

# Globalization with a human mask

Eric Draper, Associated Press AP

World trade protest.  
Seattle, Washington, United States

Globalization is splintering many societies and doing little to eradicate poverty. Grudgingly, the international financial institutions have conceded that the neoliberal model has harmful consequences. But they prefer to mask the damage rather than shift to more humane—and more productive—forms of development.

Globalization has had the aura of an irresistible force of nature—a tidal wave of free trade, open markets, capital flows and high technology, and a deluge of information, that will eventually deliver progress for all.

This triumphalist tone can still be heard—but less often. Integration has certainly proceeded apace, and communications technology and the Internet sweep onward, while the trading environment becomes ever more liberal. But now there is less certainty that these developments are really improving people's lives.

### From development to adjustment

Conventional wisdom on development has shifted over the years. Often this has been a response to new circumstances—as countries have moved through different periods in their development. But sometimes the changes merely represent shifts in fashion.

From the 1950s onward, many governments drew up development plans in conjunction with visiting experts from the World Bank and elsewhere. They planned to accelerate economic growth, while simultaneously improving standards of health and education and promoting community development. Many had considerable success.

Over the period 1960–85, countries defined by the World Bank as low- and middle-income grew on average by 5.9 per cent annually. Of course some regions grew faster than others,

and progress was uneven. Thus East Asia and the Pacific grew at 7.3 per cent, while sub-Saharan Africa managed only 4.2 per cent and South Asia only 3.6 per cent. Latin America seemed to be doing reasonably well over this period, growing at 6.0 per cent annually—indeed some of the faster-growing Latin American countries, such as Mexico and Brazil, seemed to be pressing on just as rapidly as newly industrializing economies in Asia.

Although such growth rates contributed to increases in per capita income, it became clear that benefits were not trickling down to the poor. This led in the 1970s to a shift in emphasis toward redistribution with growth. Governments hoped that the benefits of additional growth could be directed toward the poor, while not demanding too many sacrifices from the rich. Adoption of the basic needs approach and promotion of strategies for integrated rural development were associated with this stage in development thinking.

But any prospect of growth with equity was soon undermined: the oil shocks of the 1970s, the decline in commodity prices, and the escalating debt burden all slammed the brakes on economic expansion and plunged many poor countries into economic crisis.

The 1980s marked the emergence of a great continental divide. Asian countries continued to prosper: over the period 1980–89, East Asia and the Pacific grew by 7.9 per cent annually, and South Asia by 5.5 per cent. But Latin America and sub-Saharan Africa saw growth collapse to an annual rate of 1.7 per cent.

The causes of this striking bifurcation have been a subject of continuing debate. The orthodox view, held by the IMF, the World Bank and others, was that governments in Latin America and sub-Saharan Africa were paying the price of policy errors: allowing their economies to be dominated by the state and protecting them from many aspects of international competition. Others had a different

explanation. They argued that these regions were simply victims of a series of shocks beyond their control—particularly the debt crisis, which had little effect on most Asian countries.

In the event, the view that prevailed was the orthodox one, not least because its proponents held the purse strings. Latin American countries adopted the policies of the Washington consensus—shrinking their states and opening their markets. This certainly brought them benefits—attracting huge flows of foreign capital that helped revive economic growth, bring inflation under control and achieve macroeconomic stability—even if at the cost of regular crises. Over the period 1990–96, Latin America achieved average annual growth of 3.2 per cent. This was considerably lower than during its state-driven period; but at least growth was positive.

Sub-Saharan Africa's experience was far worse. Although African countries subjected themselves to the same purgative structural adjustment programmes prescribed by the Bretton Woods institutions, they gained very little foreign investment and languished at lower levels of employment and income.

### EQUITY SIDELINED

In the adjustment era, considerations of equity and poverty reduction went into abeyance as the Bretton Woods institutions tried to help developing countries cope with these new circumstances. At first, international financial institutions required governments to achieve stabilization, which usually meant cutting public expenditure and raising interest rates. These temporary measures soon gave way, however, to full-blown programmes of structural adjustment. In future, governments requesting outside assistance would have to reform their economies according to free-market ideologies—reducing the reach of the state, privatizing industries and liberalizing trade and finance. They would have to postpone poverty

reduction, in the hope that stability and growth would eventually benefit everyone.

It rapidly became clear, however, that most structural adjustment programmes were working only slowly—if at all. And the poor were not just having to make temporary sacrifices; they were suffering long-term damage. Structural adjustment even harmed groups among the poor who were supposed to benefit from neoliberal reforms. Thus liberalization promised to help rural producers by removing the market distortions that kept food prices low. But since it also resulted in more expensive credit and higher prices for agricultural inputs, many farmers found themselves worse off.

Numerous NGOs, churches and international agencies called on the BWIs to pay more attention to social concerns—in the words of UNICEF, to achieve “adjustment with a human face”. In 1990, UNDP incorporated many of these ideas into its proposals for human development, which placed people, their needs, their aspirations and their capabilities back at the centre of development efforts.

In the same year, the World Bank responded to this criticism to some extent—relaxing its excessive focus on debt management and adjustment, and putting more emphasis on poverty. The Bank still believed that structural adjustment would provide an enabling environment conducive to “efficient labour-intensive growth”. But it now said that this could be supplemented with deliberate anti-poverty measures, particularly greater investment in health and education. Later the World Bank added a third element: social safety nets to provide the very poorest with food, for example, or basic incomes.

### THE POSITIVE EAST ASIAN EXAMPLE

Meanwhile, Asia powered on. Most attention at the time was focused on the so-called tiger economies, like the Republic of Korea. But the experience of Asia's—and the world's—two

most populous countries was in many respects even more remarkable. Over more than two decades, China, a country with more than one billion people, achieved double-digit economic growth. India also stepped up economic growth in the 1990s.

Throughout the past decade, much of the development debate has been influenced by the dramatic progress made in East and Southeast Asia—although different people have drawn different lessons from it. Many have agreed that these countries prospered because of a relatively more equitable distribution of assets following reforms of the 1950s, and because they subsequently pursued employment-intensive growth.

But there has been less agreement about the influence of the state. The BWIs initially asserted that the Asian NICs have succeeded largely because governments intervened very little in the economy and maintained a market-friendly environment. Critics pointed out, however, that governments in these states have actually been very proactive—giving incentives and priority to specific national industries. In 1993, the World Bank admitted that there has been state intervention—but essentially argued that these countries have succeeded not because of state intervention, but despite it. The Bank conceded, however, that some Asian institutions for co-ordinating investment decisions between government and private businesses have been effective tools for stimulating growth.

There have also been differing interpretations of the role of trade liberalization in the “Asian miracle”. The BWIs saw the Asian experience as a vindication of open markets. Again there were objections. Certainly these countries were export oriented. But in fact they maintained extensive import controls. They integrated into the world economy in a strategic fashion—opening their economies only as far as was useful.

A third area of debate has focused on welfare policies. Asian countries have been praised by the supporters of open markets for spending very little on social security and social welfare. Such responsibilities have been left largely to families, communities and companies. This has the advantage not only of discouraging dependence on the state and providing positive incentives for work, but also of keeping taxes low and conserving public spending for directly productive uses.

An argument of this kind implies that other countries—those with comprehensive social programmes—are on the wrong track. Instead of spending on social services, they should be pursuing growth and employment. But commentators have pointed out that even if the NICs did not have high public investment in social services, they did nevertheless exert a strong influence on welfare by offering incentives to both families and enterprises to provide many essential elements of social protection.

### The Social Summit

The Social Summit marked both the high point of neoliberal influence and the beginning of its decline. Emboldened by the collapse of the Soviet Union, the Washington consensus maintained that transition and developing countries had no alternative to free-market restructuring. If they were to make progress, they had to subject themselves to structural adjustment—opening their markets and aligning their societies with the force fields of globalization. They cited Asia’s miracle economies as further evidence of these claims. And they could also point to Latin America, and even Africa, where there were signs in some countries that liberalization had led to economic recovery.

Yet the fact that the Social Summit was held at all reflected widespread and growing discontent with the damage caused by unregulated globalization. By 1995 there was serious social



crisis in many parts of the world, expressed most visibly in cruel civil wars and an increase in violent crime. This prompted talk of social disintegration and the need to reverse it. Poverty and unemployment were growing rapidly in indebted Third World countries—and, indeed, in a number of industrialized countries as well. The collapse of the Soviet Union exposed most people to the rigours of the market without making adequate provision for social protection. The welfare state was said to be in crisis even in OECD countries, where workers were subjected to levels of uncertainty unknown for decades. Participants in the Social Summit were angry about this state of affairs and convinced of the need to search for alternatives.

They pointed out the fragility of economic recovery under neoliberal programmes—the constant vulnerability of nations and people to shocks and crises. Much-touted economic recovery could simply be the result of better weather or improving commodity prices or a sudden influx of short-term foreign investment—all of which were easily reversed. Figures for GNP growth went up and down, but adjustment itself was continuing to make matters worse for the majority of people in many parts of the world.

Moreover, models informed by this orthodoxy were inadequate as a basis for long-term development. The “fundamentals” to which SAPs were tethered were designed to promote stabilization, not growth and development. A chorus of well-informed protest demanded a reorientation of development policy and practice.

### Globalization and economic growth

What was needed, in order to deal with growing poverty, unemployment and social disintegration, was a widespread increase in economic opportunity. This depended on an appreciable increase in growth. Without robust economic expansion—on the order of at least 5 to 6 per

cent annually—there could not be steady improvement in the levels of living of low-income groups. There was nothing outlandish about this target, since many countries had achieved similar growth rates in the 1960s and 1970s.

But high economic growth is not in itself sufficient to achieve the goals set by the Social Summit. What matters—if benefits are to flow beyond a very limited circle—is the quality of growth: whether it entails a more equitable distribution of income, more and better jobs, rising wages, more gender equality and inclusiveness.

The relevant question, both at the time of the Social Summit and in the five years following it, is whether global liberalism creates an environment in which high-quality growth can be attained. Are free flows of capital and an ever more open trading system essential for economic growth and equitable development?

### GROWTH AND TRADE

Table 1.1 casts doubt on the claim that further liberalization of trade and finance is a necessary element in stimulating economic growth. It summarizes the extent of economic integration during the past four decades and shows that the world economy was already integrating rapidly, long before the era of liberalization and globalization. Indeed, the period 1964–73 saw world exports and GDP expanding far more rapidly than they have subsequently—and this was a period when trade barriers were still quite high. In Latin America and East Asia, tariff and non-tariff barriers were around twice as high as they were in the early 1990s. Thus it seems likely that faster growth led to more trade, rather than the other way round. And in this case, the current orthodoxy offers no convincing claim to superiority.

One of the main advantages of more open trade—often cited by its supporters—is that it should promote greater convergence in incomes, both within countries and among them. But

the evidence for this, too, is weak. Indeed, one study suggests that free trade actually tends to promote divergence in income. While it is true that the distance between levels of GNP per capita in fast-growing Asian countries and the industrialized countries shrank over the past decades, as they became more integrated in global markets, this situation has deteriorated under the impact of recent economic crisis. Furthermore, there is no question that income polarization in these countries—and in global society in general—has grown sharply during the period since 1980.

**Table 1.1 – International economic activity, 1964–94 (average annual percentage changes)**

Period	World export volume	World FDI flows	International bank loans	World real GDP
1964-73	9.2	..	34.0	4.6
1973-80	4.6	14.8	26.7	3.6
1980-85	2.4	4.9	12.0	2.6
1985-94	6.7	14.3	12.0	3.2

Source: Perraton et al., 1997

Finally, in neo-orthodox theories, it is assumed that the gains from trade are best ensured by open trading systems and non-intervention by governments in labour markets. One policy implication of this view has been to associate better performance in trade with reduced public sector activity in the field of social protection. Such a view goes against the historical record, which shows that some of the most successful open economies or trading nations—including the Nordic countries and the Netherlands—have had comprehensive social policies. Such policies have not only facilitated the creation of human capital through education (or retraining) and better health, but have also made the costs of greater openness—including the heightened vulnerability of certain groups—more politically acceptable. Citizens have been willing to support economic openness because they have

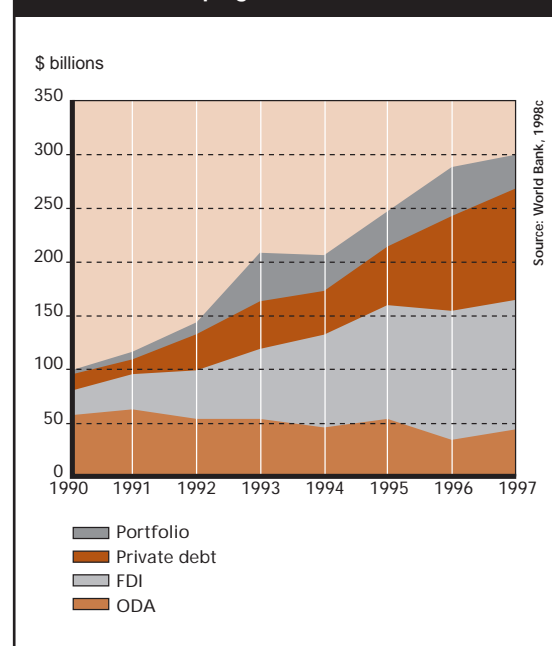
been confident that their own social security would not be threatened by such changes.

### GROWTH AND FINANCIAL FLOWS

What evidence is there for strong links between growth and a second critical element of globalization—increasingly unregulated financial flows? The Social Summit took place during a marked upswing of private financial flows to developing countries. Figure 1.1 shows that private flows rapidly overtook development assistance as the main source of foreign capital available to these countries during the 1990s.

In fact, the prospects for financing development through private capital may have contributed to the relaxation of pressures on the industrialized countries to increase their foreign aid. Even within the United Nations, there was a growing view that partnerships with the private sector would mobilize the necessary resources for addressing a wide range of issues related to development. In addition, it was hoped that these capital flows could be taxed (through the proposed Tobin Tax, for

**Figure 1.1 – Aggregate net flows to developing countries, 1990–97**



example), not only in order to stabilize financial markets but also to finance development programmes and poverty alleviation. Ideally, taxes on private capital flows could also solve some of the fiscal problems faced by national governments—faced with increased tax avoidance by transnational corporations—and enhance the policy autonomy of national governments.

As this figure indicates, however, an increasing proportion of all capital entering developing countries from abroad has taken the form of private debt and portfolio investment. These tend to be quite volatile and, as the Mexican crisis of 1994 and the more recent Asian financial crisis have demonstrated, can be rapidly withdrawn. Figure 1.2 serves as a reminder that increases in private flows to developing countries during the 1990s are not a new phenomenon, but the continuation of an earlier trend that was interrupted in the 1980s. Compared to the period prior to the debt crisis of the 1980s, there was little increase in net capital inflows to most developing countries during the past decade, if this is considered as a share of recipient countries' GNP. Furthermore, most of the new money has gone to only a small number of countries in Latin America, East Asia and the Pacific.

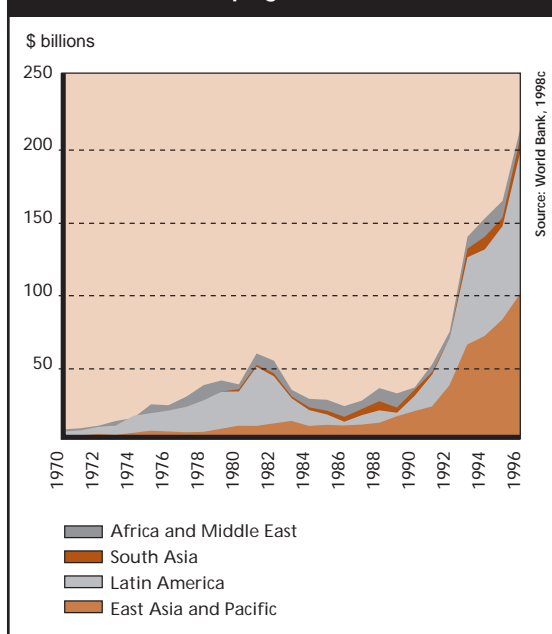
Have these flows of finance helped improve the environment for strong economic growth? There is cause for doubt. For example, one study of 100 developing countries for the period 1975–89 found no relationship between the openness of the capital account regimes and the growth of GDP. And despite the fact that industrialized countries have effectively had free trade and free capital movements since the early 1980s, their growth performance has scarcely improved. Out of the 22 OECD countries, 21 had lower GDP growth in the 1980s and 1990s than they did in the much less liberal 1950s and 1960s. They have also seen little improvement in productivity: the

corresponding growth rate is now less than half what it was in the 1950s and 1960s.

Even more disturbing is the extreme fragility of growth based on the largely unregulated flow of private capital around the world. The Mexican experience provides a case in point. By the time of the Social Summit, Mexicans were suffering through one of the most devastating economic crises in their history, triggered when speculators launched an attack on the peso. Foreign money, flowing massively into the country following implementation of the North American Free Trade Agreement in early 1994, reversed course at the end of the year. Uncontrolled capital flight led to devaluation of the currency—and to a collapse of the economy that could only be halted through a \$50-billion rescue package led by the United States.

The “tequila crisis” was to prove short-lived for investors. But it has had far-reaching effects on the Mexican banking system, interest rates and prospects for longer-term economic recovery. And the crisis of confidence unleashed by the Mexican collapse of 1995 meant increased vulnerability and slow (or negative) growth in a number of other Latin American economies that have become extremely dependent on short-term foreign investment.

The experience of Mexico was repeated on a still larger scale in 1997, when another round of failing investor confidence, devaluation and capital flight caused immense damage in a number of East and Southeast Asian countries. The worst-affected among them sustained huge losses: in 1998, Indonesia's GDP fell by 9 per cent, Thailand's by 8 per cent, and the Republic of Korea's by 6 per cent. Significantly, China and India—countries that despite some liberalization had maintained extensive capital controls—escaped the worst of the financial crisis. And India's economic fundamentals were much weaker than those of the crisis-affected countries.

**Figure 1.2 – Regional distribution of private flows to developing countries, 1970–96**

Even so, some Asian economies staged a rapid recovery. By 1999, the Republic of Korea was growing again, by 6 per cent, and Thailand by 4 per cent. Asia as a whole was expected to grow 4.7 per cent in 1999. And Indonesia is expected to have positive growth in 2000. In the meantime, prospects for Latin America are less good. Latin American countries have been affected not just by Asia's problems but also by Russia's financial crisis. Overall growth fell to

2.3 per cent in 1998 and was negative in 1999.

Even when macroeconomic statistics suggest that countries have bounced back from financial crises, it is important to remember that millions of their people have not. Successive crises have ripped the social fabric and plunged many more people into poverty.

### LIBERALIZATION AND JOBS

The most direct effect of economic collapse was on jobs. But the problem of unemployment has been growing almost everywhere, even when countries have avoided direct involvement in some of the major economic crises of the past two decades. In the European Union, for example, average unemployment stood at over 10 per cent in 1999. Forty years earlier, governments of these countries would have worried if the figure rose much above 3 per cent.

Neoliberal orthodoxy holds that the root of the problem is excessive state interference in labour markets, associated with excessive labour costs. In this view, the best way to maximize employment is to keep labour markets flexible, so that workers will move more easily from one job to another and be prepared or obliged to accept low-wage jobs. This, in turn, supposedly keeps inflation low, and encourages investment and growth.

**Table 1.2 – Percentage annual economic growth, 1991–99**

	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>World</b>	1.8	2.7	2.7	4.0	3.7	4.3	4.2	2.5	2.3
<b>Advanced economies</b>	1.2	1.9	1.2	3.2	2.6	3.2	3.2	2.2	2.0
<b>Developing countries</b>	4.9	6.7	6.5	6.8	6.1	6.5	5.7	3.3	3.1
<b>Africa</b>	1.8	0.2	0.7	2.2	3.1	5.8	3.1	3.4	3.2
<b>Asia</b>	6.6	9.5	9.3	9.6	9.1	8.2	6.6	3.8	4.7
<b>Middle East and Europe</b>	2.7	7.0	4.0	0.6	3.7	4.7	4.4	2.9	2.0
<b>Western hemisphere</b>	3.9	3.3	3.9	5.2	1.3	3.6	5.2	2.3	-0.5
<b>Transition countries</b>	-7.4	-11.7	-6.4	-7.5	-1.1	-0.3	2.2	-0.2	-0.9

Source: IMF, 1999



Supporters of this prescription commonly contrast the United States with Europe. They say that the United States currently has lower unemployment than Europe because US labour markets are more flexible. But this explanation is not adequate, since it does not account for the employment pattern in earlier periods. In 1964–73, for example, Germany's labour market was even more rigid than it is today, yet unemployment averaged only 1.1 per cent—compared with 4 per cent in the United States.

Although neoliberal economic theory has a prescription for promoting employment, it is not oriented toward the goal of full employment. This goal, enshrined in government plans of the postwar period—and in the Copenhagen Declaration—is considered dangerous by the orthodox economists of the 1980s and 1990s, because pressure in a tight labour market raises wages and threatens to provoke inflation. And inflation is not good for growth. In other words, they argue, a certain minimum level of unemployment is essential for ensuring growth.

Yet the historical record of inflation is not congruent with such an interpretation. During the 1950s and 1960s, Western Europe enjoyed virtually full employment, yet achieved this with low inflation. There is also more recent contradictory evidence from the United States, which has managed to sustain comparatively low unemployment with low inflation, while the US GDP has continued to grow steadily. Some people suggest that this is an anomaly and that inflation is lurking in the wings. But it does at least suggest that governments can achieve high levels of employment together with price stability and growth.

A dogmatic insistence on the role of labour flexibility and low wages in promoting employment and growth seems particularly misplaced in the developing world. The poorer countries already have very flexible labour markets. A high proportion of people work in the informal

sector. With little prospect of unemployment benefits, they are forced to take or create whatever jobs they can—however unproductive or badly paid—picking garbage, shining shoes, pedalling rickshaws. So most people are working even if they do not appear to produce much.

As a result, little can be read into unemployment statistics for many parts of the world. In Bangladesh, for example, official unemployment is usually cited at around 5 per cent in urban areas and 2 per cent in rural areas. However, many more people are underemployed. One estimate suggests that, at any given time, around one quarter of the workforce is effectively unemployed. Even those fortunate enough to have jobs in the formal sector are often working for very low wages. Women in Dhaka's garment factories, for example, may earn little more than \$20 per month.

To improve the lives of most people in developing countries, the quality of work and the level of wages must rise. And the experience of fast-growing Asian economies in the 1980s and 1990s shows that—contrary to the orthodox view on employment—there is no hard-and-fast reason why rising wages cannot be compatible with increasing employment and fast growth. During those decades, employment and real wages in fast-growing Asian countries increased by almost 5 per cent per year. At the same time, their formal sectors expanded while their informal sectors shrank. Indeed, many of these countries became significant net importers of labour. Thailand, for example, shortly before the financial crisis had around 600,000 immigrant workers.

### Unfavourable trends in employment

But this is not the situation that prevails in most of the world five years after Copenhagen. As table 1.2 shows, the dominant macroeconomic model is underwriting a pattern of relatively weak growth of global GDP—with exceptionally high, or dramatically low, growth

in some countries or regions. This is accompanied by falling real wages and the degradation of working conditions for large numbers of people.

Although important exceptions can be cited—North America, Australia and New Zealand, India and China—the employment situation is worsening in the majority of countries. Following the Asian crisis, for example, unemployment rates doubled in the most affected economies of the region. In Indonesia, the ILO has estimated that between 3.8 and 5.4 million workers lost their jobs. In Thailand, the rate of open unemployment increased from 2.2 to 4.8 per cent between 1997 and 1998. Japanese figures show an increase from 2.5 per cent in 1993 to 4.1 per cent in 1998. Meanwhile, in Latin America, unemployment in 1998 stood at its highest level in 15 years. And steadily rising rates of open unemployment in North Africa reached 11 per cent in Egypt, 18 per cent in Morocco, 15 per cent in Tunisia and 26 per cent in Algeria.

With falling or stagnant growth, people move out of the formal sector into the informal sector, where conditions of work are often worse. This occurred in Latin America, where the percentage of the workforce engaged in informal activities rose from 40 to 55 per cent between 1980 and 1995. It has also been the experience of transition countries in Eastern and Central Europe. In Bulgaria and the former Yugoslav Republic of Macedonia, for example, around one third of the work force is to be found in the shadow economy, and in the Ukraine, the proportion is around one fifth. In sub-Saharan Africa, people continue to stream into an informal economy that already accounts for at least two thirds of all jobs.

Even those who do find work in the formal sector are often having to accept temporary or part-time jobs, despite their need for full-time employment. Emphasis on flexible labour markets promotes this outcome. In Latin America,

eight out of 10 new jobs are part-time or temporary. And even in Western Europe, 18 per cent of employees were working part-time in 1997, while nearly one quarter of them would have preferred full-time work.

Wages in the current labour market are relatively low. Intense competition for employment means that workers have little capacity to bargain in most countries. Thus even in unionized enterprises, there is a tendency for wage increases to lag behind any growth in productivity. And in regions struggling to cope with long-term economic stagnation and indebtedness, the remuneration of workers is often shamefully inadequate. Real wages throughout much of Latin America and Africa have yet to return to levels considered normal 20 years ago.

The situation in transition countries has been particularly dramatic. Large-scale restructuring has implied hardship for many people. In China, for example, where overall employment figures are positive, millions of workers in state and collective enterprises are being placed on leave at half pay or less. In Russia, with an official unemployment rate of 10 per cent, it is estimated that an additional 11 per cent of the labour force is kept on the payroll at minimal rates or pushed into taking “holidays” that are ill-disguised forms of job loss. Real wages in Russia fell annually by 8.3 per cent over the period 1989–96, and they often were not paid on time.

One other negative aspect of current trends in labour markets is the widening of wage differentials within countries and industries. In most parts of the world, the pattern of growth has favoured skilled over unskilled labour, raising demand for highly trained workers and increasing their remuneration. International wage differentials have also grown wider—a trend that encourages migration of the best-prepared people in developing countries to Asia, North America or Europe.

## Poverty and inequality

Given the growing dearth of decent employment, it is hardly surprising that the world has made little progress in reducing poverty—both

possible indicators. One of the broadest is life expectancy. The world as a whole has seen an increase in life expectancy over the past three decades. But there have been some notable set-

**Table 1.3 – Poverty trends: People living on less than \$1 (PPP) per day (millions)**

	1987	1990	1993	1996	1998
East Asia and the Pacific	415.1	452.4	431.9	265.0	278.3
<i>(excluding China)</i>	<i>109.2</i>	<i>76.0</i>	<i>66.0</i>	<i>45.2</i>	<i>55.6</i>
Eastern Europe and Central Asia	1.1	7.1	18.3	23.8	24.0
Latin America and the Caribbean	63.7	73.8	70.8	76.0	78.2
Middle East and North Africa	25.0	22.0	21.5	21.3	20.9
South Asia	474.4	495.1	505.1	504.7	522.0
Sub-Saharan Africa	217.2	242.3	273.3	289.0	290.9
<b>Total</b>	<b>1,196.5</b>	<b>1,292.7</b>	<b>1,320.9</b>	<b>1,179.9</b>	<b>1,214.2</b>
<i>(excluding China)</i>	<i>890.6</i>	<i>916.3</i>	<i>955</i>	<i>960.1</i>	<i>991.5</i>

Source: World Bank, 1999a

income poverty, which refers to basic consumption, and human poverty, which refers to a lack of essential human capabilities such as being literate or adequately nourished.

The measure of income poverty used by most international agencies is the proportion of the population with a purchasing power equivalent to less than \$1 per day. This is probably an indefensibly low figure: in fact, in some parts of the world, no one could live on this amount. Thus it is a measure that seriously underestimates the gravity of the problem. Even so, estimates relying on this standard suggest a dismal picture. At least 1.2 billion people—one fifth of humankind—were living in absolute poverty in 1998, roughly the same situation as a decade earlier. Figures provided in table 1.3 suggest that this number fell between 1993 and 1996, primarily because there were falling numbers of the very poorest in China. Then it started to rise again—largely as a result of the global financial crisis. Almost all regions saw a rise in the number of people living in absolute income poverty during 1996–98.

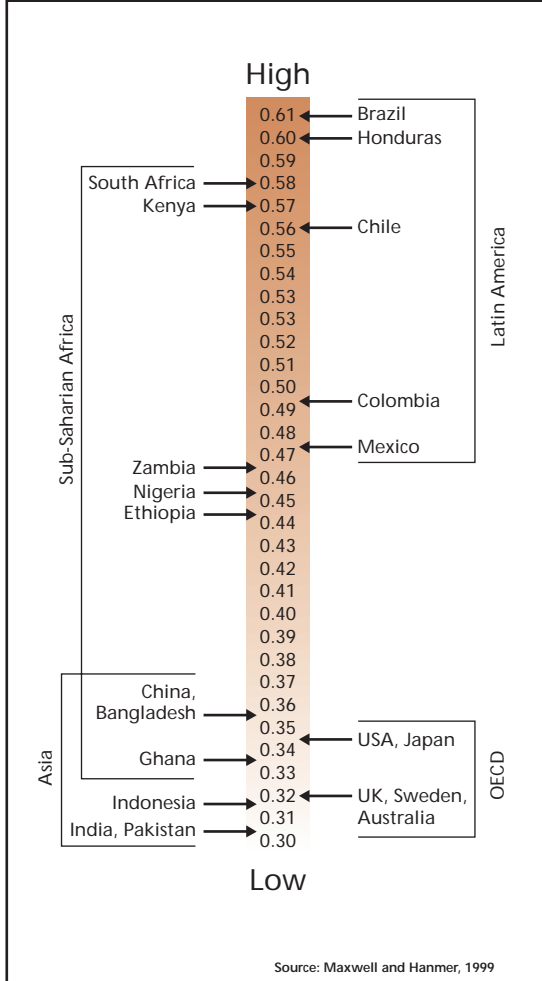
For human poverty, there are a number of

backs. The transition countries of Eastern and Central Europe saw a remarkable dip in life expectancy in the immediate aftermath of the fall of communism. In Russia between 1980 and 1995, male life expectancy fell by four years, to only 58—10 years less than in China. Since then, however, there seems to have been a recovery. The other region where life expectancy has fallen is sub-Saharan Africa, due partly to the effects of war and civil unrest, but largely to the ravages of HIV/AIDS. In this case, however, the situation will get worse. Nine countries in Africa are expected to see life expectancy fall to 47 years by 2010—the level of the 1960s.

The incidence of poverty has increased in the past few years not because the world as a whole is getting poorer, but because the benefits of growth have been unevenly spread. There has been a striking increase in inequality. UNDP has estimated that the distance between the richest and poorest countries, which was 44 to 1 in 1973, rose to 72 to 1 by 1992.

Within nations, rising disparities are evident even in the industrialized world. In the

Figure 1.3 – Gini coefficients, selected countries



United States, for example, the richest families saw their average income rise by 15 per cent during the 1990s, while the poorest families saw no increase at all. But the widest income disparities are to be found in some African and Latin American countries. This is evident from calculation of the Gini coefficient, a measure which for any country varies from 0 (absolute equality in distribution) to 1 (one person gets everything). The range of situations is indicated in figure 1.3, which identifies Brazil as one of the most unequal societies in the world. Although the Gini coefficient is usually slow to change, this is not always the case. In Bulgaria, for example, it increased from 0.23 to 0.38 between 1987–88 and 1993.

### The causes of failure

The evolution of growth, employment and income over the past few decades suggests a world edging ever closer to unsustainable levels of inequality and deprivation. The kind of economic expansion that has occurred has been erratic, unstable and regressive in its distributional impact. Thus prospects for achieving the aims of the Copenhagen Declaration are not at all promising if the present tide of global liberalization continues.

Why has the liberal economy not delivered? Some would say that the extreme forms of market-driven restructuring that began several decades ago were never intended to promote enhanced equality and social welfare—the principal concerns of the Social Summit. There is a strain of Social Darwinism in dogmatic neoliberalism that is not uncomfortable with the idea of “survival of the fittest”. Leaving aside this argument, however, excessive reliance on market forces rests on an unrealistic view of economies and societies. Markets are assumed to perform like well-oiled machines—adjusting in a relatively automatic fashion, so that changes take place smoothly and with an optimal outcome.

But markets are social and political institutions, composed of people with varying degrees of power and influence—and an imperfect capacity to obtain the information they need. There are always major problems of co-ordination. As John Maynard Keynes warned, “...to suppose that there exists some smoothly functioning automatic mechanism of adjustment which preserves equilibrium only if we trust to matters of *laissez-faire* is a doctrinaire delusion...”.

These discontinuities are evident in production and trade, but they are even more marked when it comes to finance. Here the orthodox model assumes that prices are based on rational expectations and are fundamentally correct. This ignores the impact of speculation, day

trading, and other issues that have more to do with psychology than with economic fundamentals. In practice, financial flows are often far from rational. They are based to a significant extent on an elusive notion of confidence that responds to instinct and herd behaviour.

Rational capital should, for example, move from surplus countries to deficit countries. But it seldom does. Prior to the Asian crisis, many investors poured money into Southeast Asia despite the fact that these countries did not really need it. They already had massive savings: from 1990 to 1997 gross domestic savings in East Asia and the Pacific were 36 per cent of GDP. In Latin America and the Caribbean, by contrast, they were 20 per cent and in sub-Saharan Africa, 17 per cent. Yet investors continued to lavish funds on Asia. Unsurprisingly, many of the extra funds were squandered on dubious projects. In Indonesia, for example, around one quarter of the funds borrowed from commercial banks went into real estate. A panic and crash were not far behind.

Too much confidence in the rationality of the “invisible hand” has been matched, over the past two decades, by too little understand-

ing of the necessary relation between public policy and the market. Efficient markets require the contributions of a well-run public sector. They require a healthy, well-educated and well-informed population. And they require the social stability that grows out of democratic governance and an acceptable level of public provision.

In fact, the greater the degree of openness of a market economy—the greater its exposure to global market forces—the more important is the role that must be played by national governments in the field of social policy. Yet the thrust of much of the neoliberal agenda has run directly counter to this dictum. For decades, the prevailing orthodoxy has counselled a reduction of state functions. And for decades, governments without the capacity to resist international pressure have been abandoning essential elements of public social provision. Perhaps graver still, a combination of economic instability, indebtedness and external pressure to conform with dominant ideology has significantly weakened the overall administrative capacity of many states, as well as the role of democratic institutions in





economic policy making. This is not an environment in which either equity or growth is likely to thrive.

### New views on growth and social development

As the unsustainability of the present development model becomes obvious, the international community has begun to move in various directions. There is little coherence to this process. In fact, even within a single institution, it is usual to find initiatives that contradict each other—so that what may be accomplished through trying one new approach is largely offset by what may be lost through another.

#### TARGETING THE POOR

A renewed emphasis on poverty alleviation is perhaps the most visible new departure of the past few years. The sheer scale of growing deprivation has once again placed this problem at the centre of the development agenda. But the approach adopted by most agencies and governments is narrowly remedial. People living in poverty are being assisted through very specific forms of targeting and social safety nets—oriented, in principle, toward identifying and assisting only those in greatest need.

This is a technocratic approach to a highly complex social problem. It can be partially successful, but often at the cost of isolating and stigmatizing beneficiaries—and making them dependent on the individuals and institutions providing assistance. A narrow focus on poverty reduction is also likely to obscure issues of income distribution and social equity.

In the absence of serious parallel attention to these issues, poverty reduction can be converted into a zero-sum game: providing public services and support to the poorest implies reducing the access of other groups in society to the same benefits. This leads to creation of a dual structure of social services—one aimed at

the poor and funded by the state, and one aimed at everyone else and provided by the private sector.

This decision to discard any pretension to universalism is based on the argument that, given limited public resources, these should not be captured by citizens who have the capacity to pay. But such an approach—which the World Bank has championed—is designed from the vantage point of an external funder, not from that of a national society. In its concern with the efficient disbursal of scarce external resources, it fails to consider the equally serious question of how to create an enabling environment for the generation and disbursal of domestic resources.

Withdrawing access to public services from all but the poorest—or seriously limiting the quality of services that can be obtained by ordinary citizens from public institutions—is guaranteed to weaken public willingness to pay taxes. A downward spiral of dwindling domestic resources is entirely predictable. In contrast, the experience in developed and middle-income countries is that providing universal access is one of the most effective ways to ensure middle class support for quality public services, as well as the mobilization of sufficient revenue to maintain them.

Growing dualism in social services is also not good for the poor. It is likely to be accompanied by the movement of well-qualified people from the public to the private sector and, as this occurs, by a decline in the quality of attention available to people living in poverty.

#### COMPREHENSIVE DEVELOPMENT FRAMEWORKS

A second approach to present social and economic dilemmas is much broader and more socially conscious. As the social and political nature of the market becomes obvious to a wider array of thinkers and practitioners, there is now an incipient return to the kinds of inte-

grated approaches to development in vogue in the 1960s and 1970s. Indeed, the World Bank has gone so far as to propose a Comprehensive Development Framework in which structural and social concerns will be treated in conjunction with aspects of the macroeconomy and finance.

There is nothing new in such an approach. In fact, the case for development planning in pre-adjustment years was argued along the same lines, and so was the insistence on balanced growth. But in the interim, the world has passed through a devastating attack on state capacity and legitimacy. Thus there is a danger that the new agenda will overburden the much-weakened public sectors in a large number of developing countries. In the absence of strong and well-funded national planning institutions, the temptation to draw up Comprehensive Development Frameworks in donor countries—or the World Bank—will be enormous.

## SOCIAL SERVICES AND WORLD TRADE

If insights from a Comprehensive Development Framework were applied to the Bank's divisive recommendations on targeting public social services toward the poor, this might well provoke a serious reassessment of policy. In the meantime, prospects for protecting universal public services are under attack from other quarters as well. The proposed Multilateral Agreement on Investment, first discussed in the OECD in 1995, would have opened an assortment of essential social services to foreign investment by including them in the general category of trade in services. Among other things, it would have undermined the ability of governments to subsidize local health care (box 1.1).

Discussions on liberalizing trade in services (including education and health) are also on the agenda of the World Trade Organization, where they have raised the spectre of "most favoured nation" clauses in basic public ser-

### Box 1.1 – Trade regimes threaten government services

The proposed Multilateral Agreement on Investment (MAI) would have allowed foreign private providers to challenge national government prerogatives to provide free services or to subsidize national non-profit providers. The scheme would have embraced the full range of health and social services, including childcare centres, hospitals and community clinics, as well as private labs and independent physicians. Although the MAI was defeated, this issue will continue to resurface in the World Trade Organization (WTO).

A working paper by the Secretariat of the WTO Council for Trade in Services confirms that the next round of world trade negotiations "offers members the opportunity to reconsider the breadth and depth of their commitments on health and social services, which are currently trailing behind other large sectors". It notes with approval signs of increased global trade in health care from developing to developed countries, "with better-off people seeking rapid access to high-quality services abroad". The parallel paper on education is a little more restrained in its ambitions for increased trade, limiting its comments to higher education. Even so, regulating the content of educational material and providing student grants to citizens could both be deemed unfair practices or "barriers to free trade in education".

vices—clauses that could convert these areas of national life into markets, as open to competition from international firms as any other service sector in the local economy.

### GLOBALIZING SOCIAL STANDARDS

The incursion of unbridled market forces into all corners of public and private life has prompted calls for some form of global social standard-setting. As workers in countries around the world are forced to compete with each other in global markets, there is a growing danger that wages will be standardized downward. And if transnational corporations become the arbiters of global policy, some fear that they will gravitate not only toward countries where wages are lowest, but also where taxes are lowest. Governments with lower tax revenues will have less to spend on social services. This race to the bottom would be extremely damaging.

If there is to be some countervailing force to the disruptive reign of markets, where will it come from? In many respects, governments probably have more freedom of action than they realize. In the case of wages, for example, it has been assumed that—in the current global economy—establishing or defending minimum wages will price people out of jobs. Whatever the economic rationale for this, it does not necessarily happen in practice. The United Kingdom, for example, during years of Conservative rule resisted the principle of a minimum wage. Yet when it was introduced by a Labour government in 1998, it not only gave 2 million people a 20 per cent wage increase on average, but it also appears to have increased employment in most of the sectors where these people worked. No reputable enterprises went out of business; indeed, most were relieved that they were less likely to be undercut by rogue companies paying starvation wages.

Nevertheless, free trade imposes limits on national decision making. While some low-

paid work, from haircutting to burger-flipping, cannot be traded internationally, an increasing proportion of service activities can—notably those with the potential to be delivered electronically. Telephone support workers in call-centres in Ireland and Sweden will increasingly find themselves competing with people in India or the Philippines.

It is this kind of worry that has increased pressure for the implementation of minimum standards globally. In fact, these already exist to some extent in the form of ILO conventions. There is general agreement and support for what are considered core standards, such as those on forced labour, child labour and non-discrimination. But there is less support for extending international standards into other areas.

Part of the problem is that developing country governments interpret such moves as a ploy on the part of industrialized countries to reduce the competitive threat from poorer countries. This perception bedevilled efforts in 1996 to introduce social clauses into world trade agreements. There are also understandable fears that such clauses will be added to the list of conditionalities that have accompanied aid during the past two decades.

It should be admitted that some of these arguments come from governments with poor human rights records, for whom social clauses would entail radical shifts in domestic social policies and priorities. However, they are supplied with a convenient defence when hectored by moralizing Northern governments. They argue, with some justification, that rich governments hypocritically want them to meet international standards while systematically denying them the means—via trade or aid—that would enable them to fulfil their obligations.

Since increasing globalization requires the elaboration of shared social norms, it is necessary to find a way out of this impasse. Developing countries must not place them-

selves in a purely reactive position that has the potential of leading them into a moral and ideological cul-de-sac. On the contrary, they must play a proactive role in devising standards that are in line with international conventions and the social goals they are already pursuing. Then the issue will be how to devise, at national and global levels, trade regimes that are supportive of, and compatible with, these social norms and goals.

### NEW ARCHITECTURES?

In the current search for new approaches to social and economic progress, there is much talk of creating a new institutional setting at the international level, a new context for stimulating broadly based growth and reducing unacceptably high degrees of volatility and risk in the global economy. Since the Social Summit in 1995, there have been important new initiatives in the field of debt relief and growing pressure for reform of the principal international financial institutions. There are new proposals on how to deal with financial crises and panics. There is also progress in discussions on co-ordinating national policies in fields like taxation and corporate regulation. A number of these initiatives are analysed in the following chapters.

Useful as it may be, the current discussion of new institutional frameworks for a fragile global economy is concerned above all with ensuring the stability of the system. Movement toward alternative development models—which would probably require a co-ordinated effort to reintroduce appropriate capital controls, and to provide special and differential treatment for developing countries in the world trade regime—is not visible. Neither is there a wide-ranging commitment by industrialized countries to generate the kind of sustained economic expansion, based on labour support and concomitant wage restraint, that could generate full employment and rising wages

in both the developed and developing world.

Moreover, there is complete silence on how to go about creating the social development architecture that would have to underpin the central vision of the Social Summit. This must allow for qualitatively new approaches to growth, based on a new understanding of the vital role of a healthy, literate and secure society in creating the conditions of economic progress. Yet social policy today remains largely detached from economics, or is seen as an add-on intended to remedy the ill effects of misconceived economic development. Until this changes, it is unlikely that the “society for all” envisioned by signatories of the Copenhagen Declaration will be within our grasp.

### Globalization with a human mask

Today, there is a growing clamor for thoroughgoing reform that reinforces human values in political and economic processes. But, on present trends, changes are likely to be far more superficial. In fact, what we are more likely to see is globalization with a human mask. Human values are not being placed at the centre of policy making, but scattered to the periphery and painted onto the surface.

This minimalist view is evident across the whole spectrum of social policy. Current wisdom urges governments to confine themselves to damage control, providing safety nets for the poor and destitute, while targeting other social services at those who can demonstrate the greatest need. For everyone else, social services—be they education, health, or care for the aged—should be fragmented and dispersed among NGOs and private providers. If current trends continue, governments may also have to stand back from social provision and clear the field for the arrival of any corporation that wants to sell its services.

This has the superficial logic of economic efficiency, but it is blind to essential social processes. The experience of the second half of the

twentieth century shows that the greatest advances in social welfare have grown from widely shared experience, shared values, and above all shared interests. This has been inherent in nation building—in creating spaces for common identities and the public institutions that uphold solidarity among citizens.

Neoliberal globalization works in the other direction—it further polarizes and splinters. If this trend is to be halted, the “visible hands” of governments and citizens must intervene to reassert the value of equity and social cohesion. And there must be strong renewed commitment to the public good.