then degenerate into disputes about the best strategies for romancing capital (or at least its better jobs). A progressive response, we would counter, requires instead revising the rules of the game in order to secure the beneficial effects that economic integration sometimes (but not always) encourages.

> Historically, capitalist competition has proven to be an exceedingly dynamic, uneven, and contradictory process in which yesterday's innovations often transform into today's fetters.

The Competition-Reducing Alternative

Barring some more radical rearrangement of the international economic order that might displace capitalist competition, is a nation not compelled to seek advantage in order to avoid the harsh penalties which inevitably accompany defeat?

The answer, we think, is no. Other approaches have emerged in the context of political movements which seek to reduce the scope of competition (see Brecher and Costello 1991). This entails changing the rules of the game in pursuit of two related goals: first, ensuring that neither the gains nor the losses of competition carry the social weight that they presently do; and second, constraining the terms on which competition may unfold so as to promote its socially beneficial, and to minimize its socially adverse, consequences. These purposes are served in part by steps that would insulate certain critical features of social, political, cultural, and even economic life from the reach of competition.

A precedent for this approach lies in the classical doctrine of labor organization. Wherever a market for labor has developed over the course of the past two centuries, workers have formed organizations with the minimum goal of removing wages and working conditions from competition. Although some radical unions seek much more than this, all attempt, as the first order of business, to insulate (to the degree possible) workers' livelihoods and health and safety from the reach of interfirm competition. The intention is to ensure that competition finds alternative bases, such that no one firm can win a competitive advantage by exploiting its workforce beyond some codified (albeit variable) level.

Historically, the effort to remove wages from competition has been restricted to national borders. The current movement to extend this protection sees as the next logical step the internationalization of this effort in response to the rapidity and ease with which capital can relocate in search of wage differences and the increasing international competition in commodity markets—all of which puts workers in diverse corners of the globe in direct competition with each other. The current initiatives are unique in that they reach beyond wages and other substantive working conditions to demand that other aspects of social life be removed from competition.

During the 1980s, for example, labor, religious, and civil rights organizations secured changes in U.S. trade policies (Cavanagh et al. 1988; Charnovitz 1992; Perez-Lopez 1988, 1990; Rothstein 1993).[10] In 1984 the Generalized System of Preferences (GSP) was amended to require the U.S. to rescind preferential trading privileges to "any nation which has not taken or is not taking steps to afford internationally recognized worker rights to workers in the country (including any designated zone in that country)" (quoted in Cavanagh et al. 1988). Similar provisions were incorporated in the Caribbean Basin Initiative (CBI) in 1983, the revised Overseas Private Investment Corporation (OPIC) rules in 1985, and the 1988 Omnibus Trade and Competitiveness Act. With respect to NAFTA, environmental and labor organizations sought to remove environmental and labor standards from competition; with respect to the European social charter, various constituencies fought, largely unsuccessfully, for transnational standardization of procedural, as opposed to strictly substantive, conditions of employment, such as workers' rights to organize unions and to strike (Silvia 1991).

Fundamental to this approach is the demand that social conditions be harmonized upward internationally: not only wages but environmental protection and worker rights are to be universalized by conscious design to prevent capital from exploiting regional differences. The presumption is that under the neoliberal regime, capitalist competition will generate pressure toward a downward leveling in conditions of life as capital flees those regions where social regulations and costs of production are highest in search of those where conditions are more favorable. This is termed "social dumping," a phenomenon altogether familiar to the traditional blue-collar unionized sector of the U.S. The free trade Mexican *maquiladoras*, which now comprise over two thousand foreign firms operating with little regard for the social, economic, and environmental prohibitions formally adopted in Mexico, are illustrative (Friedman 1992; Koechlin and Larudee 1992). Social dumping can be prevented, in this view, only by explicit international accords that harmonize upward, conferring the rights and ultimately the living standards achieved in the wealthiest countries to those that lag behind.

Implicit in this political strategy to remove certain aspects of social life from competition is a theoretical understanding of competition that differs from both orthodox neoclassical economic theory and orthodox Marxian theory. Neoclassical economists tend to hold a celebratory view of economic competition. Market competition is the vehicle by which humanity efficiently allocates scarce resources to diverse ends, both statically and dynamically. The rewards which flow to the victors in market competition induce a hunt for innovation in the technological and social organization of production. In this view, robust market competition is the primary necessary condition for such innovation (see, e.g., Porter 1990).

Orthodox Marxists concede this power of market competition to induce innovation, but they nevertheless reject the neoclassical view of the desirability of market competition. On the one hand, capitalist competition is seen to spur the production of all manner of socially wasteful products and induce a gigantic allocation of society's resources to the sales effort (Baran and Sweezy 1966). In this sense, competition is considered exceedingly wasteful. On the other hand, competition carries as a necessary corollary diverse disruptive social consequences. These include deskilling and the dehumanization of labor (as control is separated from performance), involuntary unemployment (as, for example, when innovation reduces the firm's relative need for labor), and periodic crises. Hence, the social ills of low pay, low skill, job insecurity, and dissatisfaction are seen to be necessary consequences of capitalist competition.

A more nuanced vision of competition, implicit in the competition-reducing approach, understands that competition is neither virtuous nor evil, progressive nor regressive. But competition per se never exists: like all other social processes that constitute social life, competition never emerges in some pure, unmediated, or universal form. Rather, it always arises in a broader social, political, economic, and cultural matrix which gives it definition and determines its character as well as its broader social effects. What we call the *economic* is also always political, social, and cultural.[11] For example, power dynamics fully interpenetrate capital-labor relations, conditioning both the level of wages and the intensity of the work effort. Hence, forms of abstraction that treat the economy as a self-contained sphere of society, amenable to independent examination, fail in principle to convey the complexity of economic events and the scope of economic possibilities. And just as all economic activities entail social and political relations, so are seemingly noneconomic activities or practices shaped by economic relations and events. For example, the formation of consumer preferences can hardly be regarded as exogenous to market processes in modern market economies, as Veblen and Marx well understood.

A more nuanced vision of competition understands that competition is neither virtuous nor evil, progressive nor regressive. But competition per se never exists: like all other social processes that constitute social life, competition never emerges in some pure, unmediated, or universal form.

Whether competition will be progressive or regressive, socially benevolent or malevolent, innovative or wasteful, is a fully *contingent* matter. It depends, in the final analysis, on no less than the full set of circumstances defining the historical moment. One important subset of these circumstances entails what we have called *regimes*; these comprise the political and economic rules of the game that delineate the conditions under which competition is allowed to unfold, and the set of attributes of social life that it is permitted to implicate.

We therefore pose for ourselves a theoretical challenge that moves beyond a one-sided critique of competition. This challenge is to explore, first, which aspects of social life at present, *together with competition*, generate harmful social effects; and second, how the rules of the game might be revised, through a combination of public policy and political mobilization, at the national and international levels, so as to reap the imputed benefits of competition and economic integration.

Taking X out of Competition

These new demands for upward harmonization pose several difficult theoretical questions. The first, and in some sense primary, question is this: Short of the elimination of competition capitalism itself, which aspects of social life can be taken out of competition without eroding whatever progressive effects it is understood to induce? To put the matter more precisely: Is there in principle a strict, invariable limit to the terrain of social life which can be taken out of competition without undermining its tendency to generate technological innovations? Or, alternatively, is this limit historically and conjuncturally variable, such that different constituent aspects of social life must be in play at certain moments for competition to generate beneficial effects, but need not be at all in play for the same to result under other social arrangements? We pose the question again in another way, because much hinges on the answer: If our goal is to take some as yet unspecified X (e.g., convict labor) out of competition so as to insulate social life from its effects, is the vector of aspects of social life that can be so insulated and that X designates fixed by the essential nature of capitalism and capitalist competition, or does it vary with changes in culture, technology, political arrangements, ethical norms, and the manifold other aspects of social life?

The theoretical perspective summarized above suggests that there is no fixed set of conditions of social life that must remain a part of competition in order for innovation to occur. Rather, what may serve as the minimum set of necessary conditions for competition "to work," in the sense of achieving socially beneficial results, is necessarily socially constructed and hence eternally variable.[12]

The implications of this view are rather direct. It opens up the possibility that we can militate for dramatic changes in social arrangements, short of the abolition of capitalist competition, so as to reduce the set of necessary conditions. It broadens the political thrust of movements for global harmonization to encompass such initiatives. These political struggles would be prerequisites for the success of demands to take X out of competition, for unless social and political arrangements are reorganized, the impetus to remove X might fail because it causes unforeseen social hardships[13] and/or cancels conditions that are in fact necessary for innovation in a particular conjuncture. More simply, it will be necessary to do some substantial theoretical and political groundwork as a precondition for taking some particular aspect of social life out of competition. Hence, we see the need for an integrative theoretical and political approach which advances on two distinct fronts: (1) an exploration of what can be taken out of competition *at any particular historical moment* without inducing severe social hardships, and (2) an exploration of how existing social arrangements can be altered with the effect of diminishing the set of necessary conditions for innovation, so that other social aspects may be removed from competition *in the future*.

This approach encourages us to recognize that the rules of the game also affect decisively the *kinds* of innovations (technological, social, and otherwise) that are permitted and encouraged and hence the qualitative nature of economic development. This is a commonplace, but one whose import is largely overlooked by professional economists. When wages, hours, and work intensity are removed from competition, the sweating of labor ceases to be a viable innovation; when building codes are effectively implemented, the adulteration of building materials becomes unavailable to the pursuit of competitive advantage; when strict environmental standards are enforced, new technologies which increase external social costs while reducing private costs are eclipsed by other technologies that reduce social costs. Hence, taking X out of competition becomes a means to alter the fundamental character not only of competition but of innovation as well—to exert social control over this extraordinarily powerful determinant of the quality of social life (see, e.g., Piore 1990; Herzenberg et al. 1990).[14]

Harmonizing What?

This theoretical project entails an additional conceptual difficulty, one which reaches well beyond economics. The idea of harmonizing upward internationally raises the specter of the hegemonic homogenization not only of economic circumstances but also of political arrangements and even of cultural attributes of society. All of these, after all, may have profound effects on costs and, hence, on competitiveness. For example, equalization would seem to imply at a minimum the standardization of laws concerning child labor and environmental protection. And yet, different societies have dramatically different notions of the proper role of children—of their economic responsibilities and capacities—and divergent notions of how humans should relate to and value the natural environment. Perhaps even more pervasively, they differ with respect to the question of which spheres of social life are appropriate sites of market relations. Should health care be commodified, for example, and if so, to what degree? The theoretical question posed, then, is whether we can assume that there is a compelling philosophical, moral, or ethical argument for harmonizing upward when practices and worldviews differ so profoundly.[15] In view of the vast cultural diversity across nations, the question arises whether there exists some universal code of individual rights or community interests to found such judgments. Should we take a relativist view, recognizing that the legitimacy of distinct codes derives from the particular cultures and contexts within which they arise? If so, is it even appropriate to pose the strategy of international harmonization? Can we comfortably assert that our Western sensibilities ought to drive this harmonization process, or ought equal status be accorded to worldviews that are at odds with the political liberalism founding the Western worldview?[16]

Absent clarity on such issues, the demand for harmonization may be interpreted, perhaps correctly, as hegemonic and imperialist. Under such circumstances, this demand may appear strikingly unappealing even to those who stand to gain the most, economically at least, from its realization.

Capabilities to Achieve Functionings

Solving these problems may require an approach to—and a definition of—harmonization that expands rather than reduces the relative autonomy of separate cultures. One approach lies in the "capabilities" framework of Amartya Sen (1992). Sen places ethical value on interpersonal equalization of "capabilities to achieve functionings." Functionings are states or conditions that humans can attain, which depend on the resources at their command but also on technologies, institutional arrangements, and individual physical and mental abilities. Examples of functionings include the abilities to be well nourished, to avoid preventable morbidity and premature mortality, to participate meaningfully in social governance, and to "appear in public without shame." Capabilities refer to the feasability set of functionings, including, therefore, only those functionings that are achievable. Sen's call for the equalization of capabilities entails a demand for the equal freedom of individuals to become what they choose, to attain what they have reason to value.[17] This approach respects diversity of human aspirations rather than imposes uniformity in political, economic, social, and cultural norms. It therefore synthesizes a universalist concern for equality with a respect for the heterogeneity of individuals, cultures, and societies: equal capabilities (an ethically driven end), after all, may be achieved via culturally diverse means.[18]

Harmonization qua "equalization of capabilities," then, provides an ethical and practical vantage point from which to envision the formation of policies and strategies for attaining international improvements in the quality of life. This task can be conceived as the search for new political and economic regimes that are capabilities-enhancing rather than capabilities-reducing, especially for (but not limited to) those individuals, communities, and nations facing the most bleak capabilities. The rules must influence the kinds of innovations that competition is allowed to pursue and exploit: those that promote human development of the relatively impoverished (in capability terms) should be permitted and even encouraged, while those that enhance competitiveness at the expense of capabilities should be prohibited. The question that must be faced, therefore, is, What kinds of new international institutional arrangements might generate this result? We turn now to an examination of such arrangements.

Alternative Progressive Trade Policies

This discussion has been perforce rather abstract, given the nature of the issues involved. We now examine three concrete proposals that have been put forward as means to cancel the adverse consequences of the forms of international competition that the neoliberal regime encourages; each of these focuses on trade and/or direct foreign investment. The first entails the adoption of a social charter in order to standardize diverse conditions across signatory countries, as has been undertaken within the European Union. The second is the establishment of a set of "Sullivan Principles" to govern the conduct of U.S. corporations that undertake direct foreign investment in low-standard countries. The final proposal entails the imposition of a social tariff on imports from low-standard countries.

In order to evaluate these alternative proposals, we must first give a definition of *progressive internationalist policy* that is consistent with the theoretical concerns discussed above. First and foremost, such policy must promote an upward harmonization of human development, defined in terms of capabilities. This implies that it must protect the living standards of one country against competition from firms located in countries lacking basic worker or human rights, environmental standards, and so on. But it must also provide incentives and means for countries with poor performance in these areas to improve. By incentives we mean that it must assist the formation and mobilization of constituencies in pursuit of human development and must structure international relations in a way that space is created for the realization of these objectives. Policy must at once recognize and respect diversity of different cultural and social norms across countries while promoting international cooperation among workers, environmentalists, and other progressive groups as a means of responding to the globalization (and global mobility) of firms. Finally, in order to minimize the possibility of nationalist policies in progressive guise, these policies should be multilateral, rule-based, and democratically derived.[19]

The Social Charter Approach

The negotiations over European integration in 1992 (the Maastricht Treaty) included provisions for a social charter. With the exception of the United Kingdom, the signatories of the Maastricht Treaty have agreed to the charter (now called the social chapter of the treaty), which includes fundamental rights ranging from employment protections to the protection of children, the elderly, and disabled persons (Kraw 1990). The purpose of the charter is to harmonize certain social and labor standards throughout Europe.

In recent years many have argued that a social charter should be established as part of the process of North American integration (Rothstein 1993; Castañeda and Heredia 1992; Brown et al. 1992; Shrybman 1991–92). These proposals include provisions for the harmonization of minimum environmental and labor standards, greater community and worker participation in their enforcement, and a strengthened social safety net (Brown et al. 1992).

While there is much to commend in the social charter approach, there are also a number of significant weaknesses. First, as the outcome of negotiations between countries with differing levels of standards, the social charter is apt to establish a floor rather than a unified code of conduct comparable to standards in place in high-standard countries. This creates two problems: it provides no incentive for improvements in social standards above the specified minimums, and it leaves the high-standard countries vulnerable to competition from firms operating in low-standard countries. As a result, a social charter is not likely to empower progressive groups in their pursuit of increased social protections. In short, the approach is "sticky upward": it lacks sufficient force to generate a dynamic of improving standards over time and must be augmented by other initiatives.

The Sullivan Principles Approach

Under an alternative approach, high-standard countries would require domestic corporations that invest in low-standard countries to respect certain worker and social rights and environmental protections. This policy has been suggested by Bhagwati (1993) in the case of North American integration and is reminiscent of the Sullivan Principles, which required U.S. corporations that invested in South Africa during the apartheid era to comply with U.S. laws against discrimination. Bhagwati argues that this approach would prevent social dumping while respecting national autonomy of the developing countries. In his view, requiring developing countries to adopt the same standards as developed countries would infringe on their sovereignty. For example, the demand, expressed by some opponents of NAFTA, that Mexico harmonize its environmental standards and practices with those of the U.S. is unacceptable to Bhagwati (ibid.):

> Surely the manner in which Mexico divides its overall effort to meet environmental objectives among different industries and regions must reflect its own priorities just as ours reflect our own interests. Demands on Mexico to do exactly what we would do are therefore not sensible. Since we would properly not submit to them if made by others, they are also unreasonable.

Bhagwati is correct to argue that one country must not be required to follow the path of another's development priorities. But the principle of sovereignty must be balanced against the competing principle adopted here, the equality of freedoms to pursue goals that people have reason to value. The task is to devise policies that will promote this result without mandating that individual countries achieve this result in identical ways. In our view, the Sullivan Principles approach fails on this front.

A major weakness of this approach is that it does not provide incentives for comprehensive human development in the low-standard country receiving direct foreign investment. While it retards direct foreign investment, it provides no proactive incentive for indigenous development. Its principal effect is to improve the living standards of the relatively few workers in developing countries who find employment in foreign-based firms. It might, as Bhagwati argues, provide a demonstration effect for nongovernmental organizations and others to advocate for nationwide adoption of the higher standards introduced by foreign corporations. But it is unlikely that this demonstration effect will suffice to induce universal improvements in rights and living standards in the absence of other measures, given the relative absence of rights of association and political expression that obtains precisely in many low-standard countries.

Finally, the Sullivan Principles approach is unilateral. While Bhagwati cites this as one of its strengths, we see the need for a participatory, multilateral approach which can respect the diversity of aspirations and goals across nations.[20] But it may be possible to integrate the Sullivan Principles approach into a multilateral framework.

The Social Tariff Approach

The social tariff approach best meets our criteria for a progressive trade policy. Dorman (1992), Lebowitz (1988), Chapman (1991), Ramstad (1987), and Rothstein (1993) have called for "social tariffs" targeted at those countries with relatively weak labor rights and environmental protections. The goal is to insulate labor and environmental protections achieved in high-standard countries by canceling the competitive advantage enjoyed by firms operating in low-standard countries.

Dorman (1992) considers the optimal structure of a social tariff designed to insulate the rights enjoyed by U.S. labor. In his view, a properly structured tariff would be leveled unilaterally by the U.S. (due to the unlikelihood that low-standard countries would agree to multilateral accords which included a social tariff), would target individual industries (rather than all the export commodities of an offending country), and would be calibrated commodity by commodity to cancel the competitive advantage gained by a trading partner with inferior standards. Workers who and/or firms that believe they have been harmed by unfair competition from low-standard foreign firms would seek redress in the form of a tariff through a petition to an authority established for this purpose. After hearing evidence from both parties, the authority would dispose of the petition on its merits.[21]

The social tariff approach seeks to remove worker rights and environmental degradation as sources of competitive advantage, but in our view this approach contains significant weaknesses as well. First, the proposal entails a unilateral response to forces that we believe should and can be addressed effectively only by international cooperation. In the absence of such cooperation, we should expect a country harmed by the imposition of a social tariff to retaliate; as the number of countries affected by the social tariff grows, retaliation (or even the threat of it) may not only cancel the benefits that the social tariff was designed to create but also substantially interfere with beneficial world trade. Given the unequal ability of countries to retaliate, the approach is also likely in practice to punish the weakest and poorest nations.

Second, despite the intentions of its proponents, the unilateral social tariff approach is unlikely to forge international cooperation *among workers* seeking to respond to the internationalization of capital. We view this cooperation as essential to an improving quality of life for workers worldwide; hence, we are skeptical of initiatives taken by individual governments in this arena, even when the objective is to reduce the incentive for other governments to retain weak labor and environmental standards.

A unilateral social tariff is also likely to be manipulated by the acting government to achieve unrelated political ends, as has been the case with the implementation of the GSP and OPIC in the U.S., and by firms to achieve protection (Cavanagh et al. 1988). It is noteworthy that many labor activists from developing countries have opposed U.S. efforts to tie trade preferences to labor standards, because they see such measures as protectionist and nationalist (Cavanagh 1993). Such abuse is much less likely where trade arrangements are instituted multilaterally and are rule-based.

Finally, many proponents of this approach exclude differences in wage levels as a legitimate basis for the imposition of a social tariff (see, e.g., Dorman 1992). The rationale is rather orthodox: if capital is allowed to flow freely to those countries with the lowest wages, global efficiency and equity will be promoted. Gradually, the expansion of modern industries in such regions will induce higher wages and an improved standard of living. The imposition of a social tariff in a high-wage country to counter the advantage enjoyed by the low-wage country would therefore violate the principles of economic efficiency and social equity.[22]

Consonant with the criteria presented above, we agree that wealthier countries should not enact policies that protect their higher standards of living but threaten human development in poorer countries. This is among our principal objections to even the most progressive of the competitiveness-enhancing proposals. But in the absence of protection against capital flight toward low wages, a social tariff will not achieve its primary intended effect of insulating labor in developed countries from economic dislocation and declining living standards. The challenge, to reiterate, is to discover a policy regime that simultaneously promotes human development in the developing countries while protecting (and improving) the levels attained in the developed countries.

SITS: A Cooperative Internationalist Alternative

We propose here a variant of the social tariff model that builds on the strengths of these alternatives while approaching the criteria for a progressive internationalist trade policy. Consider what we call a "social index tariff structure" (SITS). Under a SITS regime, each country would be assigned an index number reflecting some measure of the capability to achieve functionings of its citizens, corrected for the level of national income. Countries would then be ranked according to this measure of their human development performance. These rankings would determine the application of social tariffs, which would be applied when one country accepted imports from another with a significantly lower index number.

The Human Development Index (HDI), devised by the United Nations Development Programme (UNDP) and reported yearly in the *Human Development Report* (HDR), represents an explicit *first approximation* of a measure of these capabilities.[23] The HDR insists on a broad definition of human development that "makes it possible to capture better the complexity of human life—the many concerns people have and the many cultural, economic, social, and political differences in people's lives throughout the world" (UNDP 1990:11). The HDI is a composite measure based on welfare (derived from income), life expectancy, and educational attainment data. On the basis of this index, Japan ranked first, the U.S. sixth, and Guinea last in human development in 1993.

It is obvious that wealthier countries are more likely to achieve a high ranking in terms of the HDI. This is because GDP per capita appears in the welfare component of the index, but also because such countries can better afford improvements in health and education. In order to calculate a measure of how well a country is doing *relative to its ability*, then, we need to adjust the HDI by accounting for the country's wealth.

There are several ways to correct for differences in income.[24] One involves simply dividing the countries into deciles based on national income, taking the average HDI for each decile, and then computing for each country the ratio of its actual HDI to the average HDI for its income group. This approach requires the plausible assumption that countries in each income group on average make roughly equal efforts to promote human development. In this case, the average level of HDI for a particular income group serves as a measure of the "expected" level of development for countries in that group. In forming the ratio of actual to expected HDI for each country, then, good performers have a value greater than one, and poor performers have values between zero and one. Finally, this approach precludes a bias in favor of rich or poor countries. The number yielded in this way we call the *means-adjusted HDI*.

Next, we weight the means-adjusted HDI in order to account for the differences in wage costs between countries. We do this to cancel the competitive advantage gained through the payment of wages that are low relative to the level of productivity attained.[25] This may be thought of as the international analogue to the traditional trade union demand to take wages out of competition. In particular, we seek to prevent capital from pitting workers against each other as it migrates in search of greater profit opportunities. By making this final "class" correction, we derive what can be called the *class means-adjusted HDI*.

In order to make this adjustment, we multiply each country's means-adjusted HDI by the ratio of "earnings to value added for its manufacturing sector," as reported annually by the World Bank. This adjusts the HDI so as to take into account the class disparities between countries. According to the World Bank (1992:290), earnings as a percentage of value added shows "labor's share in income generated in the manufacturing sector." We emphasize that this weighting does not penalize poor countries for being poor, because it targets not low wages per se but wages that are low relative to established productivity levels.

The formula for the class means-adjusted HDI, then, can be written as

$$P_i = (H_i/A_j)(C_i),$$

where P_i is performance, country i; H_i is HDI, country i; A_j is average HDI, group j; and C_i is earnings/value added in manufacturing, country i.

With this new index we can develop a multilateral tariff structure that rewards and penalizes countries based on their human development performance relative to their means. The social tariff between any two countries is determined by their relative index values: if France has a significantly higher index number (P) than the U.S., the U.S. faces a social tariff in its exports to France; if, at the same time, U.S. performance exceeds that of Japan, it wins tariff protection on Japanese imports.

The logic is straightforward: Countries would be rewarded in global markets for making improvements in the conditions of social life measured and codified in the index. For example, rather than be penalized with diminished competitiveness and capital flight for expanding worker rights (which might increase labor's share of national income), a country would win improved access in foreign markets for its exports.

There are seventy-seven countries for which the 1990 data necessary to calculate the index are available. Having established that the SITS values approximate a normal distribution, we standardize the values (transforming them into standard deviations about the mean). This provides a simple (albeit arbitrary) basis for grouping countries into tariff bands (see Table 1).

Under this regime, a social tariff would be levied on the exports of a country when it exported to another country in a higher band. For example, a country that exported to countries in higher bands might face an ad valorem tariff of 5 percent per band. Exports to countries in the same or a lower band would face no social tariff. We note that the designation of social tariff bands and the size of the tariff necessarily reflect political as well as economic judgments. For a SITS regime to be fairly implemented, both the groupings and the size of the social tariff would have to be negotiated in a new and fully representative trading organization (see UNDP 1992).

The manner in which a country increases its performance (thereby improving its social tariff position) is not rigidly prescribed. A country may enhance its position by improving its education, longevity, or wage share variables. In a fully elaborated SITS regime, an increase in real GDP per capita should have a lesser effect on a country's ranking than the other terms, given that the purpose of the SITS trading regime is not to reward high income per se but to reward improvements in human development. It bears emphasis that the SITS approach is not antigrowth, but neither is it agnostic with respect to the means by which growth is pursued: capabilities-reducing strategies (such as labor suppression) would be penalized in global markets.

The adjusted HDI presented here is but a first approach to an appropriate index. The basic idea of the SITS approach can be broadened to include indices of gender and racial/ethnic equality, income distribution, environmental protection, corporate governance, and so forth. These elaborations would be reflected in simple extensions of P. As with the class term, each of these indices further weights the means-adjusted HDI, as follows:

$$P = (H/A)(C)(G)(Y)(E)(B),$$

where G is the gender equality index, Y the income equality index, E the environmental protection index, and B the corporate governance (behavior) index.[26] This approach parallels the one already used by the HDR to incorporate gender and income distribution considerations.[27]

Table 1: Human Development Performance and Social Tariff Bands

COUNTRY	PERFORMANCE (P)
Band 1: Highest Performance	
Barbados	2.34
Iceland	2.29
Band 2: High Performance	
France*	1.94
Norway	1.66
New Zealand	1.60
Hong Kong	1.45
Luxembourg	1.38
Austria	1.24
Netherlands	1.17
Honduras	1.16
Madagascar	1.15
Denmark*	1.04
Band 3: Above-Average Performance	
Finland	.84
Kenya	.84
Cyprus	.81
Australia	.76
Fiji	.70
Mauritius	.65
Canada	.64
India*	.63
Malta**	.61
Hungary	.56
Romania	.55
Costa Rica	.54
Czechoslovakia	.54
Panama	.51
Cameroon	.51
Germany	.42
Ecuador	.42
Zimbabwe	.42
Belgium	.41
Korea, D.R.	.39
United Kingdom	.37
South Africa	.35
Greece	.35
Spain	.34
Italy*	.32
Israel	.16
Zambia	.07
United States	.06
Band 4: Below-Average Performance	
Sweden	-.01
Portugal	-.07
Japan	-.14
Congo**	-.17
Bolivia	-.18
Thailand	-.29
Korea, Rep.	-.36
Botswana**	-.36
Kuwait*	-.44
Tanzania**	-.45
Jordan	-.46
Singapore	-.47
Philippines	-.47
Egypt*	-.52
Uruguay*	-.52
Ireland	-.59
Malaysia	-.65
Syria*	-.72
Indonesia	-.92
Swaziland**	-.96
Band 5: Low Performance	
Saudi Arabia*	-1.08
Mexico	-1.10
Bangladesh	-1.15
Brazil	-1.15
Sri Lanka*	-1.18
Poland	-1.20
Turkey	-1.25
Argentina*	-1.27
Venezuela	-1.35
Chile	-1.37
Guatemala*	-1.41
Colombia*	-1.43
Pakistan**	-1.50
Ethiopia	-1.51
Nepal**	-1.54
Peru**	-1.58
Band 6: Lowest Performance	
Niger**	-2.34

All data for 1990, except as follows: *1989 earnings share data, **1988 earnings share data. $P_i = (H_i/A_j)(C_i)$, standardized, where P_i = performance, country i; H_i = HDI, country i; A_j = avg. HDI, group j; C_i = earnings/value added, mfg., country i.

Sources: UNDP 1993; World Bank 1993a, 1993b.

Critically, such a trading regime would begin to shift the burden in domestic political struggles: environmentalists would be able to seek new regulations without facing the objection that such measures would necessarily imperil the competitive survival of domestic firms. At a minimum, a well-structured social index tariff would mitigate the effects of the increasing costs attending the new environmental protections. A composite index would also grant the progressive elements in each society maximum latitude to define for themselves the content of their demands—one might champion improved worker rights, another enhanced environmental protections, a third gender equality or corporate governance—each would be rewarded in terms of its trading relationships while pursuing objectives that reflected its own cultural, economic, and social priorities. Critically, in our view, a SITS regime would give new space for progressive social movements to unite internationally in pursuit of an expansion in the issues reflected in the index.

Critically, in our view, a SITS regime would give new space for progressive social movements to unite internationally in pursuit of an expansion in the issues reflected in the index.

Ideally, a SITS regime would be instituted alongside a social charter; its enactment would in fact correct the chief limitations of that approach. In this case, the social charter would establish the minimum level of worker and social rights required of all member nations, while the SITS would protect those countries that advance beyond these minimums. As lagging countries improve their performance over time, the minimums themselves could be raised. And if countries' performance along any particular dimension of the SITS were to converge over time at some level deemed sufficient, this term could be eliminated from the index (replaced by a strengthened provision of the charter). Elimination would effectively increase the weight of the remaining terms or provide space for new terms. In this way, a SITS regime would impart a progressive dynamic to a social charter arrangement.

Finally, a SITS regime would place a competitive burden on firms located in countries that perform poorly in terms of human development. To the degree that these are developing countries, this is not a desirable consequence of the SITS, since its purpose is to encourage human development especially among those who face the most impoverished capabilities. But the SITS revenues could be collected by an international agency (such as a reconstituted UNDP) and used for human and social development projects in those countries with low performance that are engaged in efforts to promote human development. In this way, the burden of the tariff would not fall disproportionately on developing countries.

Conclusion

For any SITS regime to achieve legitimacy, it must not carry a bias either in favor of or against developing countries. It must protect and promote the extension of high standards hard won in many developed countries. But it must also reward efforts to develop, especially those by the lagging countries, so that it does not become a new means of widening international economic disparities.

The formation of a viable SITS regime also requires compelling answers to the troublesome theoretical questions posed above. To translate those questions into this context, what is especially problematic is the specification of the indicators of human development that the index should comprise. To reward efforts toward human development, after all, we need first to define concretely what we mean by that concept, and we must do so in ways that recognize the cultural and social diversity across nations. This, again, is by no means simply a technical issue: it is one that must be decided through democratic and international negotiation involving *in the first instance* progressive internationalists in developed and developing countries alike. Indeed, a vision of a SITS regime (and other complementary rules and institutions) might provide a foundation for the exploration of new international linkages and mobilizations to overcome some of the most debilitating instances of political fragmentation today (not least among nationally segregated labor movements).

A vision of a SITS regime (and other complementary rules and institutions) might provide a foundation for the exploration of new international linkages and mobilizations to overcome some of the most debilitating instances of political fragmentation today (not least among nationally segregated labor movements).

We say "in the first instance" because a SITS regime would have to be forced onto the international agenda against the opposition of (most) national governments through cooperative mobilizations in developed and developing countries. A SITS regime should therefore be conceived not as a quick fix but as one possible outcome of a long-term transformation in progressive politics that is already under way. But this would be true of any new regime that promised real opportunities for achieving upward harmonization of capabilities; in the absence of new mobilizations spanning the developed-developing country divide, such a regime is hardly apt to emerge from future trade negotiations. For us, this is not a drawback of the SITS approach, but one of its principal strengths: its achievement would both require and promote the democratization of the process of economic integration, expanding the debate over the rules of the game to include constituencies typically excluded, especially those whose members are the most capabilities-impoverished.

The theoretical and political project to displace neoliberalism and to take X out of competition is and must then be a fully democratic, oppositional, and international endeavor. If this project seems daunting, we should keep in view the tremendous social and economic costs of our failure to embrace it.

Notes

An earlier version of this article will appear in the *International Review of Applied Economics* 9, no. 1 (winter 1995). We thank the editors of the IRAE for permission to draw on that work here. We are also thankful for helpful comments on earlier drafts by Elaine Bernard, Jeremy Brecher, Mauricio Cárdenas, Achin Chakraborty, Peter Dorman, Linda Ewing, Alan Gilbert, Herbert Gintis, Ilene Grabel, Keith Griffin, Michael Lebowitz, Richard McIntyre, William Milberg, Stephen Resnick, Richard Rothstein, David Ruccio, and Thomas Weisskopf.

Vanessa Conti, Dana Hunsinger, and Joan Noguera provided valuable research assistance. We also appreciate support from the Dana Internship program of Dickinson College and from the Center for Advanced Study in the Behavioral Sciences, Stanford University. The issues presented in this paper will be explored further in our forthcoming book entitled *The New Internationalism* (Routledge).

1. This resignation stems in large part from how "capitalism" is envisioned. Gibson-Graham (1993) argues that traditional Marxian renderings of that concept paradoxically constrain oppositional movements. See Cullenberg 1992 and Ruccio 1992 for complementary discussions of conceptualizations of socialism.

2. Publications such as the *New York Times* (Business 1991) have raised the possibility that today's young adults may be the first in the history of the nation to fail to attain the living standards of their parents. See also *BusinessWeek* 1992.

3. See Mead 1992 for an insightful example of this approach. Mead argues that the arcane technical provisions of GATT and NAFTA threaten to erode the social protections achieved in the past and to undermine popular efforts to expand such protections in the future.

4. This school also draws explicitly on the work of Marx (1976), Schumpeter (1961), Chandler (1977), and other institutionalist theorists. See Lazonick 1991 for a careful discussion of the contributions of these theorists and the manner in which their work has influenced contemporary thought.

5. Similar arguments have been advanced by Best (1990), Marshall (1987), Thurow (1992), Bluestone and Bluestone (1992), and Bowles et al. (1990), among others.

6. There are growing indications that even the workforce of Japan is facing damaging competition in a variety of technologies and industries from the other newly industrializing Asian countries. This is partly a result of capital flight from Japan. This process of uneven international development parallels processes that have occurred over the past century within nations: capital flight in the U.S. from the Northeast and Midwest to the South and Southwest throughout the postwar period is a case in point.

7. This set of conditions obtains today in export processing zones throughout many less developed countries, including the *maquiladoras* in Mexico and similar zones throughout Southeast Asia and China.

8. Reich is sensitive to this implication of his work. In *The Work of Nations* he argues that the flow of even low-paid jobs to developing countries would represent a "great boon to many workers in such nations who otherwise would be jobless or working for much lower wages" (Reich 1991:212). That the U.S. standard of living would rise relative to that of these nations is not taken by Reich to be a sufficient objection to his plan. Whether or not one accepts this outcome on its merits, it is at least consistent with the broader argument.

In a separate essay published but a year earlier, however, Reich (1990b:42) takes a different tack, proposing "multilateral, rule-oriented negotiations designed to allocate such high-value added jobs among nations according to some set of agreed-upon criteria." But this represents a repudiation of the central thesis of *The Work of Nations*. It not only repudiates the right of corporations to allocate these jobs according to competitive interests but also obviates the need for the U.S. to expend any additional resources on education to compete for these jobs. Nevertheless, it does entail a substantive change in the rules of the game, and we support this isolated and underdeveloped current in Reich's work.

9. DeMartino (1992) explores the manner in which worker and community identities and interests are constructed in part through trade union struggle, rather than simply given by economic circumstances.

10. Among the organizations that played significant roles in the adoption of these legislative reforms are the American Friends Service Committee, the International Labor Rights Education and Research Fund, and the Institute for Agriculture and Trade Policy.

11. This perspective shares much with the institutionalist tradition of economics, including the pioneering work of Veblen (1899, 1904) and Commons (1924). Similar themes also run through the work of Schumpeter (1961) and the neo-Marxian approaches of Resnick and Wolff (1987) and Bowles and Gintis (1986). For a more contemporary institutionalist treatment of these issues, see Ramstad 1987.

12. This does not mean that they are arbitrary: within a given historical context, they may be taken to be necessary, as discussed below. It is instructive that even orthodox theory does not deduce a strictly delimited set of conditions which must be a part of competition in order for it to yield innovation (e.g., child labor, market in humans, market for votes). When these conditions are removed from competition, innovation is not reduced but redirected toward less socially malevolent forms.

13. An example would be an immediate ban on the use of child labor in the formal sector in developing countries. In the absence of other substantive measures, a ban of this sort might be expected to push children into the informal sector, where conditions of work and remuneration are arguably worse.

14. Ultimately, we seek rules which lead to "capability-enhancing" innovations, in Amartya Sen's (1992) sense of the term.

15. Indeed, what does "upward" mean where such diversity exists? Cost considerations might be of little help, because social arrangements that we might take to be progressive are not always more costly for capital. Consider equal employment opportunities, which (while certainly progressive) might actually depress wage levels and thereby enhance competitiveness.

16. A similar question is debated by political theorists concerned with the question of the possibility of a universal code on which to found ethical judgments across societies. Some, such as Marglin and Marglin (1990), argue that all such codes are context-specific and hence that ethical judgments are always relative. Nussbaum (1992) takes strong exception to this view, arguing on the basis of Aristotelian principles that universal characteristics of human life exist and that these must serve as the basis for ethical judgments across all societies. See also Crocker 1992, Gilbert 1990, and the essays in Nussbaum and Sen 1993.

17. An appreciation of the irreducible heterogeneity among humans leads Sen to criticize those approaches to equality that focus on the equalization of incomes, commodity bundles, or "primary goods" (Rawls) or of resources (Dworkin). In the context of interpersonal heterogeneity, the same set of primary goods will enable very different levels of freedom to achieve what individuals value: e.g., a disabled person may require more resources than an able-bodied person to achieve the same functionings.

18. The question arises in this approach as to what should count as valuable functionings. Any project that seeks the equalization of capabilities must confront the difficulty of ranking diverse functionings (the ability to appear in public without shame versus the ability to choose among different brands of toothpaste), and

Sen argues that there is no reason to presume that a universal ranking will arise spontaneously across individuals, cultures, and nations. But Sen argues that tremendous strides toward equality can be achieved even in the face of a minimal set of universally recognized basic functionings, such as the abilities to be well nourished, well sheltered, etc., given the dismal state of affairs among the poor across the globe. Nussbaum (1992) devises a more extensive list of basic functionings, founded on what is universally regarded as the minimal set of attributes of human existence. We suggest below a more pragmatic and participatory resolution to this issue.

19. We recognize that these conditions are not comprehensive or overly precise. Nevertheless, we take this list to be minimally necessary, given our theoretical and political concerns. In part, also, this reflects our view that such criteria ought to result from international negotiation among progressive constituencies, which then militate for their adoption in international conventions and other agreements.

20. We note the historical opposition of the African National Congress to the Sullivan Principles on the grounds that they served the interests of foreign corporations—not those of South African blacks—as indicative of the problems of a unilateral approach.

21. Chapman's proposals regarding environmental standards and trade are similar. Lebowitz (1988) develops a simple game-theoretical analysis to argue the case for a social tariff, although in his view the tariff is a second-best strategy made necessary by the current inability of workers to organize internationally—for him the best solution.

22. Dorman (1992:21) therefore concedes that the social tariff approach will not suffice to induce an upward harmonization of wages: If "the policy imperative is that international equity be attained by raising wages in the Third World rather than depressing them [in the U.S.], additional measures must be taken."

23. Sen, in fact, was a consultant for this project and participated in the drafting of the first annual report (Crocker 1992). This and all succeeding reports define human development in terms of human capabilities and functionings.

24. The best approach would be to fit an equation that relates HDI to income and to use the equation to correct for income. Although the log of per capita real GDP correlates strongly with HDI, the various equations we have examined generate a bias against the poorest countries, and so we present an alternative approach here.

25. This formulation is an attempt to encourage wage growth in the developing countries while protecting the higher wages in the developed countries. This proposal would also address the macroeconomic imbalances identified by Mead (1990), which result from the competitive advantage of countries with wages that are low relative to productivity.

26. The corporate governance term can be devised to incorporate the concerns of the Sullivan Principles approach: countries that adopt Sullivan Principles to control their domestic firms operating abroad would be rewarded in the computation of this term. Moreover, the term could reward countries for placing restrictions on capital flight.

27. The 1993 HDR presents insufficient data to undertake both gender and income distribution adjustments to P for more than a few countries, and so we do not present these adjustments here.

References

Baran, Paul, and Paul Sweezy. Monopoly Capital. New York: Monthly Review, 1966.

Best, Michael. The New Competition. Cambridge, Mass.: Harvard University Press, 1990.

Bhagwati, Jagdish. "American Rules, Mexican Jobs." *New York Times*, 24 March 1993, 13.

Bluestone, Barry, and Irving Bluestone. *Negotiating the Future*. New York: Basic Books, 1992.

Bowles, Samuel, and Herbert Gintis. *Democracy and Capitalism*. New York: Basic Books, 1986.

Bowles, Samuel, David Gordon, and Thomas Weisskopf. *After the Wasteland: A Democratic Economics for the Year 2000*. Armonk, N.Y.: M. E. Sharpe, 1990.

Brecher, Jeremy, and Tim Costello. "Labor Goes Global." *Z Magazine* (January 1991), 90–97; (March 1991), 88–97.

Brown, George, Jr., J. William Goold, and John Cavanagh. "Making Trade Fair." *World Policy Journal* 9, no. 2 (spring 1992), 309–27.

Business. "Trapped in the Impoverished Middle Class." *New York Times*, 17 November 1991, 1.

BusinessWeek. "Reinventing America: Meeting the New Challenges." Special Bonus edition, 1992, 22–44.

Castañeda, Jorge, and Carlos Heredia. "Another NAFTA: What a Good Agreement Should Offer." *World Policy Journal* 9, no. 3 (winter 1991–92), 673–85.

Cavanagh, John. "A Dialogue with Third World Colleagues on Linking Labor and Environmental Standards to Trade Sanctions." Posted to the pen-l network by Peter Dorman, 7 March 1993.

Cavanagh, John, et al. *Trade's Hidden Costs*. Washington, D.C.: International Labor Rights Education and Research Fund, 1988.

Chandler, Alfred, Jr. *The Visible Hand*. Cambridge, Mass.: Harvard University Press, 1977.

Chapman, Duane. "Environmental Standards and International Trade in Automobiles and Copper: The Case for a Social Tariff." *Natural Resources Journal* 31, no. 3 (summer 1991), 449–61.

Charnovitz, Steve. "Environmental and Labour Standards in Trade." *World Economy* (May 1992), 335–56.

Commons, John R. *Legal Foundations of Capitalism*. New York: Macmillan, 1924.

Crocker, David. "Functioning and Capability: The Foundations of Sen's and Nussbaum's Development Ethic." *Political Theory* 20, no. 4 (November 1992), 584–612.

Cullenberg, Stephen. "Socialism's Burden: Toward a 'Thin' Definition of Socialism." *Rethinking Marxism* 5, no. 2 (summer 1992), 64–83.

Davis, Mike. *Prisoners of the American Dream*. London: Verso, 1986.

DeMartino, George. "Trade Union Isolation and the Catechism of the Left." *Rethinking Marxism* 5, no. 3 (fall 1992), 29–51.

Dorman, Peter. "The Social Tariff Approach to International Disparities in Environmental and Workers' Rights Standards: History, Theory, and Some Initial Evidence." In *Multinational Culture: Social Impacts of a Global Economy*, ed. Cheryl Lehman and Russell Moore, 203–23. Westport, Conn.: Greenwood, 1992.

Friedman, Sheldon. "NAFTA as Social Dumping." *Challenge* 35, no. 5 (September–October 1992), 27–32.

Gibson-Graham, J. K. "Waiting for the Revolution; or, How to Smash Capitalism While Working at Home in Your Spare Time." *Rethinking Marxism* 6, no. 2 (summer 1993), 10–24.

Gilbert, Alan. *Democratic Individuality*. Cambridge: Cambridge University Press, 1990.

Herzenberg, Stephen, Jorge F. Perez-Lopez, and S. K. Tucker. "Introduction: Labor Standards and Development in the Global Economy." In *Labor Standards and Development in the Global Economy*, ed. Stephen Herzenberg and Jorge F. Perez-Lopez, 1–16. Washington, D.C.: U.S. Department of Labor, 1990.

Hollingsworth, J. Rogers, Philippe C. Schmitter, and Wolfgang Streeck. "Capitalism, Sectors, Institutions, and Performance." In *Governing Capitalist Economies: Performance and Control of Economic Sectors*, ed. J. Rogers Hollingsworth, Philippe C. Schmitter, and Wolfgang Streeck, 3–16. Oxford: Oxford University Press, 1994.

Koechlin, Timothy, and Mehrene Larudee. "The High Cost of NAFTA." *Challenge* 35, no. 5 (September–October 1992), 19–26.

Kraw, George. "The Community Charter of the Fundamental Social Rights of Workers." *Hastings International and Comparative Law Review* 13 (1990), 471–77.

Lazonick, William. *Business Organization and the Myth of the Market Economy*. New York: Cambridge University Press, 1991.

Lebowitz, Michael. "Trade and Class: Labor Strategies in a World of Strong Capital." *Studies in Political Economy* 27 (autumn 1988), 137–48.

Marglin, Frédérique Apffel, and Stephen A. Marglin. *Dominating Knowledge: Development, Culture, and Resistance*. Oxford: Clarendon, 1990.

Marshall, Ray. *Unheard Voices: Labor and Economic Policy in a Competitive World*. New York: Basic Books, 1987.

Marx, Karl. *Capital: A Critique of Political Economy*. Vol. 1, trans. Ben Fowkes. New York: Vintage, 1976.

Mead, Walter Russel. *The Low-Wage Challenge to Global Growth: The Labor Cost-Productivity Imbalance in Newly Industrialized Countries*. Washington, D.C.: Economic Policy Institute, 1990.

———. "Bushism, Found: A Second-Term Agenda Hidden in Trade Agreements." *Harper's Magazine* (September 1992), 37–45.

Nussbaum, Martha. "Human Functioning and Social Justice: In Defense of Aristotelian Essentialism." *Political Theory* 20, no. 2 (May 1992), 202–46.

Nussbaum, Martha, and Amartya Sen, eds. *The Quality of Life*. Oxford: Clarendon, 1993.

Perez-Lopez, Jorge F. "Conditioning Trade on Foreign Labor Law: The U.S. Approach." *Comparative Labor Law Journal* 9, no. 2 (winter 1988), 253–92.

———. "Worker Rights in the U.S. Omnibus Trade and Competitiveness Act." *Labor Law Journal* 41, no. 4 (April 1990), 222–34.

Piore, Michael. "Labor Standards and Business Strategies." In *Labor Standards and Development in the Global Economy*, ed. Stephen Herzenberg and Jorge F. Perez-Lopez, 35–50. Washington, D.C.: U.S. Department of Labor, 1990.

Piore, Michael, and Charles Sabel. *The Second Industrial Divide*. New York: Basic Books, 1984.

Piven, Frances Fox, and Richard A. Cloward. *Regulating the Poor: The Functions of Public Welfare*. New York: Pantheon, 1971.

Porter, Michael. *The Competitive Advantage of Nations*. New York: Free, 1990.

Ramstad, Yngve. "Free Trade versus Fair Trade: Import Barriers as a Problem of Reasonable Value." *Journal of Economic Issues* 21, no. 1 (March 1987), 5–32.

Reich, Robert B. "Who Is Us?" *Harvard Business Review* 90 (January–February 1990a), 53–64.

———. "We Need a Strategic Trade Policy." *Challenge* 33, no. 4 (July–August 1990b), 38–42.

———. *The Work of Nations*. New York: Knopf, 1991.

Resnick, Stephen, and Richard Wolff. *Knowledge and Class*. Chicago: University of Chicago Press, 1987.

Rothstein, Richard. "Setting the Standard: International Labor Rights and U.S. Trade Policy." Briefing Paper. Washington D.C.: Economic Policy Institute, March 1993.

Ruccio, David. "Failure of Socialism, Future of Socialists?" *Rethinking Marxism* 5, no. 2 (summer 1992), 7–22.

Schumpeter, Joseph. *The Theory of Economic Development*. New York: Oxford University Press, 1961.

Sen, Amartya. *Inequality Reexamined*. Cambridge, Mass.: Harvard University Press, 1992.

Shrybman, Steven. "Trading Away the Environment." *World Policy Journal* 9, no. 1 (winter 1991–92), 93–110.

Silvia, Stephen. "The Social Charter of the European Community: A Defeat for European Labor." *Industrial and Labor Relations Review* 44, no. 4 (July 1991), 626–41.

Thurow, Lester. *Head to Head*. New York: William Morrow, 1992.

United Nations Development Programme (UNDP). *Human Development Report*. New York: Oxford University Press, 1990–93.

Veblen, Thorstein. *The Theory of the Leisure Class*. New York: Macmillan, 1899.

———. *The Theory of the Business Enterprise*. New York: Charles Scribner's Sons, 1904.

World Bank. *World Development Report*. New York: Oxford University Press, 1990, 1991, 1992, 1993a.

———. *World Tables*. New York: Oxford University Press, 1993b.