Chapter Two
Social Conflict and Global Politics

From a conventional economic perspective, there have been measurable gains as a result of neoliberal reforms in the 1980s and 1990s. Between 1975 and 1995, the proportion of East Asians living in absolute poverty declined from 60 per cent to 20 per cent, whilst the numbers of poor people in the region fell by half: from 720 million to 345 million. There has been a sharp reduction in inflation in many countries: in Latin America, for example, inflation fell from a regional mean of 196 per cent in 1991 to just 19 per cent in 1996. Growth also rose significantly in this region, although real GNP per capita in 1994 remained below its 1980 level for 85 per cent of the population. Selling state assets has increased productivity and investment and made pricing more efficient for companies analysed in Chile, Mexico, Malaysia and the UK, whilst worldwide official and private capital flows to developing countries have expanded by about a factor of ten in the past two decades. Whilst these figures and their causes are open to differing interpretations, it is clear that some countries, regions and social groups have derived significant economic benefits from liberalisation.

Many ordinary people have gained (or stand to gain) from the dismantling of bureaucratic regulations imposed by state institutions in the pursuit of top-down planning. As Gail Omvedt, an activist from India, notes of such controls:

"In Maharashtra, where I live, farmers are not permitted to follow traditional methods of separating cotton lint from seeds under the Cotton Monopoly Purchasing Scheme; in sugarcane areas a special permit is now required to make jaggery (unrefined sugar lump) by traditional methods rather than to give cane to the sugar factories. Peasants trying to build a small dam by selling some of the sand from a dried-up river running through their village had to engage in a four year struggle with the state government to get the rights to prevent the sand being auctioned off to contractors."

The liberalisation of markets has also opened up economic opportunities to some groups for whom they were not previously available. For many women, for instance, long excluded from many paid jobs and thus economically dependent on husbands or fathers, paid employment (even if poorly paid) has brought economic and social gains. The opportunity to gain financial independence, albeit limited and possibly temporary, has helped to change some of the taboos and proscriptions on women’s behaviour. The growing numbers of women in paid employment in Bangladesh, for instance, have led to more young unchaperoned women travelling on buses, walking on the streets and going to cinemas in Dhaka. For women with children, part-time and home work can be a way of earning money while still shouldering family responsibilities.

The gains, however, should be seen in a wider context. The economic booms that have helped create billionaires and bring consumer gadgets to the middle classes have been at the cost of growing social and economic exclusion for many others. The break up of state monopolies and the stripping away of "red tape" have not simply eliminated top-down management but have created new forms of it. In addition, in many countries, the stripping back of state institutions such as welfare and health services have removed many of the protective buffers that used to provide some measure of social insurance for citizens. The work available to women, though it may bring in some money, is largely insecure and low-paid with irregular hours, high levels of intensity, little protection from health and safety hazards and few opportunities for promotion. Moreover, as Barbara Einhorn of the School of European Studies at the University of Sussex notes in her recent study of the impacts of marketisation on women in Eastern Europe:

"Despite clear improvements in the civil and political rights associated with democratic citizenship, in the short run at least women in East Central Europe stand to lose economic, social welfare, and reproductive rights. Moreover, a newly dominant discourse threatens to subordinate women’s citizenship rights in many cases to the goals of nationalist projects."
Growing Inequalities

The numbers in absolute poverty are growing North and South, as are income disparities. Thirty years ago, the combined incomes of the richest fifth of the world’s population were 30 times greater than those of the poorest fifth. Today, their incomes are over 60 times greater. With joint assets of $762 billion, just 358 billionaires now own more than the combined annual income of the world’s poorest two billion people. Moreover the gap between rich and poor is widening, in large part, according to the United Nations Committee on Trade and Development (UNCTAD), due to the uneven impacts of globalisation inequalities which UNCTAD believes could cause major social upheavals. In the "transitional economies" of Central and Eastern Europe and of the former Soviet Union, for example, globalisation has brought:

"growing income inequality and conjunctural poverty, even as liberalisation policies foster private entrepreneurship and bolster the prospects of structural change leading to sustained economic growth."  

According to World Bank estimates, the number of absolute poor in the economies of Eastern Europe and Central Asia grew from 2.2 million in 1987 to 14.5 million, or 3.5 per cent of the population, in 1993. This increase, notes UNCTAD, "has been due to the erosion of real wages and entitlements in recent years." The Bank reports a similar picture for East Asia, where despite strong growth rates, more than two-thirds of people still lived in poverty, and inequality was increasing even before the 1997 economic crash.

In Central and Latin America, too, inequality and poverty have accompanied liberalisation. Although the percentage of the population in absolute poverty in Latin America as a whole fell during the early 1990s, the numbers are again on the increase. A recent study concludes that "the new economic model has done little to improve poverty and has a tendency to harm income distribution". Indeed, "real minimum wages fell substantially in almost all countries as local industries adapted to increased competition from imports". In Mexico, between 1989 and 1992, the richest 5 per cent of the population increased its share of income from 24 per cent to 29 per cent of the total, while the income of the poorest 5 per cent fell from 0.6 per cent to 0.5 per cent.

Globalisation and liberalisation have also increased regional inequality. Job creation increasingly relies on inward investment, so the pattern of inward investment determines whether or not people have jobs and what kind of jobs are on offer. Firms seeking to reduce labour costs, for example, tend to relocate to areas where labour is cheapest; firms seeking to establish retail outlets, to those areas where incomes are highest. Such inward investment reinforces existing regional disparities. In Europe, for example, a new division of labour is emerging as the EU workforce fragments into:

"a slimmed down, highly-trained and skilled core of workers for electronics, research and ‘sunrise’ industries, and a mass of ‘flexible’ unskilled workers in, for example, building and construction, service industries, garment manufacture and food processing, who can be taken on, laid off, employed part-time and moved around... as required."

In Mexico, there is a sharp divide between large commercial farms and private industries in the north, which have benefited from their proximity to North American markets, and an increasingly poor south, where peasants have seen their livelihoods disastrously undermined by liberalisation policies that permit imports of cheap US corn. As Oxfam policy analyst Kevin Watkins concludes:

"liberalisation and deregulation in Mexico have provided widely divergent sets of opportunities and threats to different regions and social groups. For owners of capital, the privatisation of State industries and the 1992 land reform, which allows investors to purchase smallholder land, have created new sources of wealth accumulation."

During the 1994-5 economic crisis in the country, the number of billionaires increased from ten to fifteen, and their combined wealth increased by 1996 to equal 9 per cent of Mexico’s GDP. Meanwhile, in rural areas, where 80 per cent of those in extreme poverty live, the absolute number of poor people increased from 6.7 million to 8.8 million between 1989 and 1992.
Structural Adjustment Programmes (SAPs), imposed on governments by the IMF and World Bank in exchange for loans, have consistently caused hardship. In almost all cases, adjustment required deflationary policies and cuts in welfare spending, which have increased pressure on poorer people. A 1996 study by the UN Economic Commission for Latin America and the Caribbean showed that, in spite of greater macroeconomic stability engendered by the "free market" prescriptions of the 1980s, in many cases poverty in the region had worsened. In Africa during the 1980s, average real wages declined in 26 out of 28 countries and the real minimum wage fell in 22 of the 29 countries for which figures are available. A 1990 study by the International Labour Organisation of 28 countries in Africa reported that the real minimum wage in 1987 was only 36 per cent of its 1980 value. The decline in real wages, which Stewart attributes largely to the policies of wages and employment constraint, together with liberalisation of food prices, has greatly increased the level of poverty in sub-Saharan Africa, particularly in urban areas. Wages are so low in many countries that, according to the UN Research Institute for Social Development, "an annual income is only sufficient to support one or two months of subsistence."

Indeed, in the late 1980s, the World Bank itself acknowledged the severe social impacts of its SAP policies. One response was to introduce "safety nets" spending or public works programmes designed to compensate the most vulnerable in society but many have failed to reach the poorest. In some cases, powerful interest groups block the way; in others, the obstacles are intrinsic to the structure of programmes. "In Zimbabwe, for example, a food support scheme compensates poor urban households for the removal of food subsidies by offering them the equivalent of $0.70 per person per month. But it also demands that beneficiaries provide documented proof of birth, employment, marital status, dependants and income - a procedure that can cost the poor more than the immediate benefits."

Safety nets also have a persistent male bias. While women tend to suffer disproportionately as a result of adjustment - they are the ones who almost invariably care for the sick and elderly and are responsible for feeding and clothing their families - social safety net programmes typically provide employment only to men. In Bolivia, for example, one survey indicated that only one per cent of those employed by the social fund were women. In Honduras, only 25 per cent of the jobs created went to women, while in India only 16 per cent of participants were women.

In the industrialised countries, too, income inequalities and poverty are on the rise. In Britain, the numbers of people living in poverty (defined by the EU and OECD as earning less than half the average household income) rose from five million in 1979 to 14.1 million in 1992/93 - one quarter of the country's population. The predominant immediate cause of the increase was unemployment, but taxation and benefit changes have also been significant. Food poverty has re-emerged as prolonged high rates of unemployment, growing income inequality, and the declining value of real wages and welfare benefits have systematically eroded the capability of individuals and communities to secure food. Hunger has also become a constant fact of life for Americans, 25 million of whom - one in ten now receive federal food stamps. By 1992 almost 50 per cent of children in minority groups in the USA were considered to be living in poverty, and the overall child poverty rate was the highest in the industrialised world. "Perhaps the most stark statistic", comments Mike Mason, Associate Professor of History at Concordia University in Montreal, "was the infant mortality rate for African-Americans, which at 17.7 deaths per 1,000 live births was in roughly the same league as figures for 'poor' Caribbean nations, such as Jamaica (17.2 per 1000) and Cuba (16)."

Jobs? What Jobs?

Such poverty comes at a time when official figures for the US show a rise in employment following labour market liberalisation, a policy which is supposed to "price people back into work". However, the figures and the "success" of the policy are hotly debated. Although roughly half of the US unemployed find work within one month of being made unemployed compared with 5 per cent in Europe, the majority of
jobs are poorly paid and the benefits system harsh. Moreover, trade union commentators dispute the official levels of unemployment. As Trade Union World reports, "The official [US] unemployment figures are the tip of the iceberg. Estimated at 6.543 million in May 1997 (a record 4.8 per cent), the real number of unemployed is closer to 12 million, according to the US international trade union centre." John Sweeney, president of the trade union centre AFL-CIO, warns that the adoption of the US model by other countries "could provoke serious social upheaval, whose costs will far outweigh its gains".

Indeed, North and South, the "jobs" that liberalisation has created increasingly fail to provide the security that people used to associate with the word. Instead, they tend to involve poorly-paid, casual work: three out of every ten new jobs are part-time. In Liverpool, a 16-year-old sales assistant is lucky to get £1.98 an hour. In 1990, it was estimated that there were some ten million workers in the UK whose wages were below the European Union's "decency threshold". These included 4.4 million part-time workers, of whom 65 per cent were women. In 1993, "the poorest 10 per cent of male workers in the United Kingdom received lower pay as a proportion of the average wage than at any time since records began in 1886."

In the South, "flexible" labour policies have likewise become what Oxfam terms "a euphemism for the creation of jobs at sub-poverty-level wages." The group points out that in Chile, for example, around two-thirds of the poor are in employment, suggesting that it is the low pay of their jobs, rather than a lack of wages, which is responsible for their poverty. In addition to low pay, many workers in the South face appalling working conditions: in South Korea and Taiwan, for example, workers' rights have been progressively stripped away in the interests of labour "flexibility". As a coalition of Hong Kong-based NGOs report: "Abusive labour practices, low wages and long working hours, forced overtime, corporal punishment and physical harassment, constraints against organizing... and violence against union organisers characterise [the treatment of] workers in South Korea and Taiwan... These abusive labour practices are now being exported to countries such as China, Indonesia and Vietnam as well as Latin America." The NGOs note that such labour practices have not been condemned by the World Bank. On the contrary, the Bank has praised Vietnam's weak labour laws: "For local industry, the labour market is relatively free of distortions. Private entrepreneurs are in a strong position in the currently depressed labour market. Government regulations on overtime and night work, working conditions and the like are not considered major constraints."

As in the North, women feature prominently in casual labour forces. Some jobs reinforce patriarchal forms of control. To attract investors, some Asian countries emphasise "the dexterity of the small hands of the Oriental women and traditional attitude of submission", and women workers may be exposed to sexual harassment, "a form of violence which reflects the subordination to which they have to submit to be allowed to work". Complaints often lead to dismissal. In general, women are paid less than men: on average, women earn 50 to 80 per cent of men's pay, but there are considerable variations. In Tanzania, which ranks first in the world for pay equality, women earn 92 per cent of what men earn: in Bangladesh, they earn 42 per cent. Women also have less job security and fewer opportunities for promotion. In addition, women in paid jobs are also expected to continue their unpaid domestic and caring work, which is often regarded as women's "natural" and exclusive responsibility.

Services for Whom?

Many workers and poorer people, North and South, have had their situation further undermined by the privatisation of essential utilities and services. Southern governments, in a weak position through indebtedness and their reliance on development agencies for investment funds, have been pressured by the World Bank and the IMF to sell state owned enterprises or transfer their management to the private sector. Privatising water and sewage utilities, for example, has been justified on the grounds that years of neglect by governments unable or unwilling to fund investment had led to decaying water mains and sewers, whilst unpaid bills and other inefficiencies raised prices; in addition subsidies did not reach those they were intended to. Thus, it is argued, private capital and expertise are needed. But raising private, normally foreign, capital is expensive in financial terms and tends to increase inequalities in access to water. Natural
monopolies (where customers cannot shop around for their service provider) still apply to almost all water provision, which, combined with the small number of companies involved in bidding for water concessions worldwide, means that governments have an extremely hard task to negotiate and regulate deals which serve poorer people and do not harm the environment.

In Britain, often used by the World Bank and others as a role model for privatisation and regulation, water tariffs are expected to double in real terms by the year 2005, yet pipes continue to leak and water shortages have been declared. A survey of the ten privatized water companies revealed that, since privatization in 1989, they had amassed 237 criminal convictions for pollution (mainly of rivers), making them the most frequently convicted polluters in Britain. Large numbers of people have been disconnected from the water supply because they are unable to pay the increased water charges which trebled between 1991 and 1992. The British Medical Association has called for a ban on disconnections, warning of serious potential health hazards. At the same time, average annual pay and benefits packages of water company executives rose by a factor of five to £432,821 (US$650,000).

Governments North and South are pushing to extend the privatisation process into yet more areas notably into health services. In the South, instituting or raising "user fees" in health and education has long been a component of structural adjustment programmes. Under SAPs, governments have been urged to introduce charges for services beyond public health, vaccination and contraception and to encourage the non-government sector (including non-profit groups, private doctors, pharmacists and others) to provide health services for which consumers are "willing to pay". Governments are also being pushed to "provide insurance or other risk coverage". Whether public or private schemes are preferable the Bank does not say, but it does recommend "competition to keep costs and premiums low" and that insurance "should cover only costs that might be termed catastrophic for an individual." Neither condition is compatible with equitable or comprehensive coverage.

The process has gone furthest in Chile, which, until the military regime of General Pinochet, had enjoyed a comprehensive government health insurance for non-military public workers since 1917. However, since the imposition of a neoliberal reform programme - much-discussed as a model for other developing countries to follow - access to healthcare has been based on income. Between 1979 and 1985, the government sharply reduced government and employer contributions to healthcare services, passing more and more of the costs on to users through wage and salary withholdings and co-payments. As policy analysts Joseph Collins and John Lear report:

"Seven per cent of the gross pay of every person formally employed is now withheld for healthcare. The employee decides where this deduction goes. Since 1981, one option is into a ‘plan’ or contract offered by an ISAPRE (Instituto de Salud Provisional), a health insurance company modelled on those in the US. Another is to the public sector’s National Fund for Health, FONASA, (Fundacion Nacional de Salud) and a third option is to the public healthcare facilities, the remnants of the national health service, the SNS (Sistema Nacional de Salud)."

These changes are intended to foster the rise of private, health service providers which will compete for customers and thus be forced to provide better care and to keep costs down. In addition, it is argued, the burden on government spending will be reduced, while the elimination of employers’ expenditures on health benefits should enable more workers to be hired and Chilean industries to become more competitive in world markets.

But, as Collins and Lear have documented, while a greater number of healthcare systems (both public and private) are now on offer to people, they are not necessarily accessible to them:

"The determining factor is not ‘choice’ but one’s ability to pay. This is clearly indicated by looking at who takes advantage of which ‘options’. The health insurance companies, the ISAPRES, have captured most of the high-income Chileans while the public system has wound up with all the low-income workers... The average income of an ISAPRE client is
about seven times that of the average wage earner in the public system. In 1989, 21 per
cent of the users of the public system over two million people were too poor to
have withholdings or make co-payments."  

Meanwhile, "a beleaguered public health services system is supposed to attend to the health needs of 70
per cent of Chileans, not to mention 100 per cent of the nation’s public health costs (environmental health, sanitation control and occupational safety)." The service has become grossly under-resourced and understaffed, with the remaining employees assigned greater workloads in deteriorating working conditions. Investment in equipment and facilities has also been drastically cut. A doctor at the Central Emergency Hospital admitted:

"We don’t even have enough sheets. We have to tell patients’ relatives to bring sheets syringes, medicines. It's embarrassing and it’s demoralising to work now in a public hospital. The patients we see here and their families have to sell everything, their furniture, everything, to afford the medicines. Sometimes, it's better not to tell them that, yes, we could do something to cure you or your loved one because you know they won’t be able even with the help of relatives and friends to come up with the money for the medicines."

The net impact of healthcare privatisation has been to shift most of the cost of health services on to the consumers, a shift which does not fall evenly on all Chileans. As Collins and Lear report:

"It is the comparatively low wage earners in the public system mostly hard-pressed lower middle-class Chileans who subsidise heavily the healthcare of over two million poorer Chileans... It’s the poor who help the poorest."

The ISAPREs in Chile illustrate what happens when the private sector is given free rein in providing healthcare within the free-market model. Most of the ISAPREs do not themselves operate health services facilities: they sell health insurance and, in the profit-seeking logic of the marketplace, they sell insurance only to those least likely to need it. Most ISAPREs screen out people with certain congenital diseases, cancer, and those thought to be at high risk of contracting AIDS. They refuse applicants over 60 or 65 years of age or charge them very high premiums. The annual premium for customers who have used healthcare services over the course of the previous year is substantially hiked or the customers are dumped with little prospect of buying coverage from another ISAPRE. ISAPREs initially rejected women of child-bearing age or required women to certify that they were not pregnant when they took out insurance.

ISAPREs are allowed to use public facilities for emergency cases and major procedures such as heart and brain operations, thereby avoiding costly investments in such facilities. Private medical care insurers rarely invest in preventive health care. It is meaningless to argue, therefore, that ISAPREs give more efficient or better health care than the public system since they have so many more resources than their state run "competitors" and perform different tasks for different people.

Declining Bargaining Power

The processes of liberalisation and privatisation are not just affecting the access of workers, poorer people and communities to affordable services: they are also removing the democratic accountability of service providers from the people who use and depend on them. The neoliberal development model not only constricts what can be decided: it shifts who decides. Institutional and economic power is now concentrated in the hands of transnational business and bodies such as the World Bank, the IMF and WTO, which operate with few or none of the principles or processes of democratic government, such as elections, accountability or transparency. The ability of nation states to manage their countries’ affairs on behalf of all their citizens has been significantly undermined.

Citizens have also seen their bargaining power eroded, with respect to both states and markets. Nowhere is this more evident than in the new industrial landscape that has emerged through the imposition of neoliberal policies.
First, to attract the inward investment on which job creation is increasingly reliant, workers and the communities in which they live are forced to compete against each other.

As unemployment rises and jobs become more insecure, communities seeking to ensure that new jobs are available and to retain old ones are vulnerable to "regulatory arbitrage". To attract new investment, they must bid and counterbid against each other as companies play one regional government off against another in order to gain the best overall package: "the lowest corporate taxes, the weakest unions, the most 'flexible' rules on working conditions, the most lax health and safety regulations."

For example, when US microprocessor chip manufacturer Intel sought to expand in 1992, a site selection team visited sites in six states, all adjacent to current plants. The new fabrication plant went to New Mexico after an auction in which the states tried to "out-incentive" each other. New Mexico's winning offer consisted of a total package of grants and tax concessions estimated at $114 million, $114,000 per job. Even that figure excludes lost revenues due to tax concessions and other incentives such as roads built out of public funds. Taking these into account, the true subsidy, according to a local citizens' group, is closer to $250 million. Microprocessing is developing so fast that the new fabrication plant is likely to be out of date within six years.

Similarly, in India, the state governments are offering huge subsidies to entice inward investment. According to the Delhi-based Public Interest Research group, the Government of Orissa is offering: 30 per cent investment subsidies on new industrial equipment; a five year exemption from sales tax for all new small, medium and large scale industrial units; five year exemptions on electricity duty for all new power-generating units; and free water for new industrial units.

Second, with capital and companies free to move across borders, the scope for playing workers and communities off against each other to gain concessions on wages and conditions has greatly expanded.

Worldwide, capital and companies are on the move. What began as a one-way dribble of relocations in the 1950s (as Northern companies moved their manufacturing to the South) is now an eddying flow, "with new locations endlessly replacing old as new demands and new advantages emerge". Demands for higher wages in one country are met with threats to transfer production out of the country altogether. In some cases, the threats are real; in others, they are a bluff. Either way, the bargaining position of labour is further squeezed.

South to North relocations, once unheard of, are now increasingly common as companies from South Korea and Taiwan, for example, move to North America and Europe in search of markets or lower labour costs. Fourteen Korean companies have moved to the UK in the last six years, investing a total of $2.6 billion. Direct labour costs (at an average of £4 an hour) are below those in Korea. The companies benefit in addition from lower indirect labour costs: whereas in Korea, they are responsible for the housing and welfare costs of their workers, in Europe and the US, such costs are paid for by workers themselves or are still partly subsidised by the state.

Conversely, and more typically, European, US and Japanese companies are moving South. Recently, British Polythene Industries (BPI) dismantled a hi-tech plastic bag factory near the Welsh border and shipped the entire plant to China: in future, the cost of plastic supermarket bags produced by the company will be reduced by 20 per cent. Likewise, IBM is moving its disk-drive business from the US and Western Europe to low labour-cost countries in Asia and Eastern Europe. European companies, such as National Westminster Bank, Abbey National, British Telecom, Proctor and Gamble, London Transport, Citicorp and Singapore Airlines, turn to India for their computer programming where programmers earn less than $3,000 a year. New Electronic Export Zones are being set up near New Delhi, Bombay, Calcutta, Cochin, Kandia and Madras offering high quality and high-tech services for vastly lower wages than Europe can offer.
A 1993 survey of 10,000 large- and medium-sized western German companies found that one in three intended to transfer part of their production to Eastern Europe or Asia, because of lower wages and laxer environmental standards. Meanwhile, Italian sportswear and shoe maker Fila has, in the words of one commentator, "found one way of coping with a fundamental problem of European manufacturing. It is trying not to have any." Other Northern companies are keeping their production within the North (often because their marketing strategies or industrial organisation demand it), but are taking advantage of regional differences in wages or subsidies to play workers off against each other by relocating (or threatening to relocate) from one country to another.

South to South relocation is on the increase as well, as companies seek cheaper labour and new markets or, in the case of those involved in agriculture, forestry or mining, more land. In South-East Asia, for example, Thai, Malaysian, US, Australian and other companies are shifting from country to country as wages rise and markets mature. Thai manufacturers, for instance, have used foreign capital inflows to upgrade their domestic plants and "to relocate their lower-skill operations to even lower wage countries" such as Vietnam, Laos and China. Likewise, Nike, the US sports shoe manufacturer, which closed its last factory in Maine, USA, in the 1980s, has shifted production from South Korea, where it first established its new factories, to countries such as Indonesia and China. The move followed strikes in Korea over wages and union rights. High wages and land prices have led other Korean companies, particularly in the garment and toy industry, to move to China. Similarly, VTECH Holdings Ltd, a Hong Kong company with a 70 per cent share of the US market for computer-based educational toys, now employs between 11,000 and 13,000 people in China.

Third, as free market policies create a pool of "surplus labour", increasing numbers of people migrate in search of work, pricing other workers out of the market and creating yet more downward pressure on wages.

Migrant workers have long been used as a source of cheap labour and a means to drive down rates of pay. Britain, for example, has drawn on migrants from Ireland and the Commonwealth to take up jobs as poorly-paid construction workers, hospital staff, hotel staff and the like. In France, it has predominantly been Belgians, Italians, Poles and Spaniards, as well as workers from the colonies, who have furnished the labour for the most poorly-paid industries. As free market policies undermine job security and increase unemployment, the use of migrant labour is increasing, particularly in those jobs considered "dirty" or "demeaning". In Germany, half the country's refuse collectors are migrants as are half the miners. For industries which cannot relocate to low wage countries (agriculture, construction, hotels and restaurants, and services such as hospitals), migrant labour offers capital a cheap means of driving down wages.

Fourth, full employment has been abandoned as a goal of governments, which now instead prioritise economic indicators of interest to the financial markets.

Low taxation and low government borrowing (and in turn public spending cuts) are thus the key priorities of government. As Daniel Drache, Director of the Robarts Centre for Canadian Studies, notes:

"With capital free to roam the world, a new orthodoxy is in the making. Full employment is no longer the goal of government, but creating inflation-free money is the task that imposes itself on all nations . . . Wealth creation is now regarded as the principal responsibility of the private sector . . . Price stability is made the number one goal because it provides the largest incentive to unleash the 'animal spirits' of private investors."156

The need to curb deficit spending is dictated both by free market ideology and by the globalisation of financial markets. Borrowing money requires a high tax take if it is to be repaid while maintaining...
spending without fuelling inflation. Governments, however, increasingly see it as their duty to keep taxes as low as possible in order to make the economy efficient and hence attract inward investment: welfare (rather than, say, military) spending has been targeted for cuts. To attract or keep investors, countries have decreased direct taxes and frequently raised indirect taxation which falls disproportionately on the poor and abandons another once-cherished goal of many governments; raising money in a progressive manner. Redistribution has not, however, been abandoned by citizens: some 61 per cent of Latin Americans are reported to want their governments to play an active role to reduce wealth inequities. In Uganda, the introduction of value-added tax in 1997 provoked a strike.

No Pain, No Gain

Many advocates of market liberalisation acknowledge that deregulation, relocation and the removal of tariff barriers is "causing pain", but they insist that it is a temporary phenomenon. As industry adjusts to a more competitive world economy, they argue, the "structural rigidities" of existing labour regimes will be stripped away and market forces will restore prosperity. The view from the World Bank, for example, is that the next century will see a slow convergence of incomes as free market policies begin to lower "the ratio between the wages of the richest and poorest groups in the international wage hierarchy". According to a Bank report:

"Opening up to trade increases the price of labour-intensive goods in poor, labour-rich countries, which, as a consequence, shift their resources to the production of labour-intensive goods. This, in turn, raises demand for labour in poor countries, and hence raises relative wages." According to a Bank report:

Moreover, as currently low-paid workers in the South earn more, the logic goes, new markets will be opened up for the North, thus ensuring that Northern jobs are not lost through global free trade. Whether eventually wages converge upwards or downwards is, says the Bank, of little concern, since increased trade will bring the price of goods down; therefore even if wages are lower, people's purchasing power will increase. The result, predicts the Bank, will be a "win-win" outcome for labour and capital alike.

The Bank's reasoning — like that of other free traders — rests largely on the concept of "comparative advantage", a theory developed by British economists Adam Smith and David Ricardo about two hundred years ago. According to Smith and Ricardo, nations do best from international trade when their industries specialise. By mass producing those goods where they can make maximum use of the factors of production (whether land, climate, natural resources or labour) which are in most abundance locally, countries are able to gain a price advantage over their competitors. Thus, a nation should narrow its focus of activity, abandoning certain industries or the exploitation of certain resources while developing those in which it has the largest "comparative advantage". By exporting what they can produce most cheaply and importing what others can produce cheaper than they could, international trade, according to the theory, would grow as nations export their surpluses and import the products that they no longer manufacture. As a result, efficiency and productivity would increase in line with economies of scale, and prosperity would be enhanced.

On this view, World Bank economists argue, Latin America should "extend its lead in mining and agriculture and move quickly into the production of technologically-intensive goods"; East Asia in labour-intensive "low skill products"; the "transition economies" of South-East Asia in "medium- and high-technology goods"; the Northern industrialised economies are "expected to continue to shift from producing low- and medium-skill products to high-technology goods and services; and Africa should stick with basic commodities. A new global division of labour will thus be instituted, with the developed economies investing in high-tech industries, whilst the "less developed" economies keep to the less advanced industries. As economic analyst David Woodward points out, this analysis "is no doubt in line with the dictates of economic efficiency and static comparative advantage"; however:

"It is by no means obvious that high-technology goods and services can provide adequate jobs in the developed countries for their governments to continue to view the continued (or accelerated) decline of labour-intensive industries with equanimity... It also seems unlikely
that Asian countries will allow their agricultural sectors to wither, to the detriment of their rural populations and at the expense of a potentially destabilizing level of rural-urban migration, to allow room for expansion in both Latin America and sub-Saharan Africa.\textsuperscript{162}

**Unnatural Advantages**

Indeed, even on their own terms, the Bank’s simplistic assumptions are not a realistic or desirable basis to inform important policy decisions. High-tech production systems, for example, are not reserved for the North but are already well-established in many labour-rich countries of the South. Moreover, the notion that specialising in labour-intensive production will raise wages in labour-rich countries ignores the enormous increase in supply of labour that will continue if agriculture and state sector enterprises are made more “efficient”. In China, for example, agricultural liberalisation has driven 100 million people off the land, creating what one World Bank report described as “a relatively mobile, low-cost source of labour [who] must find their own jobs and have no tenure beyond their contract period.”\textsuperscript{163} With such a pool of “surplus labour” at their disposal, companies are under little pressure to agree to wage rises. Nor is there much prospect of enough of China’s “floating population” finding the sort of jobs which would enable them to afford Western imports.

What is absent from the Bank’s view of the world and from the original theory of comparative advantage is any notion of bargaining power between traders or countries. Companies, for example, are assumed to be equal partners, making rational decisions based on objective evaluations of the productive factors available to them and others. Some traders, however, enjoy military, intelligence or diplomatic backing; others have access to subsidies not enjoyed by their competitors. Bargaining power and trading advantage are frequently determined by such political and historical factors.\textsuperscript{164}

Competitiveness is thus less a reflection of the “natural advantages” enjoyed by traders as of the historical, geopolitical and organisational advantages they enjoy and, in particular, their ability to exploit those social and political forces that distort markets: state power, subsidies, cartels, externalised costs and political favours. As political economist William Lazonick points out:

"History shows that the driving force of successful capitalist development is not the perfection of the market mechanism but the building of organisational capabilities... What mainstream economists view as ‘market failures’, I view as ‘organisational successes’.”\textsuperscript{165}

Success in the marketplace, nationally and internationally, says Lazonick, rests primarily on a firm’s ability to organise an external and internal political infrastructure that enables it to control labour, ensure access to raw materials, markets and subsidies, manage resistance, and mould a regulatory environment favourable to its expansion.

**Protecting Whom?**

Supporters of the “comparative advantage bringing welfare to workers” thesis ignore the changing institutional and political environment in which workers increasingly compete. Far from offering a route to higher and better employment, many critics argue, the partitioned global economy envisioned by the World Bank for the twenty-first century will condemn labour to a world of lean production, contingent work, low wages and decreasing job security; where workers are not required on a permanent basis but are used only as companies need them; a world of “just-in-time” employment.\textsuperscript{166} Combine automation with deregulation and the imposition of a global “free market” in which protective barriers, such as tariffs and quotas, are stripped away and the prospects for workers look worse still. In a recent study of Japan, McKinsey Consultants calculated that, if all protectionist measures were removed and the consumer could chose to buy products from anywhere in the world, Japan’s rate of unemployment would soar from 2.5 per cent to over 40 per cent.\textsuperscript{167} Recent research by the Washington-based Economic Policy Institute (EPI), for example, reveals that NAFTA has already caused large US job losses: official figures, it argues, ignore the impact on employment of increased imports. The EPI estimates that the US economy has lost 420,000 jobs since 1993 due to worsening trade balances with Mexico and Canada.\textsuperscript{168}
Political Will?

Few of the policies implemented by neoliberal regimes, or the strategies and alliances underlying them, are novel. But while neither free marketeers nor the global economy are new, the scale and circumstances in which neoliberalism and globalisation are occurring have enabled "a much more aggressive class politics".169

On this view, the failure of many governments to respond to growing inequity results less from a lack of "political will" than from a politics that is at best regretfully indifferent to those who have been disadvantaged by neoliberalism and at worst vindictive towards them—a vindictiveness that is reflected in scapegoating minority groups and single mothers for many problems whose causes should properly be blamed on the policies implemented in the name of the free market.170

Such politics undoubtedly go a long way to explaining why many hard-line neoliberal governments have failed to use what powers they have to address the social fallout from globalisation. In other cases, however, the failure to act results as much from a sense of powerlessness; this in part, derives from an acknowledgement that the changes in macroeconomic policy-making implemented in the 1980s greatly restricted the instruments available to government for intervening in the economy in order to address social and economic inequalities. Discussing the options open to Latin American countries, for example, the Washington-based Brookings Institute notes:

"In the past, redistributive policies have always implied some form of market intervention and could absorb great fiscal resources. The adoption of fiscal discipline and market-oriented reforms... changed this. For example, general subsidies were largely eliminated. The privatisation of public enterprises removed the possibility of subsidising producers and consumers by providing some goods and services at below market prices. Even where enterprises are still in government hands, their pricing schemes are increasingly bound by the regulations governing the use of subsidies in international trade. Independent central banks put more constraints on credit policy. Open markets for goods and capital put floors on domestic interest rates and ceilings on tax rates. Trade liberalisation implied the elimination of import and export controls and targeted industrial programmes, and it forced domestic prices to move closer to international prices. Finally, elimination of exchange and capital controls restricted the use of exchange rate for redistributive purposes."171

In addition, for most Southern countries which have undergone structural adjustment, the scope for interventionist policies has been further reduced by the need to repay debt, which now takes an increasing proportion of many governments' tax revenues.172 Indeed, according to Lance Taylor of the Massachusetts Institute of Technology, the continuing debt crisis means that half the world’s people and two-thirds of its countries now lack full control over economic policy—control which has passed to the financial markets and to the World Bank and IMF, whose advice, he says, is "often intellectually ill-founded and counter-productive in practice."173

The blocks on state intervention to reduce poverty and address inequity are thus compounded by falling tax revenues. In the North falling tax revenues are increasingly curtailing the scope for government welfare and public spending projects. Corporation tax has been falling in Europe for twenty years. The problem is compounded by companies using off-shore tax havens and intra-company trade to minimise the taxes they pay to their host countries. In the US, a 1990 Congressional Committee calculated that just 36 TNCS had used such "transfer pricing"174 to avoid paying $100 billion in US taxes in the 1980s. Similarly, it has been estimated that, in 1992, the 12 major Japanese TNCS manufacturing in the UK avoided paying some £380 million in taxes to the UK exchequer through transfer pricing.175 Tax revenues are also declining due to high unemployment and the casualization of labour.

A further constraint on the ability of states to address social inequities at home arises from their competitive interdependence in the increasingly globalised economy. For a state to take measures unilaterally in order to address the social inequities—which is likely to entail stronger regulation or higher direct taxes on
wealthier groups carries high political and economic risk. In particular, there is the threat that investors and manufacturers may move abroad thus increasing unemployment.\footnote{176} Indeed, as states’ finances have become increasingly linked to international markets, so their ability to resist pressure from those markets has been dramatically reduced. As Oxfam points out:

"The deregulation of capital markets, the development of a wide range of financial products, cheap telecommunications, and computer equipment have fundamentally shifted the balance of power between governments and financial speculators. In the mid-1970s, the daily turnover of foreign exchange in the world’s money markets amounted to around $1 billion. Official currency reserves were equivalent to around 15 per cent of this total, giving governments considerable power to counter speculative activity. Today, daily turnover on foreign-exchange markets has reached $1.2 trillion, having doubled since 1989. Official currency reserves now amount to less than 1 per cent of this total. This profound change is another defining feature of globalisation."\footnote{177}

The collapse of the East Asian currencies in the second half of 1997, the Mexican peso in 1994 and the breaching of the European Exchange Rate Mechanism in 1992 all illustrate the inability of even determined governments to resist the onslaught of currency speculators in the financial markets. So far, as Oxfam notes, "governments have failed to develop policies capable of controlling these markets", resorting instead "to increasingly restrictive monetary and inflationary targets, with interest rates geared towards their attainment."\footnote{178} The result has been to constrain further the room available to governments for redistributive programmes.

Yet, as outlined in the next chapter, the state is not powerless to act\footnote{179} Nonetheless, the ideological hegemony that neoliberalism enjoys places governments under intense pressure not to rock the free market boat. Indeed, in many institutions (the World Bank being a prime example) alternative approaches are scarcely even discussed. As Japanese academic Kenichi Ohno points out in a highly critical background paper prepared for the World Bank’s 1997 World Development Report team, the World Bank and the IMF have not been willing to consider other development models, with the result that alternatives appear not to exist when in reality they do. In a forceful critique of the current neoliberal paradigm, Ohno, conveying views he says are held by many in Japanese official aid circles, states:

"Japanese development economists believe that the ‘appropriate’ development strategy differs fundamentally from one country to another, and from one stage of development to another. Thus we reject generalisation at the level of individual policy measures. The validity of import substitution, food subsidies, industrial policy, privatisation and thousands of other policies cannot be ascertained in the abstract. They are good or bad depending on the particular situation of the country in question. The path to the market is unique to each individual country. . . . For this reason, the Japanese aid community is extremely ill at ease with the universal policy orientation of the international financial institutions to all member countries which can be summarised as the simultaneous pursuit of macroeconomic stability and ‘structural adjustment’ (liberalisation and privatisation). Although these institutions argue that all adjustment programmes are different, the difference only extends to the intensity of individual items in the set menu of policies—tight budget, subsidy cuts, monetary restraint, positive real interest rates, exchange-rate devaluation, price liberalisation, raising public utility charges etc. The original menu does not change. This approach ignores the fact that each country requires a different menu and the effectiveness of each policy is case-dependent."\footnote{180}

Ohno and his colleagues, as outlined in the next chapter, are far from being the only critics of the neoliberal approach.