Some way out of here?: How neo-liberalism conquered the world, and left it more unstable and unequal

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Globalisation and the end of development

- « The universal interdependence of nations »

- Markets:

  The driving idea behind globalization is free-market capitalism – the more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be. Globalization means the spread of free-market capitalism to virtually every country in the world. Globalization also has its own set of economic rules – rules that revolve around opening, deregulating and privatizing your economy.

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Globalisation II

- Momentum: Inevitable and unstoppable

  "I hear people say we have to stop and debate globalisation. You might as well debate whether autumn should follow summer. They're not debating it in China and India. They are seizing its possibilities in a way that will transform their lives and ours…In the era of rapid globalisation, there is no mystery about what works – an open liberal economy, prepared constantly to change to remain competitive. The new world rewards those who are open to it. Foreign investment improves our economy."

- Money: finance-driven globalisation is hyper competitive, innovative and efficient

What is neo-liberalism against?

- Classical development thinking

  industrialisation
  technological upgrading
  job creation (urban)

  Catch up growth – doesnt happen spontaneously but be managed through policy effort

  Big push – development planning; development banks, etc

  Mixed economies – with big role for the state and different development paths

  Strategic integration -- in a world of weak initial conditions, first mover advantages and market failures and distortions…international firms and markets are not benign

GDP per capita growth rates

	1951-80	1981-2000
Asia	2.9	4
Africa	1.8	-0.2
Latin America	2.6	0.4
Developing	2.7	2.4
Industrialized	3.3	2.1
World	2.6	1.7

Average annual industrial growth rates, 1950-2007

	1950-72	1973-89	1990-2007
Leaders	7.9	2.3	2.2
European core	4	1.1	1.8
Asia	7.8	5.5	4.3
China	9.2	8.4	9.8
India	7.1	5	6.5
Latin America	5.2	2.9	2.2
MENA	7.6	6.4	4.5
SS Africa	5	3.5	3.8

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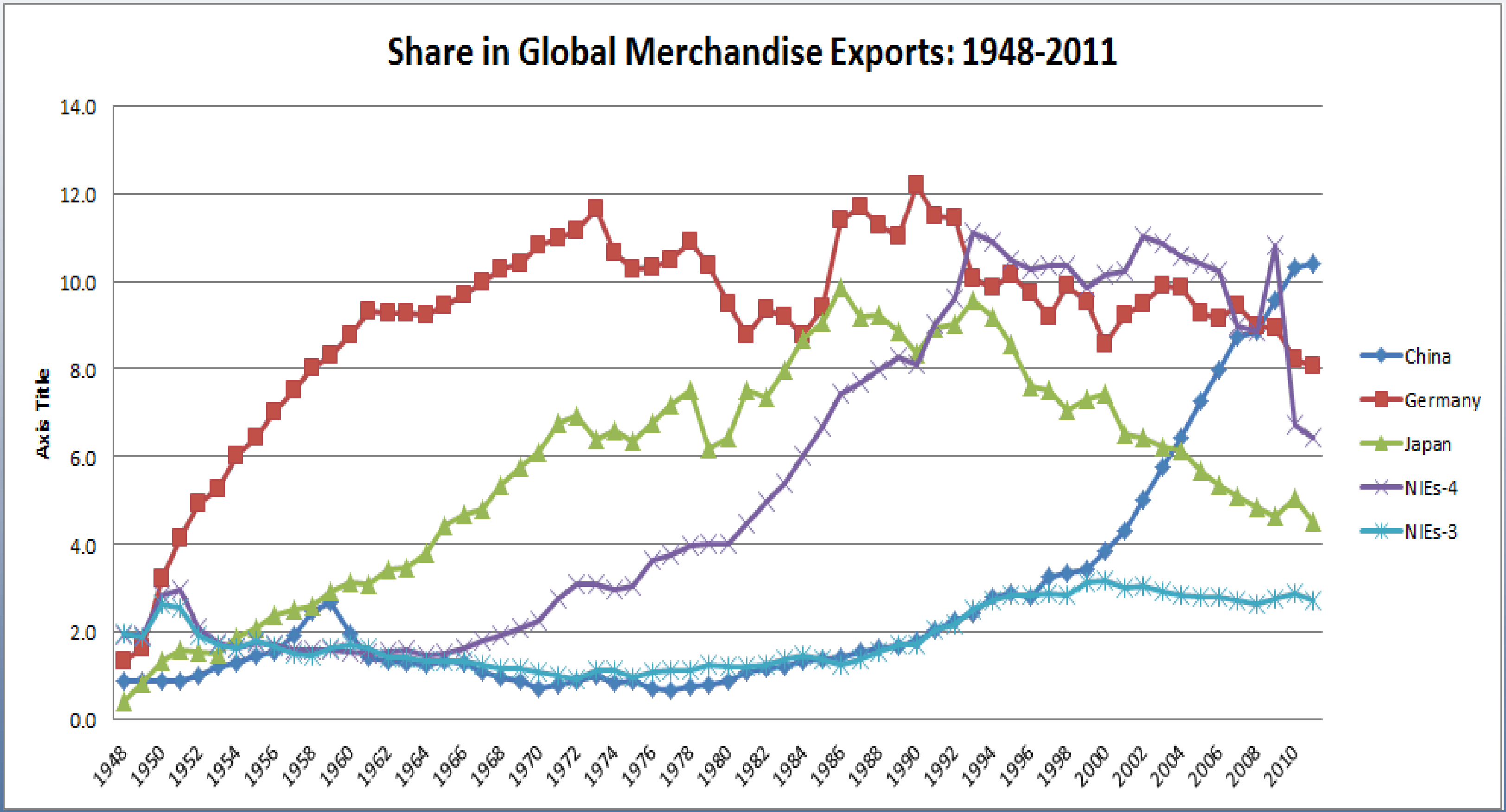
Export-investment nexus



What is neo-liberalism against? II

- The UN a key player…UNCTAD was central but original Bretton Woods system was also a problem (New Deal roots)

- The 1970s: a contested decade

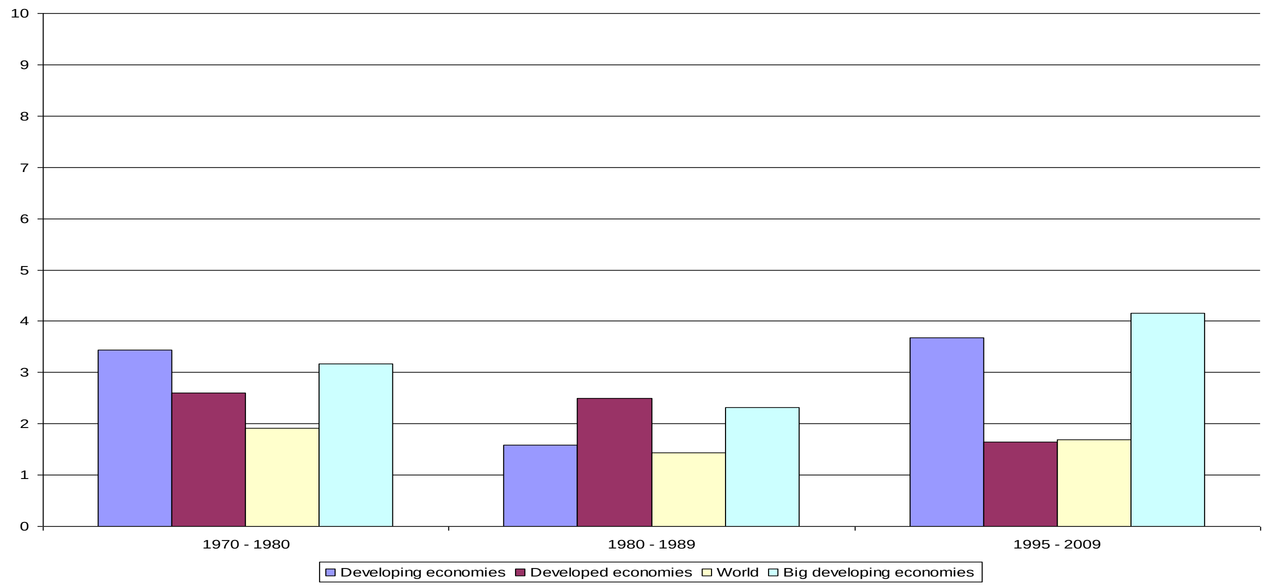
  Profit squeeze in an era of slowing productivity growth – distributional struggles and inflationary pressure

  Collapse of Bretton Woods

  The confident South (NIEO)

Myth: the 1970s was a lost decade

Chart 1 Average per capita growth rates: Developed and developing countries (per cent)



Source: ECIDC Unit, based on UNCTADstat.

Note: Big Developing countries represents the simple average of percapita growth rates of seven countries: Brazil, China, India, Indonesia, Nigeria, Pakistan and South Africa.

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Brothers in arms

- Thatcher/Reagan revolution

  An ideological tidal wave of market fundamentalism

  monetarism/supply-side/balanced budgets/free trade

  Expanded the comfort zone for a neo-liberal development model

  the Cancun walkout (1981)
  the 1982 debt crisis (Volcker)

- Collapse of Communism

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The Washington Consensus

- Neo-liberals in the World Bank (urban bias, industrial policy, financial repression)
- 10 policy commandments:
  - Fiscal discipline
  - Redirect public spending (pro-poor services)
  - Tax reform (broadening the base moderate marginal rates)
  - Market friendly monetary policy (liberalizing interest rates)
  - Competitive exchange rates
  - Trade liberalization
  - Liberalization of inward foreign direct investment
  - Privatization of state enterprises
  - Deregulation and prudential oversight of financial institutions
  - Legal security for property rights.

The song remains the same

"The three big ideas here are macroeconomic discipline, a market economy, and openness to the world (at least in respect of trade and FDI). These are ideas that had long been regarded as orthodox so far as OECD countries are concerned, but there used to be a sort of global apartheid which claimed that developing countries came from a different universe which enabled them to benefit from (a) inflation (so as to reap the inflation tax and boost investment); (b) a leading role for the state in initiating industrialization; and (c) import substitution. The Washington Consensus said that this era of apartheid was over." Williamson (2002)

- A one size fits all approach…from structual adjustment to MDGs

Reconfiguring the state

- Rolling back the state; state failures always worse than market failures (Krueger; Schleifer) –

  Entrepreneurs vs rent seekers

  Reducing policy space (Reconfiguring Bretton Woods)

- Capturing the state (predatory state or deep state)

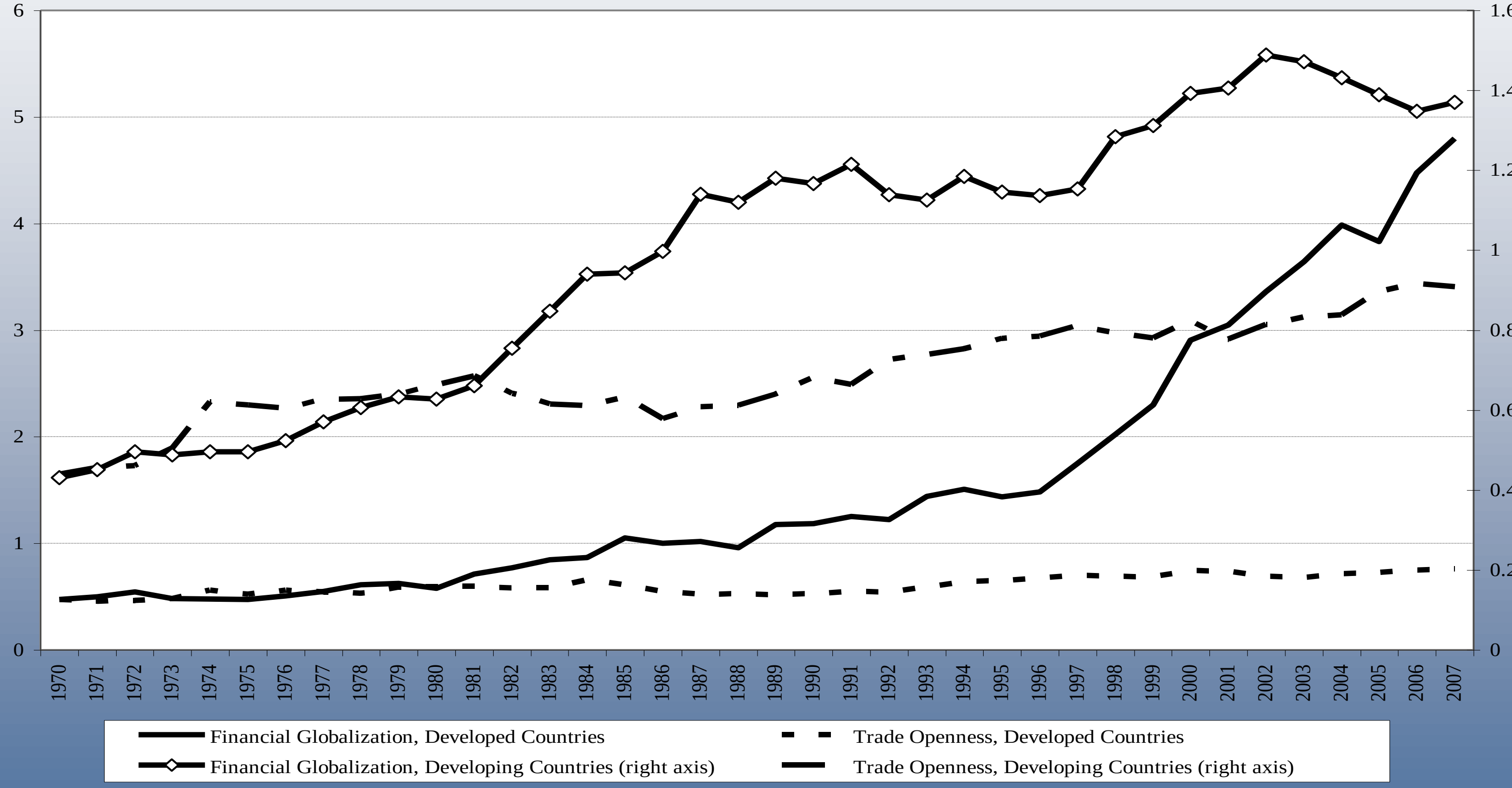
  Opening up profit space

- Developing states more vulnerable? East Asian crisis; good governance

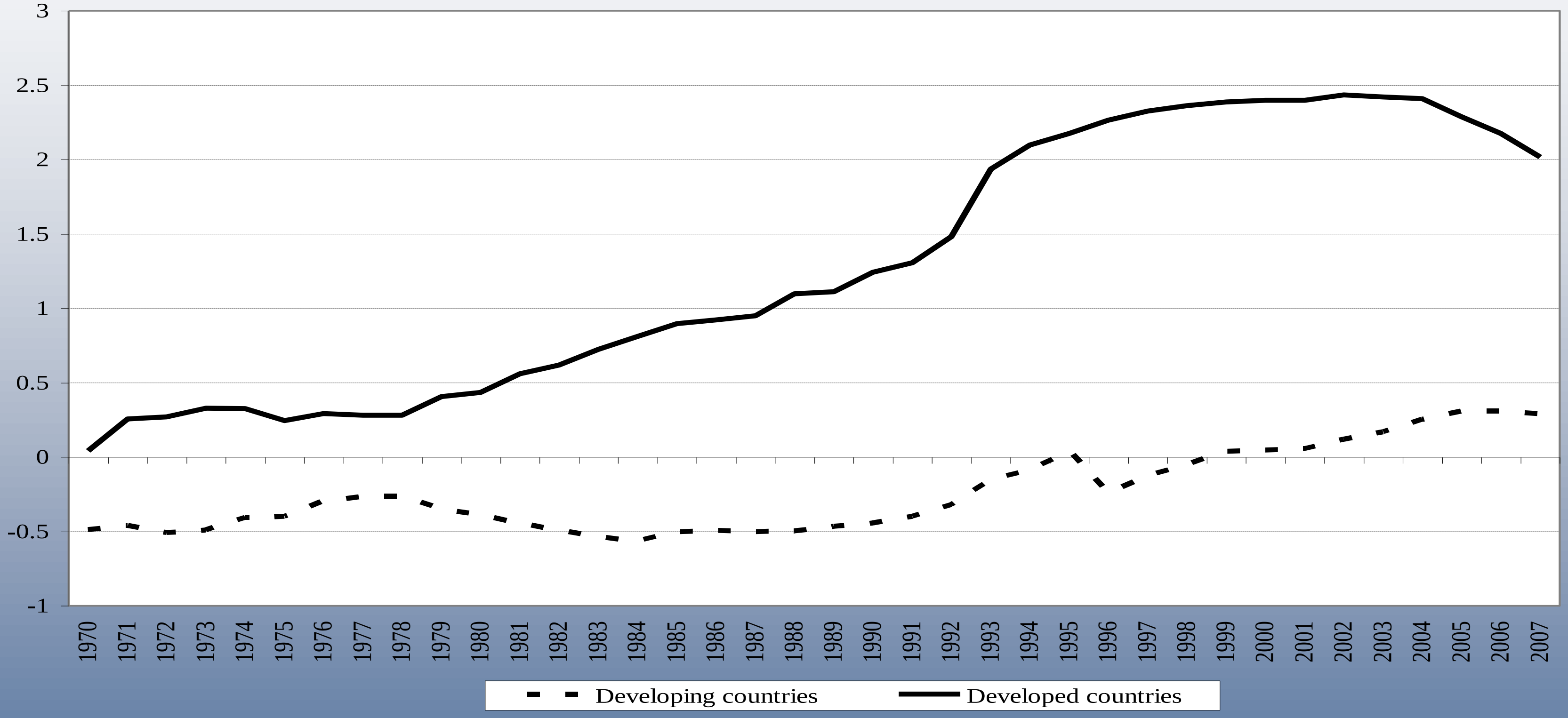
Actually existing globalisation

- Economists « win-win » model: trade and investment stories
- Finance led globalization
  - Financial flows
  - Capital account opening
  - Financialization
- Strongly driven by the advanced economies:

Financial globalization and trade openness 1970-2007 (simple average)



Evolution of de jure capital account openness, 1970-2007 (simple average)



Source: **UNCTAD secretariat, based on the index proposed by Chinn, Menzie and Ito (2008) This measure of *de jure* capital account openness is an index ranging from -1.83 to 2.5**

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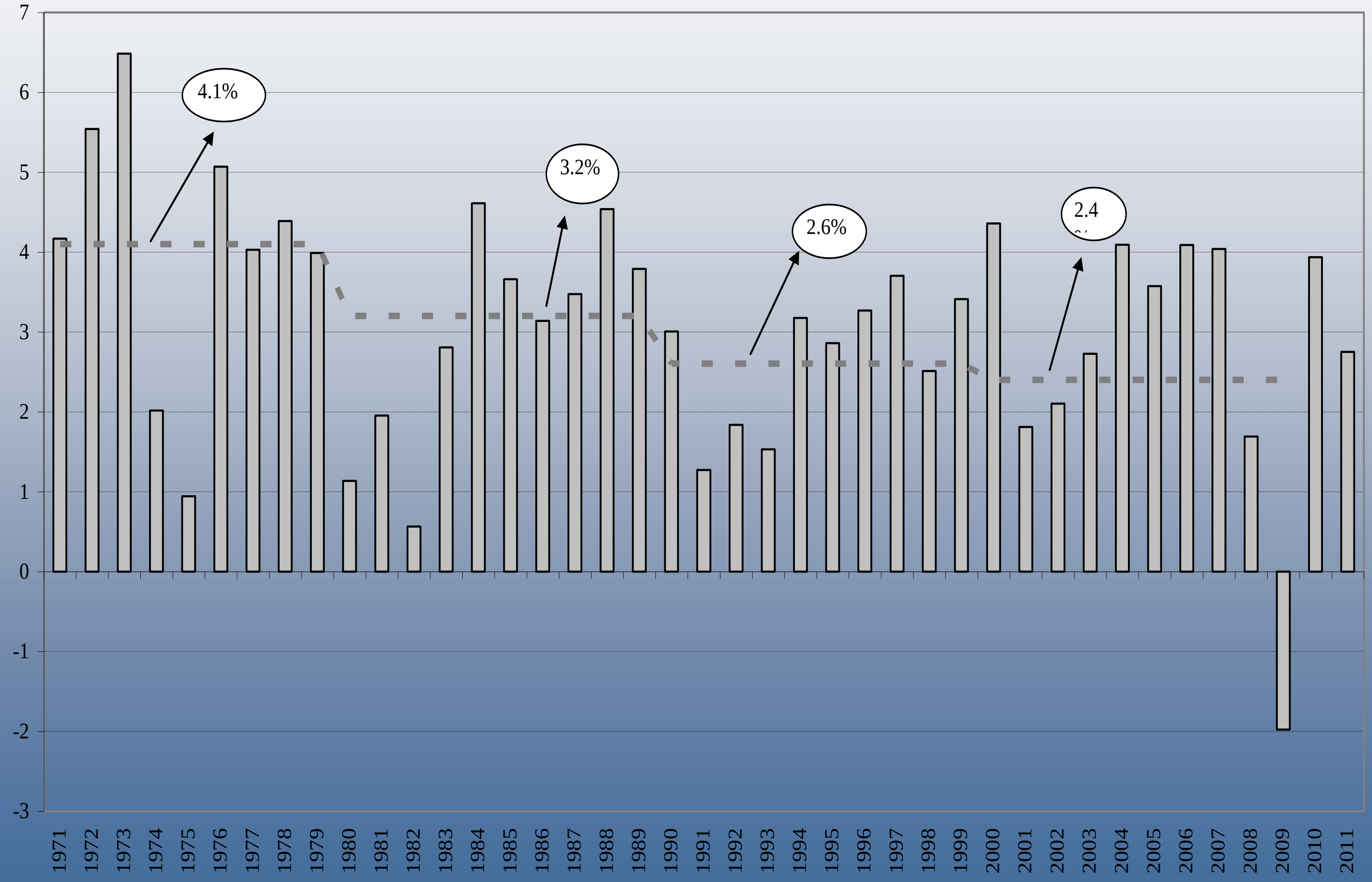
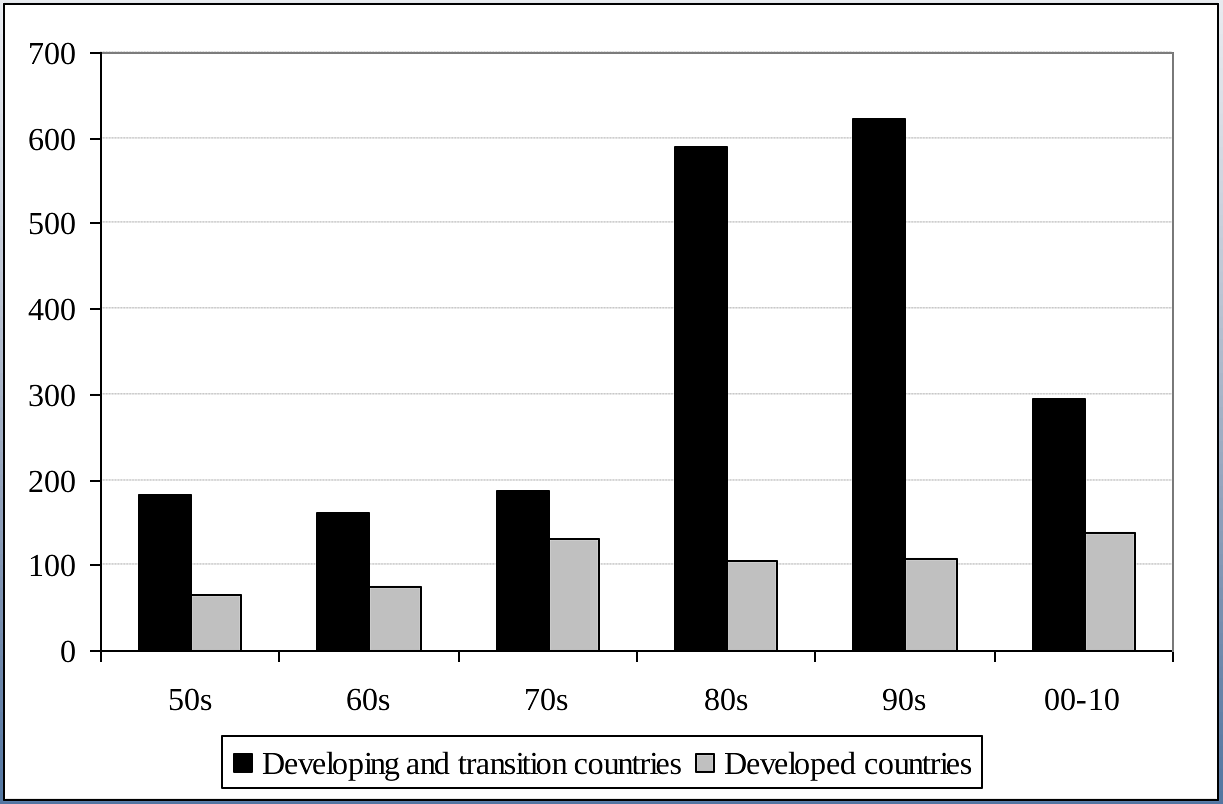
Financialization

- The increasing proportion of national income accruing to the financial sector
- The proliferation of esoteric financial products and corresponding markets, and the emergence of “shadow” financial institutions: 2007, systemically important European banks had a leverage ratio of 45 to 1, for US banks 34 to 1
- Channelling entrepreneurial energies in to devising new financial products to manage the risks accompanying increasing levels of indebtedness;
- Rights of the owners of financial assets beyond social accountability, the imposition of shareholder value as the principal gauge of corporate performance, extension of financial market calculations into expanding areas of economic and social life
- The validation of economic policies by reference to financial market interests and disconnected from the drawn-out pressures of making productive investments, raising productivity levels and creating jobs.

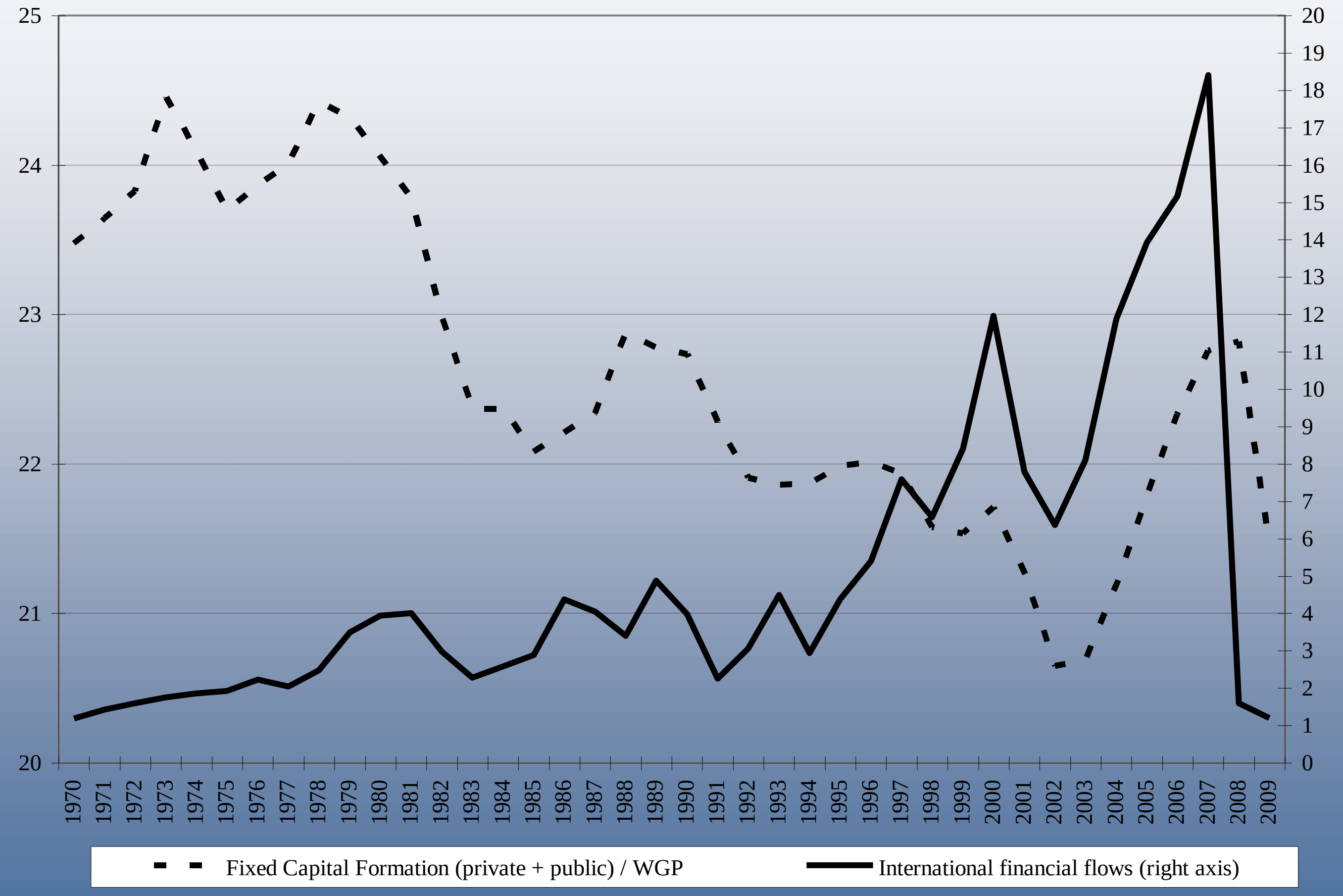
The slowdown in global economic growth, 1971-2011 (annual and decadal average %)



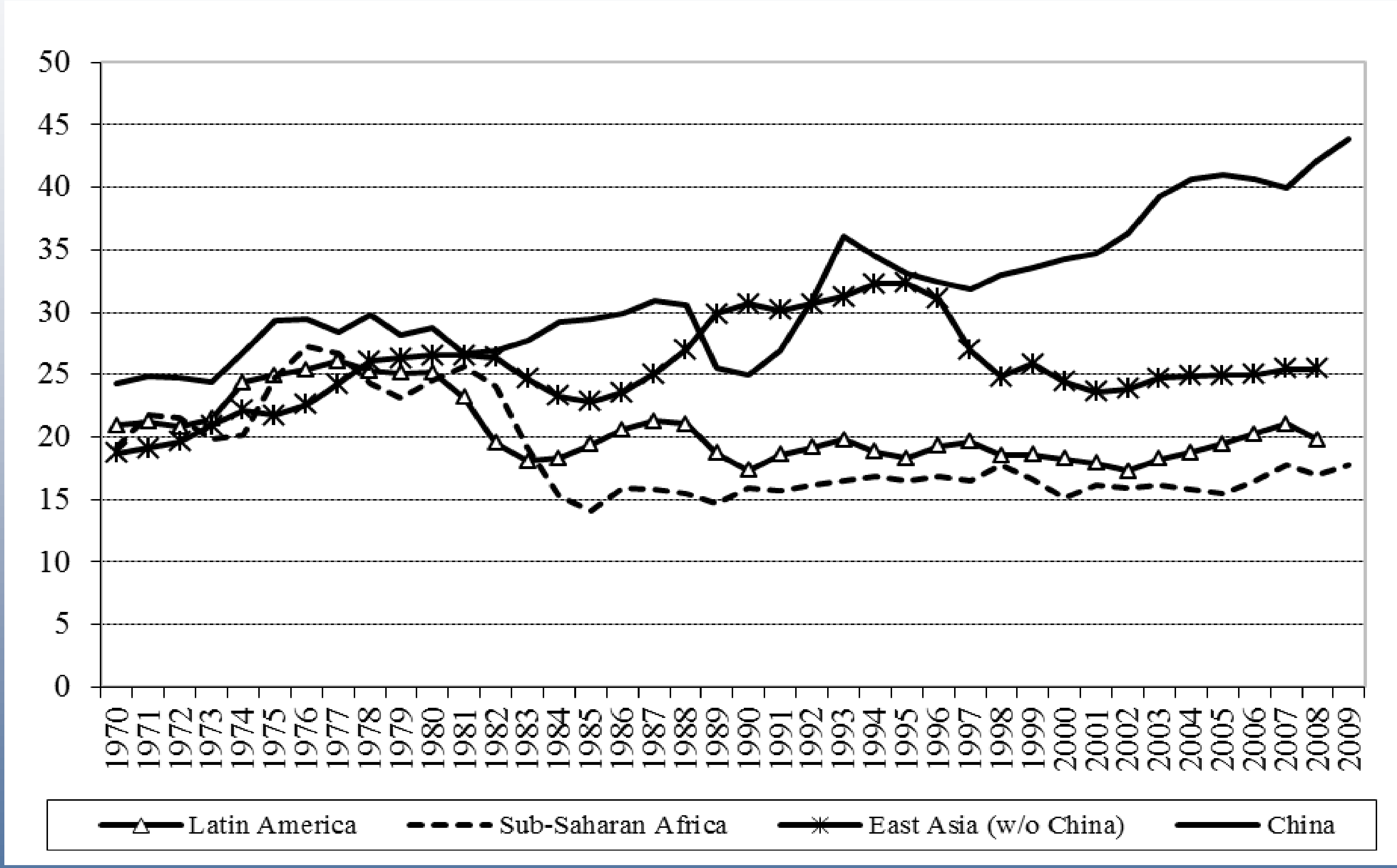
Financial crises, 1950–2010



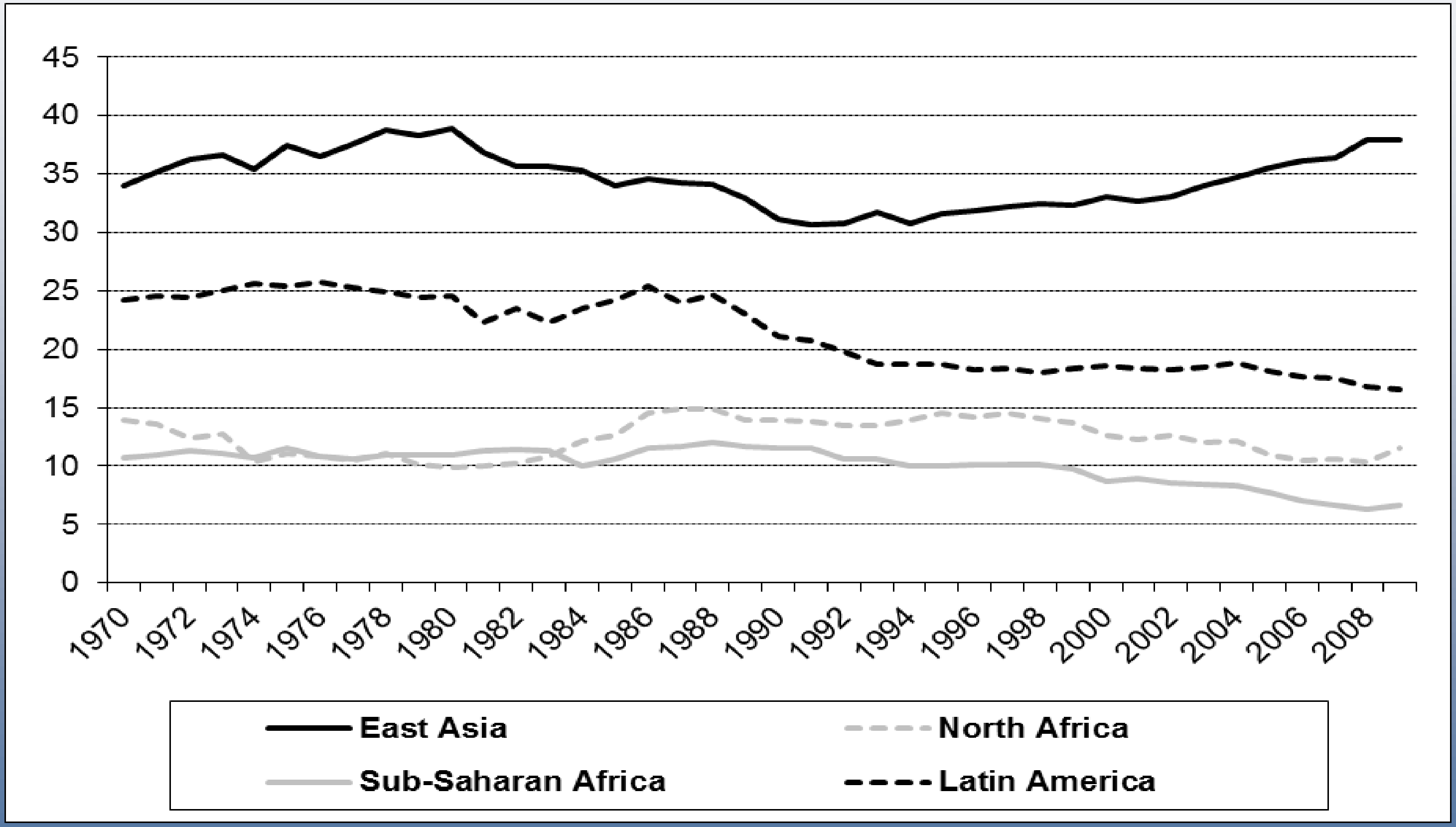
International financial flows and fixed investment (% of world GDP)



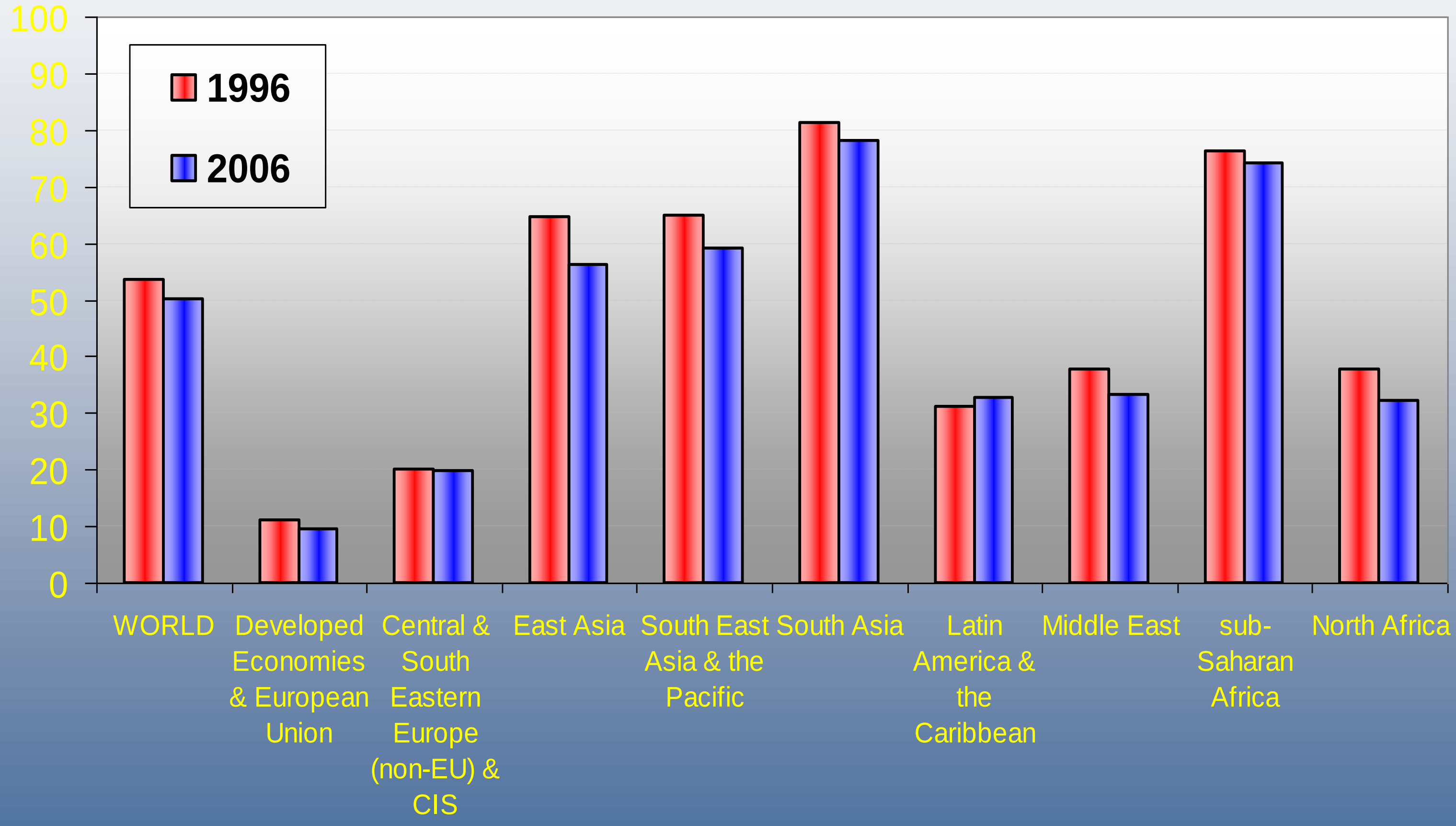
Gross Fixed Capital Formation 1970-2009 (% of GDP, current prices)



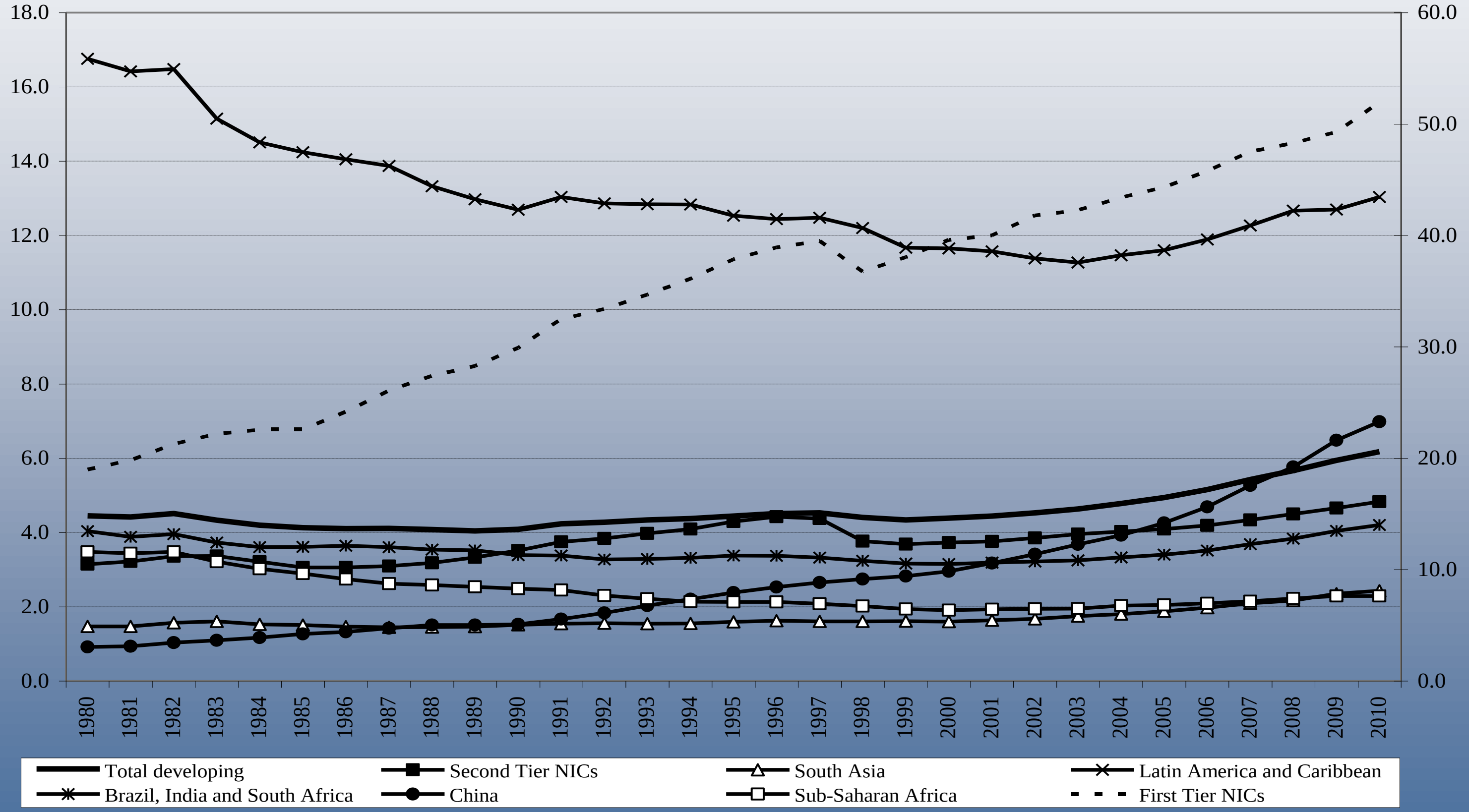
Manufacturing value added 1970-2009 (% of GDP)



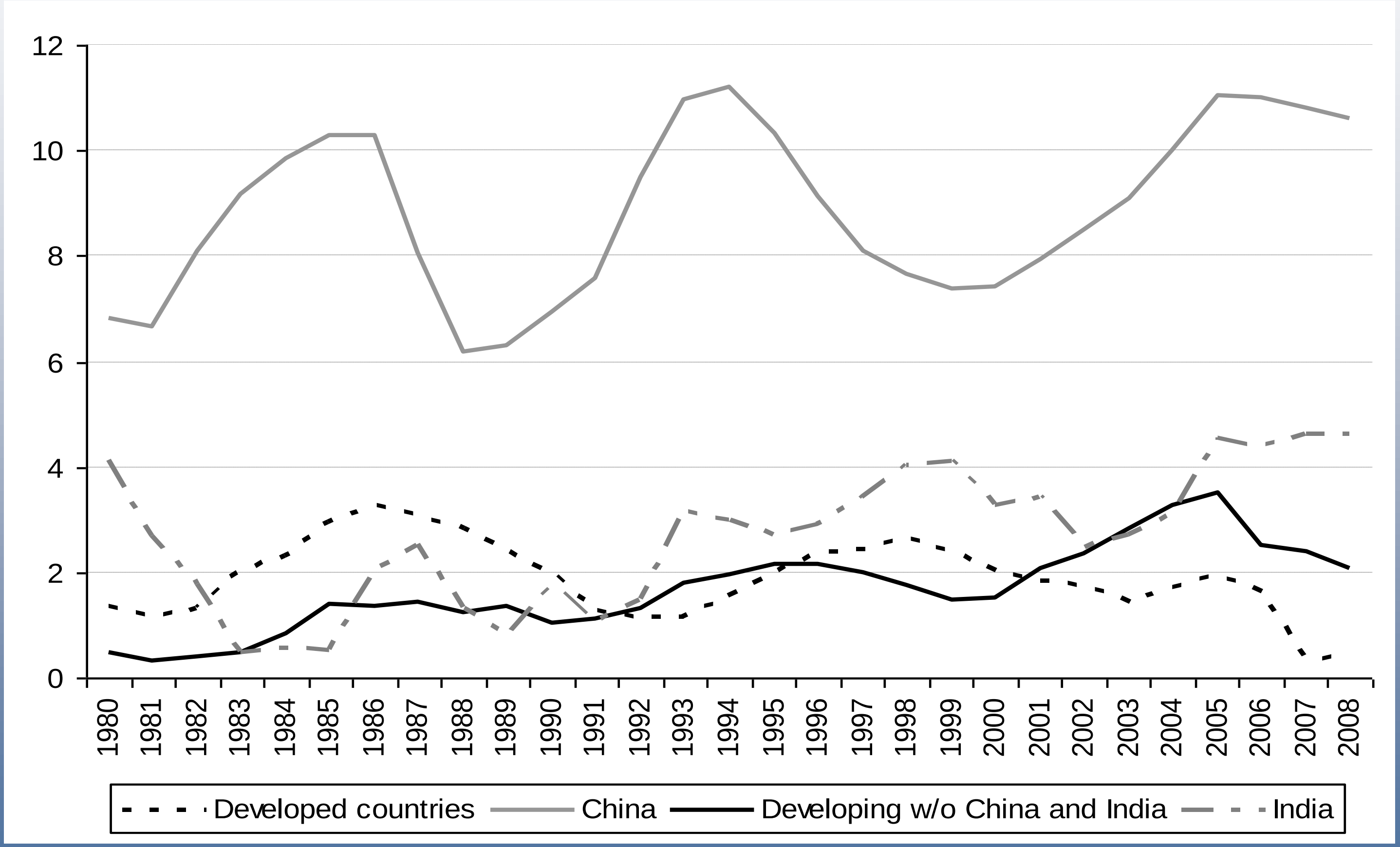
Vulnerable Employment Shares, 1996 and 2006



Real per capita GDP relative to the United States, 1980-2010



Real Per Capita GDP Growth rates (5-years average)



The paradox of finance driven globalisation

Divergent growth paths = global convergence

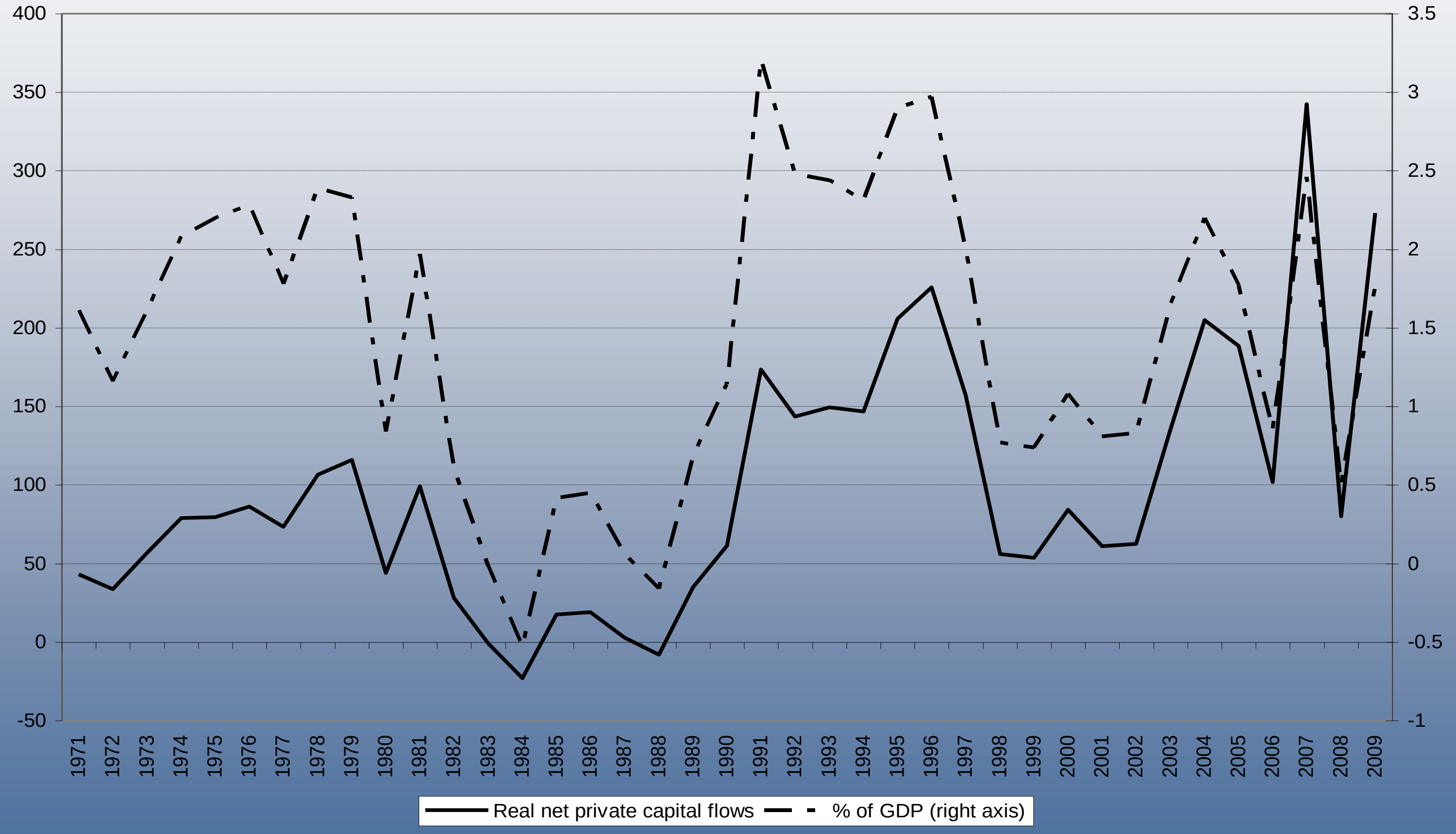
Debt-driven growth in the North linked to a series of asset boom: equities, houses and commodities

- Tepid and unsustainable growth (secular stagnation+bubbles)
- Massive rise in inequality
- Austerity

Rapid growth in the South during 00s

- All regions
- Good policy or good luck?

Real net private capital flows to developing countries (2005 US$ billion and as % of GDP, 1971-2009)



Rise of the South

Growth rates pick up everywhere in the South

- Differences in what is driving this but favourable external conditions are key everywhere
- Heterodox policies in some cases
  - Industrial policy and state owned enterprises
  - Redistributional measures
  - Countercyclical macro
- Developmental states
- But not decoupling (China a possible exception)
- Back to the 1970s (Lewis); sustainability?

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A new development agenda

- Inclusive:growth with jobs and poverty reduction macro plus
- Structural transformation:industrial policy but raising productivity in rural economy still a challenge; commodity rents
- Strategic integration: policy space

- Taming finance
- South south cooperation (regional)
- International policy coordination (whatever happened to the G20?)