Neo-Liberalism and Economic Development
Today’s Agenda

• Review and continue: Neo-Liberalism, Casino Capitalism, demise of the welfare state, the Transformation of International Institutions
• Is the World Developing or Underdeveloped?
  – The good news: Growth and aggregate improvement in human welfare indicators
  – The bad news: inequality and a growing gap between rich and poor
• Liberal views on development and explanations for the growing gap
• A. Rostow and Stages
• B. Liberalism and integration into the international economy:
  – Staples Theory (Trade)
  – Product cycle (MNC),
  – Institutions (Washington Consensus)
• C. Internal Requirements for Development
  – Move from a traditional to a modern society
  – Democracy
• D. Summary of the Liberal position
Why a decline in the Welfare state?

- ↑ imports + ↓ exports → trade deficit → need to pay up → *reduce government spending (health care, education, pensions, unemployment etc.) → ↑ confidence in currency value
- ↑ govt. spending → ↑ demand for goods and services → ↑ price of goods and services → ↓ reduction in purchasing power of currency = ↑ inflation → ↓ confidence in currency value → ↓ currency value → unstable currencies → unstable trade (bad for trading system)
Globalization, however, has changed the original character, intent, and substance of multilateral public governance. States have amended and expanded multilateral treaties, and have founded and refashioned international organizations to administer them.

While treaties and organizations were once confined to the narrow governance of diplomatic relations among states, under globalization they also have come to govern relations among states and private actors. WTO rules include some protections for multinational firms engaging in foreign direct investment, as do literally thousands of bilateral investment treaties among pairs of states.

TRANSFORMATION OF INTERNATIONAL INSTITUTIONS
New Role for the IMF: spread liberalism to developing countries

- Balance of payments lending in exchange for liberal reforms: structural adjustment
- Washington Consensus: stabilize, privatize, liberalize: put on the “golden straightjacket”
- No chance for the welfare state
- Contributes to freedom of finance capital to roam the earth
- Contributes to freedom of multinational corporations to roam the earth
New Role for the World Bank: focus on fostering neo-liberal policies as condition of lending

- Moved from the task of financing reconstruction projects for Europe after WWII
- To the task of financing development projects in poor countries
- Imposed the same conditions on lending as the IMF
GATT becomes the WTO

- WTO is a binding treaty
- Becomes the LAW in its member states
- An arena for negotiating the conditions for trade liberalization
- Overseas implementation of multilateral free trade agreements and punishment for non-compliance
- **Goodbye embedded liberalism**: members not permitted to protect their populations
  - Goodbye child labor protections
  - Goodbye environmental protections
  - Goodbye health and safety protections
  - Hello Private actors: banks, multinational corporations

- **Hello Private Actors**: banks, multinational corporations
This institutional framework permits The rise of Multinational corporations

• Given these new “global guardians” of the market, private actors have new powers
• Corporations sit on advisory boards of WTO, IMF, and World Bank
• Global FDI grew from $50 billion to $2.5 trillion in 30 years
...and the growth of unregulated global finance

- *International movements of money – both volume and speed*
- Cross-border bank lending has grown about 10% annually.
- Daily foreign exchange trades now exceed by a wide margin the combined reserves of all central banks.
The result: Increasing privatization

• Some say international institutions governing the global economy have been weakened
• Only those who prefer embedded liberalism say that
• The institutions have simply changed (and strengthened) to govern an international neo-liberal economy
• Privatization is the goal of neo-liberalism
From Embedded to neo-liberalism: The rise of a “casino” economy

- End of hegemony removes international “safety net”
- Need to compete in the global economy for economic growth and to remove BoP deficits
- Requirement for competitiveness: End of the welfare state
- International institutions that promote and protect a neo-liberal international economy

http://www.socstudcphs.org/values.goldenstaightjacket.pdf
So..... If the U.S. pursued economic nationalism after hegemony, how did we get a neo-liberal global economy?

- U.S. hegemony supported embedded liberalism
- Without a hegemon and with IFIs and WTO transformed to protect neo-liberalism, *Private* forces are unleashed and unregulated
- Many *governments* were then free to pursue economic nationalism
- Why didn’t the world devolve into the fragmentation of the 1930s?
Because of the U.S. market and the $
Maybe fragmentation will yet occur. Without embedded liberalism, economic nationalism can rear its head: indicators are PTAs and Subsidies

• What are PTAs?
  – Two or more parties with preferential access
  – Viviolates MFN obligation
  – End of 2004: 300 PTAs
  – 50% of global trade

• Rich countries give mammoth agricultural subsidies
INTERPRETATIONS
The WTO: A Distributive Justice Critique: neoliberalism creates growing inequality

• The rich get richer, the poor get poorer
• A “race to the bottom”
• “non-commercial values” cannot play a part in trade rules
• Property rights preferred to health and human lives: “right to profit” over “right to life”
And Institutions of economic neo-liberalism undermine democracy

• Are these organizations a new source of global dominance, surveillance, and manipulation of the nation-state?

• Conditions of IMF and world bank loans not subject to domestic debate in borrowing countries

• WTO rules supersede domestic laws
The Economic Nationalist Critique

• Organizations undermine state sovereignty and make private actors more powerful than states
A Liberal rebuttal: Global Growth without a hegemon and with neo-liberalism

Gross World Product, 1950-2005

Source: IMF, Worldwatch
The Global South: developing or underdeveloped...”emerging markets” or just poor countries?
Who is North and Who is South?

- North = World’s Rich
- South = World’s poor, or developing nations, or emerging markets (more complicated)
  - Used to be called the Third World
  - We can no longer lump together the countries of the “south”
  - Some are growing and “emerging” and some are not.
The Good News

• 20th century economic output off the charts!
• South Korea and China doubled productive output in 10 years
• Humans are, on the whole more healthy now than 100 years ago.
Health and income have improved
The Bad News: From Local to Global Inequality and back again

• The Pre-modern world: inequality within societies
• Today: inequality between societies
• What determines whether you will be rich or poor?
• Where is the “class struggle” now?
The Bad: A growing gap