Blair's 'Third Way' crumbles in Florence

by Claudio Celani

The Nov. 20-21 meeting in Florence, Italy, which was supposed to mark a step forward in the institutionalization of the so-called "Third Way" global policies, failed in its main goals. Instead, the split existing between the two poles, led by England's Tony Blair on one side, and by French Prime Minister Lionel Jospin on the other, was visibly confirmed. From the beginning, the fact that the conference's title had to be changed, from "Third Way" to "Reformism in the 21st Century," as a condition imposed by Jospin, indicated that controversy, rather than consensus, was raised by the Third Way issue among participants who, besides Blair and Jospin, included U.S. President Bill Clinton, German Chancellor Gerhard Schröder, Brazilian President Fernando Henrique Cardoso, and Italian Prime Minister Massimo D'Alema.

The differences emerged most clearly when the issue of regulating financial capital flows was posed at the very beginning, and kept reappearing, like an uninvited guest: in a modern *Don Giovanni,* where Blair represented the evil nobleman.

The first participant to raise the issue was Chancellor Schröder. Speaking at the Sunday morning session on Nov. 21, Schröder explained that Germany has so far followed a model called "Rhine capitalism," which consists of "a high economic dynamic and, on the other side, a social guarantee. A social state." Although conceding that now the social state, even in Germany, must adapt to globalization, Schröder said, "We must face the fact that private speculation can ruin a social state, and the international financial institutions, if such speculation has had a negative result, are forced to intervene, throwing the burden on the shoulder of the citizen."

The issue was then picked up by Brazilian President Fernando Henrique Cardoso, who described how his country, after complying with all the painful conditions imposed by the International Monetary Fund (IMF), was devastated by the effects of the so-called "Asia crisis." "One bank's newsletter," Cardoso said, unleashed a crisis. That is what happened in September 1998, while he was campaigning for reelection, Cardoso said. Brazil "lost, in one month, $20 billion of our reserves," despite having "done everything necessary to keep a balanced budget."

"Despite all that," he admitted, "due to the contagious effect [of the Asia crisis], the crisis occurred nevertheless." Cardoso is now under attack at home precisely for his friendship with the IMF. "If elections had taken place a few months later, I would not have won, because the consequences of the crisis were devastating," he said.

The 'Tobin tax' proposed

Cardoso then went further: "I know that orthodox economists are horrified by it, but why not imagine taxing more volatile capital," he proposed, referring to the so-called "Tobin tax" on financial speculation. Later, in another intervention, Cardoso stressed that "capital flows must be connected to direct production and to trade flows. There must, therefore, be limitations on markets' expansion and to instabilities provoked by financial crises." He referred to the "Bretton Woods agreement" which, after the war, "introduced mechanisms to regulate currency flows."

Cardoso, whose sincereity should not be counted on, was supported in large part by Jospin, who spoke immediately afterwards. "I am not sure that the 'new economy' will abolish economic cycles," Jospin said, ironically, about the "happy American mystery about which Bill Clinton will enlighten us." The "new economy," he said, "must not submerge, suffocate, nation-states, that are still the place where democracy is elaborated." Also, he said, polemicizing against the Third Way idea of an economy based on the Internet and cellular phones, "I do not want to see a world ruled and directed by the Internet, because this would correspond to private interests."

This was quite enough to provoke a mini-explosion from Blair, who, while lying that the social misery described by Cardoso in Brazil had "moved" him, put forward his fanatical view: "We must not forget the fact that we are progressives, and therefore, the way to deal with these financial problems must not be to go backwards. . . . We must avoid creating obstacles to global economy," he said. Any future international financial structure "must not become a system that tries to prevent global finances from moving around the world, because they will [continue to] move around the world. . . . Protectionism," he threatened, "would not be in the interest of our nations."

Clinton scores financial derivatives

While President Clinton formally supported Blair, he also described at length what happened when the international financial crisis broke out in Asia two years ago. Clinton showed himself to be aware of the problem: financial derivatives. "A lot of these loans were highly leveraged, through derivatives and other mechanisms, so that people who lost their money in Russia, let's say, had to cover their losses, when they had only put up 10% of their losses. So they were very often liquidating their investments in Latin America, through no fault of Latin America, but because they had to have cash to pay off their debts." Clinton, in answer to the question of capital controls posed by Cardoso, also gave a positive assessment of the mechanisms introduced by the Malaysian government.

Clinton said, "I agree with what Lionel Jospin said. We are here because we affirm the importance of the nation-state as necessary to provide the conditions of community and humanity in this very different world." Later, he came back to the role of national governments, especially in Third World countries, where, he said, there is too *little,* and not too much government.

But, Clinton the pragmatist added, "The question is what Tony Blair always says: We have to do what works." And what works is: "continue to reform the IMF and the World Bank," and keep "moving a lot of money around every day." Clinton also accepted the insane Third Way view, that if you "get more cell phones and computer hookups out there," in developing countries, and give "micro-enterprise loans," this will produce development in such nations. He concluded by calling for more free trade and fiscal discipline.

The conference ended without a common declaration. On the issue of financial speculation, participants agreed that some sort of regulation and more "transparency," are needed, but each one meant something different by those words. Clinton's proposal to build a foundation in Little Rock, Arkansas as the world center of the new movement, was rejected by Jospin before the conference began. It was agreed that they would all meet again in Germany, where Schröder will present the results of a "scientific examination" of the issues raised in Florence.

The question is now, how long President Clinton will be able to keep his feet on both sides of the river: defending the nation-state, as Jospin demanded, or defending global markets—two irreconcilable propositions.

Italian banker urges curbs on globalization

Banca d'Italia Governor Antonio Fazio counterposed the stability and growth of the postwar reconstruction period, to the instability and evils of the globalization era, in a speech in Naples on Nov. 16. He put particular stress on full employment as a target of economic policy, and on the role of the state in creating conditions for growth and in running public services.

Fazio is weak in not challenging globalization as such, but calling for adapting to it, including with wage reductions if they help to keep productive firms afloat.

Fazio refers to five papal encyclicals—*Mater et Magistra, Centesimus Annus, Quadragesimo Anno* (the latter "posing, already in the 1930s, the problems of financier capitalism"), *Gaudium et Spes,* and *Populorum Progressio*—which opened "to all men a vision of hope and cooperation at the global level."

Fazio says that unemployment is the number-one problem of the Italian economy, which is officially 11%; in southern Italy, the Mezzogiorno, where 36% of the population live, unemployment is officially 25%, and 50% among the youth.

Fazio praises "the effective interventions of the early policy to develop the Mezzogiorno, in the 1950s and '60s," referring to the period when the agency to develop the Mezzogiorno acted on the model of the Tennessee Valley Authority.

"In the 1950s and '60s in Italy . . . the foundations were created for a modern social state: the public pension system was launched; social pensions were introduced; health assistance was extended to broader layers of the population. . . . Rising employment and living standards furnished the youth with the confidence to find a job and achieving dignified living conditions. The crisis in the 1970s and the delay in adjusting economic policies in the 1980s have first slowed, then stopped this positive evolution.

"In the 1990s, the capacity for creating new jobs in our country seems to be stopped, because of the fall of the growth rate, involving the exclusion of broader and broader layers of citizens from the productive process."

Globalization is irreversible, he says, but we must correct its dysfunctions. "Globalization . . . has been pushed by large multinational groups and by countries able to get economic and political advantages [from it]. . . . A larger part of the world trade in goods is controlled by a few hundred large groups." In other words, an oligarchy.

Globalization must be regulated. Markets "must sumit to rules and controls that guarantee the full, correct functioning of competition. What is to be avoided is a few large operators who can twist market conditions to their advantage." Having accepted globalization, Fazio points to the fact that labor costs "must be commensurate with the international norms."

The role of the state

Fazio believes that the state can intervene to correct the negative effects of globalization on the national economy. "The economic and social policies of states must explicitly set as their target, the utmost development of the economy and of employment."

Referring to Article I of the Italian Constitution, he says, "The state has the duty to create conditions to allow for an increase in employment, as well as to supply the necessary preparation to the young and the unemployed, in order to insert them profitably" into the economy.

Although the state should not directly run productive activities, it can do it "in specific and well-defined cases, such as those concerning public goods and services," he said, implicitly rejecting privatization.

Fazio proposes that a "work relation which is stable" would be an advantage to employers, because it creates an "increase in the technical and professional capacity of the employee and the latter's interest in the growth of the firm."