1.
The Neoliberal State

"Far from supporting a minimalist approach to the state, [the world's development success stories] have shown that development requires an effective state, one that plays a catalytic, facilitating role, encouraging and complementing the activities of private business and individuals".

James D. Wolfensohn, President, The World Bank, Foreword to 1997 World Development Report [1]

The Myth of the Minimalist State

The World Bank and other supporters of the "free market" approach to economic and social policy have always had an ambiguous relationship with the state — an ambiguity reflected in statements like the one above. The package of economic reforms that the Bank and neoliberal governments have promoted in recent years — from privatisation of state or public services and assets to deregulation of labour and environmental laws — have, in theory, been intended to remove the state from all but a minimal role in the national economy and from many areas such as production and service delivery. Market competition, it is argued, best defines and serves the "public interest", because it is through the market that individuals are best able to express their choices; individual freedom and prosperity are maximised as funds are allocated efficiently, people can purchase what they want at prices determined according to supply and demand, and wealth generated by private effort "trickles down" to the benefit of all.

The state, the theory continues, has neither the management capability to run the economy nor any legitimate authority to do so: indeed, far from benefiting society, state planning, state ownership of industries, state-initiated social programmes and state regulation of wages and economic policy are to be avoided because they inevitably undermine entrepreneurial activity, diminish individual freedoms and lead to the inefficient use of resources. In sum, the best government is considered to be the least government.

Neoliberal academics, decision-makers, business leaders, politicians and opinion formers have thus argued over the past two decades or so that market competition should be the organising principle of ever more areas of life — from the production of cars, to delivery of health services — a policy which requires stripping the state of "excessive involvement" in the economy and in society[2]. In the South, the IMF and World Bank took advantage of the 1980s' debt crisis to "insist that debtor countries remove the government from the economy as the price of getting credit."[3] Structural Adjustment Programmes (SAPs) required governments to redirect their spending away from public services and publicly-owned enterprises into debt servicing. State industries were sold to private companies (many SAP loan agreements even specifying which industries should be sold and when); public services were "contracted out"; development projects "franchised" to private companies; state spending slashed; user charges for basic services introduced or increased; and markets "deregulated".[4] In the North, similar measures (although not officially labelled structural adjustment programmes) have also been introduced, supposedly to cut public spending and to raise the efficiency of services.

Redirecting the State

Yet the practical outcome of the neoliberal agenda over the past 20 years has not, in most cases, been to diminish the state's institutional power or spending. Instead, it has redirected it elsewhere.[5,6] and massively strengthened the power of the many Northern nation states to

intervene in the economic affairs of other countries, notably the indebted countries of the South, the emerging economies of the former Soviet Union and the weaker industrialised partners of trade blocs, such as the European Union. Indeed, as the World Bank's report makes clear[7], state spending relative to the economy as a whole has continued to grow in OECD countries despite spending cuts, and now averages 50 per cent of GDP. In developing countries, meanwhile, government spending has only dipped slightly - to just over 25 per cent of GDP on average. As The Economist comments in a recent survey of the world economy. "Government everywhere has grown, and kept on growing . . . Big government, far from being dead, is flourishing mightily".[8]

Overall, far from doing away with state bureaucracy, neoliberal policies have in effect reorganised it.[9] The privatisation of state industries, for example, has cut down the direct involvement of the state in the production and distribution of many goods and services; but the process has been accompanied by new state regulations, subsidies and institutions aimed at introducing and entrenching a "favourable environment" for the newly-privatised industries. In the process, privatisation has rarely improved (and often has reduced) the accountability of those now charged with providing services (such as water, electricity, transport, health care and social insurance) to the public, in particular to those who are marginalized.

Moreover, "despite the recent substantial reduction in the state's function as a direct producer of economic goods and services, states are still massively present in the immediate processes of production, distribution and exchange"[10] not least through framing taxation policy; setting interest rates (where independent central banks have not been introduced) or interest rate policy; directing subsidies to certain sectors of industry; farming out government procurement contracts; the awarding of franchises for privatised industries; the setting of pollution and health standards; and the funding of infrastructure projects. Within those sectors that remain under (albeit loosened) state control - education and health are prime examples - new state structures have grown to train or retrain personnel in the business methods of the private sector, to institute new accountancy and management techniques and procedures, and to instil market discipline. In the process, resources have been diverted from frontline service delivery and staff morale has often been undermined.

> The repressive powers of many neoliberal states have also been strengthened rather than weakened, not least in order to respond to growing popular resistance to neoliberalism. In addition, neoliberal governments have increasingly intervened in areas of social life which free market ideology nominally places "off limits".[11]1. Hutton, W., The State to Come, Vintage/Observer Books, London, 1997, p.16.[12]1. Hutton, W., The State to Come, Vintage/Observer Books, London, 1997, p.17.[13]1. Sklar, H., Chaos or Community? Seeking Solutions, Not Scapegoats for Bad Economics, South End Press, Boston, 1995.[14,15]

In Britain, for example, opposition to the free market policies of Margaret Thatcher (and later John Major) led to new legislation which increased the powers of the police to restrict the right to protest or to organise in support of strike actions. In India, the security forces have been significantly expanded in order to "deal" with internal dissent and "to facilitate domestic capital or foreign exchange-bearing entrepreneurs"[16] special units of the Indian police now being trained by Western security experts to "protect the life and property of foreign investors."[17] Indeed, as Smitu Kothari of the Delhi-based human rights group Lokayan notes, "Business interests have increasingly become associated with national interests . . . One former finance minister, echoing this spirit of policy focus, stated recently that power should increasingly move from the state to the boardroom."[18] One result is that "while the democratic space for the upper and middle-classes has expanded with growing wealth and influence, there has simultaneously been a definite shrinking in the democratic space of those victimised by the New Economic Policy."

The Neo-Corporate State[1] *The Neo-Corporate State*[1]
At a national and international level, neoliberal policies have also led to a massive transfer of resources and power away from public institutions towards private ones, whittling away the roles and abilities of ordinary citizens to define, protect and promote the public interest. Consider, for example, the benefits that have accrued to the private sector — and in particular transnational corporations — through the five related processes of:

- privatisation;
- deregulation;
- public sector spending cuts;
- the reallocation of subsidies; and
- the pooling of national sovereignty to form new trading blocks.

1) Privatising the Common Wealth
More than 80 countries have introduced ambitious programmes to privatise their state-owned enterprises. The World Bank recorded a total of 6,832 sales between 1980 and 1992, most of them in the former "communist" countries in the years after 1989.[20] According to the International Finance Corporation (the private sector division of the World Bank), annual privatisation receipts increased 30-fold in "developing countries" from 1988 to 1993.[21] The pace of privatisations is now quickening: worldwide, annual privatisation receipts were expected to reach US$100 million for 1996, a 50 per cent increase on 1995, according to a survey by the Organisation for Economic Cooperation and Development (OECD).[22] The diverse weaknesses displayed to one degree or another by the public sector in most countries — and these certainly are legion — provided plenty of ammunition for this offensive; meanwhile the failure of "communist" systems to deliver efficiency, equity or democracy strengthened claims that "free markets" and free people are indivisible.

Far from spreading ownership among workers, individual shareholders or small businesses, however, big companies were favoured overall in the neoliberal divestiture. The majority (and the most valuable) of the privatised assets are now controlled by transnational corporations.[23] Privatisation of state-owned or provided assets and services has turned many of the Third World's most valuable "possessions" or resources — from state oil companies to television networks, from banks to roads, railways and airlines - over to a small privileged group of local and foreign buyers, the vast majority of state enterprises being sold "to a domestic or foreign purchaser, or to a joint-venture consortium or both."[24] As Marsh comments:

> "Often, privatisation provided easy pickings for the rich, because nationalised firms were sold off, to either foreign investors or local elites, at prices far below their real value. Local buyers generally had to borrow capital internationally, which led to great benefit for some but often debt and distress for national institutions."[25]

In Mexico, a group of 37 businessmen, who between them controlled 22 per cent of the country's gross national product, were the major buyers in all but one of the country's public sector sell-offs.[26] [27]

Elsewhere, transnational corporations have used the privatisation of state companies to squeeze out competitors in the domestic or export market.[28] In Eastern and Central Europe, for instance, tobacco and food transnational Philip Morris, the maker of Marlboro cigarettes, bought up tobacco firms in former Czechoslovakia, while its rival BAT (British American

Tobacco) set up joint ventures in Russia and the Ukraine.[29] Foreign companies have also been accused of "cherry-picking" — buying only the best companies and then only if they can get them cheaply. In one controversial transaction, the US company, General Electric, took a 50 per cent stake in the Hungarian company, Tungsram, which had eight per cent of the world's light-bulb market, for just $150 million — even then, General Electric was well covered by risk insurance put up through the US government.

Other less well-known companies have achieved transnational status only by buying up the public sector sell-offs; frequently such companies have established a base in one public service from which to build up interests in others, using their financial power to ease out rivals. One result is that single companies now control a wide range of services. In Britain, the French multinational Generale des Eaux now:

> "operates water companies; hospitals; refuse collection services; waste-to-energy plants; housing management; financial administration; road and bridge building; car parks; cable television; mobile phones; and is bidding for a railway franchise."[30]

Likewise, the US multinational Waste Management Inc. or its offshoots in Britain run not only the refuse collection of Wirral but also the architect's department of Cheshire County Council, the water of Wessex, and the Derby Royal Infirmary.[31]

Power over a wide range of key services have thus become increasingly concentrated in the hands of companies over which the public has little real control. In the process, the ability of nation states to protect and promote the public interest has been significantly undermined, and the authority of their citizens has been usurped. Indeed, arguably the most significant shift in power occurring as a result of the privatisation of state assets and services has not been from public to private, nor from state to market, but from local and national political agencies to global concentrations of economic power, unchecked by any of the principles or processes of democratic government.[32]

2) Deregulation . . . And Re-regulation

Deregulation — the dismantling of legal and administrative controls deemed to interfere with the operation of the market - has also greatly increased the powers and influence of the corporate sector in general and of transnationals in particular. As limitations on the free movement of capital between countries have been stripped away through international agreements such as the General Agreement on Tariffs and Trade (GATT), so governments have sought to attract inward investment to their countries by creating as attractive a "policy environment" for business as possible. One consequence has been the dismantling of many social and environmental controls that might act as a deterrent to exploitative practices by adding to business costs. Britain's national economic policy, as outlined by the 1992-1997 Conservative administration, for example, was to offer the country abroad as a low wage, deregulated "enterprise zone" with relatively pliant workforces. In a 1995 brochure aimed at attracting foreign investment, the government's Invest in Britain Bureau (IBB) highlighted the country's "pro-business environment".[33] The IBB advertises "labour costs significantly below other European countries" and assures potential investors that "no new laws or regulations may be introduced without ascertaining and minimising the costs to business." It continues:

> "The UK has the least onerous labour regulations in Europe, with few restrictions on working hours, overtime and holidays . . . There is no legal requirement to recognise a trade union. Many industries operate shift work, and 24-hour, seven days-a-week production for both men and women."[34]

The Conservative government also cut back important regulations which companies

claimed made them less internationally competitive. By 1993, 605 regulations had been identified for the axe; these included measures which environmental, consumer and other citizen's groups had long campaigned for — for example on health and safety, biotechnology, advertising in sensitive areas, hedgerow preservation, food standards and energy efficiency.[35]

A similar process of active deregulation has been undertaken in the newly-emergent economies of the former Soviet Union which have undergone crash marketisation under World Bank and IMF guidance. In the Russian Far East, for example, land use and tax laws have been reformed to attract foreign investment in mining and forestry.[36] Foreign companies, eager to exploit the vast mineral and timber resources of the Russian Far East, are reported to be pressuring the Russian government to relax environmental standards.[37]

Meanwhile, in the indebted countries of the South, where governments (under the tutelage of the IMF) have been setting up "free trade zones" since the early 1970s to provide "a favourable climate" for private sector investment, deregulation is now being extended throughout the wider national economy.[38] The rights of workers to organise and strike have been restricted; environmental regulations weakened; foreign ownership restrictions watered down or abolished; and TNCs granted freedom from planning and environmental controls and given permission to repatriate profits without restriction.[39] [40] Since the ratification of the latest GATT agreement in 1994, these deregulated regimes, North and South, have the protection of international law. Moreover, as Alexander Goldsmith, editor of the business and environment magazine *Green Futures*, notes:

> "Under the rules by which countries can initiate challenges to other countries' trading practices or their environmental or consumer laws, an alarming process of mutual deregulation is underway."[41]

US corporations lobby the US government to target EU regulations under GATT, whilst their subsidiaries and partners in Europe (with their connivance) lobby the EU to target US regulations. North American interests, for instance, are seeking to overturn European bans on the use of Bovine Somatotropin (BST), a genetically-engineered growth hormone for cattle, and on the sale of furs from animals caught with steel leg-hold traps. The EU, meanwhile, is challenging US fuel consumption standards in cars; food safety laws, including a ban on carcinogenic chemicals in food; limitations on lead in consumer products; state recycling laws; and restrictions on driftnet fishing and whaling. Several hard-won pieces of European environmental or public health legislation have already been overturned. In May 1997, the WTO ruled against the European Union's ban on imports of beef produced with artificial growth hormones.[42]

Indeed, in many instances, companies themselves have actually written the new investment and environmental rules which have replaced former, less business-friendly legislation. In the Philippines, for example, the government in 1995 introduced a new mining code overturning previous laws which limited foreign control of mining companies to 40 per cent. Under the new code — which companies such as Western Mining Corporation helped to draft — 100 per cent foreign ownership is now allowed. Companies also have the right to displace and resettle people within their "concessionary areas" and environmental regulations have been largely dismantled.[43] [44]

Just as important as the process of deregulation is the process of business-friendly re-regulation. As Christopher Pierson, Professor of Politics at the University of Nottingham, notes:

> "One of the most keenly felt ironies of the 'withdrawal' of the state from its role as a direct producer of goods and services has been the mushrooming of the apparatus

of 'regulation' through which it seeks to exercise a continuing control over its divested functions."[45]

In Britain, the deregulation of labour markets — a policy intended to make market mechanisms rather than income policies the determinant of wage levels — has meant "an unprecedented level of state intervention in the internal administration of trades unions and a tighter proscription of their lawful actions".[46] It has also entailed "an ever tighter regulatory regime for those who are unemployed and/or in receipt of state benefits" and led to the introduction of "a stronger statutory framework into the management of government training programmes".[47]

In the process, a range of new quasi-autonomous non-governmental organisations — QUANGOS — staffed largely by political appointees of the ruling party, has been set up to administer whole areas of public life, from housing to education and hospitals, areas which were previously under the control of local government or the national Parliament. Accountable, albeit often inefficient, public bodies have been replaced by new, often secretive, usually technocratic and generally unaccountable agencies. The result has been not the elimination of corruption and inefficiency (as neoliberals have argued) but the creation a web of new patronage networks that encourage their own form of political corruption.[48] In 1996, according to one estimate, some 7,700 quangos existed in the UK, giving government ministers discretion over 70,000 public appointments.[49]

In other countries, state institutions have also given way to new "market-friendly" semi-public authorities. In Guyana, for example, a condition of one recent structural adjustment programme agreed by the IMF was the privatisation of the state forest company and the setting up of a Natural Resources Agency, directly responsible to the President, in order to speed up "development" of the country's interior. With the authority to hand out logging concessions now vested in a small, barely accountable government office, opportunities for favouritism and malpractice abound: political patronage, rather than a record of responsible logging practices, largely determines who gains large logging concessions. Most of the large concessions given out to Guyanese nationals between 1985 and 1991 were to ministers, members of parliament and supporters of the PNC party which ruled the country until 1992. Moreover, in the five years proceeding 1989, seven companies absorbed 94 per cent of foreign assistance given to the sector, with two companies alone, Guyana Timbers and Demerara Woods, getting 75 per cent.[50] The World Bank, which, together with the IMF, imposed the structural adjustment programmes that led to the setting up of the Guyana Forestry Commission, has described the Commission as a perfect example of the "capture theory of regulation", whereby the regulatory body ends up being controlled by the industry it is supposed to regulate.[51]

The private sector has also benefited from programmes that have left regulatory authorities intact but without the authority or resources to enforce controls on business activities.[52]

3) Public Money, Private gain

Although public funds for social and environmental programmes and departments have been cut as a result of structural adjustment - according to a 1996 World Bank report, from 1980 to 1993 social spending declined as a proportion of GDP in half the countries studied, with per capital social spending falling in two-thirds of them[53] — public funds have been made available to foreign companies which have been offered extraordinarily generous terms to set up production facilities or extractive industries. The agreements reached are normally kept secret, but occasionally leak out, as in the case of a deal agreed by the Guyanese government with a Malaysian/Korean logging consortium, the Barama Company Ltd. As Marcus Colchester of the World Rainforest Movement's Forest Peoples' Programme reports:

> "The Barama agreement grants the company . . . a 25-year licence — automatically extendable for a further 25 years - to exploit some 1.69 million hectares of forests in the North West of the country for the export of raw logs, sawn lumber, veneer and processed plywood . . . The company also enjoys a ten-year tax holiday, including income tax, corporation tax, withholding tax, property tax and income duties on just about everything, including machinery, fuel, building materials, office equipment and medical supplies. Export taxes are only payable on greenheart [wood], while even royalty payments have been fixed in Guyanese dollars over the first twenty-year period - a gift to the company as the currency devalues. The company is also permitted to hold external accounts, foreign currency accounts within Guyana, employ 15 per cent foreign workers (more if local labour with the right skills is unavailable) and, in the event of disputes with the government, have recourse to the arbitration of the International Centre for Settlement and Investment Disputes in Washington DC, in which case the company shall be deemed as a national of a state other than Guyana."[54]

The World Bank's environmental department urged a revision of this contract, and of other "overgenerous" contracts awarded to Omai Gold Mines and Demerara Timbers, insisting that "sustainable development" can be achieved only if Guyana secures greater benefits from existing concessions. The Bank's macroeconomists, however, whose goal is to promote "sustained growth", rejected the proposition out of hand as it would "send the wrong signals" to potential foreign investors.[55]

In Chile, too, liberalisation of the forestry sector has been characterised by government hand-outs to the already rich. As policy analysts Joseph Collins and John Lear comment:

> "The neoliberals' stated goals were to curtail sharply the direct role of government in forestry and to let market mechanisms determine the prices and direct the use of resources. Yet government intervention and subsidies were in fact central to reorientating the benefits of forestry production away from the rural population towards a handful of national and foreign companies."[56]

The new policies, argue Collins and Lear, directly or indirectly benefited Chile's largest conglomerates; some of these, such as Matte, already had significant investments in forestry, while others — Vial and Angelini, for instance — used government concessions to create new forestry empires. All restrictions on size and ownership of land holdings were lifted. The government also sold off its interests in the principal forestry processing plants in the country. As in the privatisation of other areas of the economy:

> "these companies were sold at a discount, according to one estimate at least 20 per cent below their value. They ended up, together with privatised forestry land, in the hands of a few large conglomerates."[57]

Government-subsidised tree planting programmes also directly benefited the private sector. Between 1974 and 1990, total planting subsidies exceeded $88 million, money which accrued to only a few: in 1988, 48 per cent of the area reimbursed for planting was owned by the ten largest forestry companies in Chile.[58] As smaller plantation owners have been bought out, huge forestry empires have been created, often in alliance with multinationals. Angelini, for example, owns large swathes of plantations with the New Zealand TNC Carter Holt Harvey: together with Matte, it controls 40 per cent of the tree plantation area. Other companies owning large areas of plantations include Shell, Bin Mahfouz of Saudi Arabia and Marubeni of Japan.

In addition to picking up subsidies from national governments, corporations are increasingly availing themselves of a range of new subsidies from multilateral development banks (MDBs). In the past, companies (particularly those from Northern

countries) have benefited from contracts for public sector development projects, such as roads, airports and irrigation schemes, contracts which were awarded by governments but financed by MDBs. Increasingly, however, the multilateral development banks are "moving to the private sector", with governments acting as "facilitators rather than financiers". Instead of funding projects through states, the MDBs are now funding private companies to undertake projects and at the same time underwriting the investments through guarantees or providing loans directly to the companies involved. Much development is now seen as deliverable only by private, external agents.

India, China, Chile and Mexico, for example, are planning or executing thousands of kilometres of private toll roads. Typically, such private sector projects are undertaken by international firms in association with local companies. Most projects are undertaken on a Build, Own, Operate and Transfer (BOOT) basis: the company or consortium finances the project; constructs, operates and maintains it; and finally, after an agreed period, transfers ownership to the state. This arrangement is justifed by its promoters on the grounds that only the private sector, not indebted governments, has sufficient capital to build large infrastructure projects, and that all commercial risks will be borne by the companies, not the government. In practice, however, the risks are rarely allocated in such a manner, and government/public liabilities are almost never adequately debated in public. In Mexico and Chile, the government guarantees to pay compensation to toll road concessionaires if traffic does not meet an agreed minimum level. In Thailand, the multinational Hopewell responded to the July 1997 Thai currency devaluation by asking the government to allow it to raise the tariffs on its Bangkok road and rail project by 15-20 per cent, whilst power companies similarly looked immediately to renegotiate terms.[59] The Lyonnaise des Eaux consortium, which won the contract to provide water and sewerage services for Buenos Aires, Argentina, in a World Bank group-advised and -backed 1995 deal, has also sucessfully argued that it should raise tariffs on the grounds that the pre-sale information about the state of existing infrastructure was not complete.

MDBs (and thus public money) are deeply involved in these "private sector" projects, providing advice, guarantees, loans and direct equity investment in conjunction with other banks. As Friends of the Earth notes of the International Finance Corporation, the World Bank's leading private sector investment arm:

> "Thanks to its triple 'A' credit rating and status as a multinational institution, IFC investment in a project is seen as a security by the private investor . . . The IFC can therefore act as a catalyst to encourage investment in a project by private banks."[60]

MDBs also lend credibility to projects that companies might otherwise consider too risky.[61] Although MDB officials claim to act "honest brokers" of fair deals between governments and private companies, they appear overoptimistic about the private sector's willingness to take on risk and to provide services to very poor people. The risks for governments of relying on a few foreign funders and operators to provide essential services (which generate only local currency revenues) are rarely spelled out properly to governments by the MDBs.

MDBs also offer indirect subsidies to the private sector in the form of guarantees against the financial and political risks of undertaking projects. The World Bank agency responsible for guarantees, MIGA, provides insurance against political risks (such as renationalisation, losses on currency transfers, war and civil disturbances). In many cases, the cover it offers would not be available at an affordable price on the open market. MIGA's coverage of risks that the market would not bear, or would price prohibitively high, lowers the cost of financing and thus represents a major subsidy to companies investing abroad. In 1996, for example, MIGA guaranteed a new gold mine on Lihir Island, 700 kilometres north-east of mainland Papua New Guinea (PNG). The

mine is to be operated by a joint venture led by Rio Tinto Zinc, which plans to start extracting gold from an extinct volcano in January 1998. Following a recent popular uprising which led to the closure of the giant Bougainville copper mine, however, bankers have found it "virtually impossible to raise project finance for schemes [in PNG]"[62] without public insurance against political risks. Without MIGA's backing through a $66.6 million guarantee, the Lihir gold mine, which is likely to be very environmentally destructive, would probably not have gone ahead.[63]

Finally, MDB influence over national governments is of critical importance in ensuring "an appropriate policy environment" for the private sector. For example, in Pakistan, where the World Bank group advised on a policy to attract foreign investment in power stations and provided equity, debt and guarantee backing for transational power companies, the government gave incentives only to bidders tendering for power stations over 100 megawatts, thus discriminating against the domestic private sector which can only build smaller plants.[64]

4) Fixing the Rules: Regional Trade Agreements . . .

Perhaps most significantly of all, the corporate sector has benefited hugely from the emergence of new trading agreements supposedly designed to liberalise trade, both at the regional level and globally. The result has been not only the emergence of business-friendly transnational state institutions to oversee the agreements, but also the surrender of control by governments over certain areas of economic activity, principally those which would allow state institutions to intervene in economic affairs for the public good.[65]

Over the last two decades several regional trade agreements have been set up: the North America Free Trade Area (NAFTA), the European Single Market (and subsequently the European Union), the Southern Cone Common Market (MERCOSUR), the Caribbean Community and Common Market (CARICOM), the Common Market for Eastern and Southern Africa (COMESA), the Asia-Pacific Economic Co-operation forum (APEC) and the Central European Free Trade Agreement (CEFTA).

The majority of these agreements are either still at the preliminary stages of their development or are determinedly "forums" for discussion rather than formal free trade areas.[66] However, both NAFTA and the European Union are now fully operational and point the direction other regional trade agreements are likely to go if freemarketeers have their way — although many academic neoliberals have argued that regional free-trade blocks are undesirable forms of protectionism. In the case of the EU, national regulations to protect home industries have gradually been replaced by Europe-wide regulations that protect those industries with "European" (and, increasingly, global) reach. The nation state has been pushed into the background as the unit of economic administration: sovereignty over key economic issues has shifted (for the time being at least) to European institutions, such as the European Commission, which are unaccountable to the electorate whilst proving highly susceptible to corporate lobbying from groups such as the European Roundtable of Industrialists.[67] In the process, a free trade zone has been created encompassing 340 million people. In future, many fear, the prime benchmark for deciding appropriate economic policy (and even social policy) will be the competitiveness of European companies in the Single Market.

The European project was business-driven from the start — the proposal for the Single Market was drafted by, among others, Wisse Dekker, head of Philips, and Umberto Agnelli, then head of Italy's FIAT conglomerate. Not surprisingly, the most powerful businesses have used the process of setting up the Single Market to boost profits at the expense of product quality; to drive many smaller companies out of production; and to undermine (or block) environmental and public health measures deemed onerous to business. National food and drink standards designed to improve product quality and protect consumers have

been abolished and replaced by EU-wide standards that, in many cases, are less exacting than previous national standards. In other cases, where stricter standards have been introduced, they have been used by large companies to squeeze out smaller competitors, for example in the abbatoir industry.

With the "playing field" levelled in their favour and capital free to move throughout the EU, multinational interests have received in abundance what the Ceccini Report, a 1988 analysis of the projected economic benefits of the Single Market, promised them: cheaper costs and more convivial standards.[68] One result has been a spate of takeovers and mergers — Europe's 1,000 leading firms more than doubled their mergers and acquisitions between 1986 and 1989 — creating multinational giants whose influence on government and whose control of trade is pan-European.[69] Larger firms have snapped up smaller ones to gain control of local distribution networks or to get rid of rival brand products. In banking, soft drinks and paints, the top five companies now control 38 per cent, 50 per cent and 25 per cent of their respective markets. Of the 39 companies which dominated the European trade in household appliances in the 1970s, 34 had been swallowed up by 1990, leaving the five largest in control of some 60 per cent of the market.[70]

The result, many would argue, is a union of European business interests rather than "a union of the peoples of Europe" (the stated objective of the Treaty of Rome which first established the European Common market).

. . . And International Trade Agreements[1]

The same trend is apparent at the international level. Under the Uruguay Round of the General Agreement on Tariffs and Trade, signed in 1994, signatory governments have agreed to open up their countries' markets by permitting the free flow of capital, reducing tariff barriers, outlawing export subsidies, clamping down on countervailing duties, streamlining customs inspections and licensing procedures, harmonising phytosanitary and technical standards, outlawing restrictions of foreign investment, introducing new intellectual property laws, and subjecting agriculture and the service sector (neither of which were previously covered by GATT) to the discipline of GATT principles.[72]

As in the European Union, the stated intention of this international agreement was to create a "level playing field" that would supposedly permit free and equal competition. But, as in the EU, the final shape of this GATT treaty reflected not an agreement between equal partners, but an agreement to tilt the playing field dramatically in favour of the most powerful nations and their most powerful interest groups- principally TNCs. Indeed, during the GATT talks, representatives from the TNCs chaired and staffed all the 15 advisory groups set up by the US administration to draw up the US negotiating position. The outcome, not surprisingly given the political and economic muscle of the US, was a Treaty that favoured transnational interests over national interests; and US transnational and national interests over everybody else's.[73]

GATT's agricultural agreement, for instance - supposedly intended to remove US and EU export subsidies to achieve the stated aim of preventing the dumping of agricultural surpluses on world markets at artificially low prices, thereby undermining the agriculture of poorer countries — illustrates the way in which "free trade rhetoric has served as a convenient smokescreen for the pursuit of vested interests".[74] As OXFAM (UK/Ireland) policy analyst Kevin Watkins reports, far from dismantling the structure of subsidies in industrial countries, the latest GATT agreement left them largely intact, thanks to a side agreement negotiated bilaterally between the EU and the US which determined that direct payments to farmers — "set-aside" payments, for example, where farmers are paid to withdraw land from production — should be exempt from the subsidy cuts agreed under the main GATT agreement on the grounds that such payments do not promote agricultural production and are not, therefore, "trade distorting" measures.

Yet, as Watkins explains, the formula for calculating direct payments is based on land-holding and average yields, both of which are in fact production-related. Indeed, by generating new investment, direct payments to farmers have had the effect of raising overall EU cereals output by some 30 million tonnes, according to the authoritative *Agra-Europe* journal.[75] This is more than the average total of EU cereals exports for the second half of the 1980s.

The Green Box provisions have enabled both the EU and the US to maintain - and even increase — the level of subsidies to their farmers and farm companies, argues Watkins. Direct payments now account for 23 per cent of agricultural subsidies in the industrialised countries — an increase of five per cent over 1986. In the US, by the year 2000, "direct payment" subsidies of up to $16 billion will be permissible — double the 1995 level of national government support. In addition, a wide range of additional subsidies are exempt from reductions. These include the $1.5 billion of public finance spent in the US on research and development and the $2 billion allocated for crop insurance — both areas clearly linked with production. Some Southern governments, on the other hand, will be required to implement far-reaching liberalisation in foodstuffs. All but the least developed countries will be required to reduce their tariffs on food imports by 24 per cent over ten years and to increase the minimum level of imports from one per cent to four per cent of consumption.[76] As Watkins points out, the implications for food insecurity in the South are enormous:

> "In the case of the Philippines, for instance, the maize sector accounts for over half the cultivated area under food grain and around two million livelihoods. At the world price levels which prevailed during the second half of the 1980s, few maize farmers would be able to compete against foreign imports. According to one study, tariff rates of 100 per cent would be insufficient to protect the market share of Philippine maize producers against regional competition from Thailand. (This is partly because transport costs are high, especially to the main animal feedstuffs market in Manila, reflecting the dilapidated state of rural roads and infrastructure.)"[77]

Exposing rural producers to global markets under these circumstances poses a powerful threat to rural livelihoods, especially given the political and economic power enjoyed by Northern countries which are unlikely to expose their producers to competition from the South. In a paper prepared for the UN Conference on Trade and Development, economic consultant David Woodward, warns:

> "If agriculture in developing (and especially low-income) countries is to be internationally-competitive at current levels of production and world prices, while generating incomes above the poverty line for those engaged in it, it can employ no more than a fraction of those currently engaged in it. Against a background of price inelastic demand, attempts to resolve this problem by increasing output would be largely or wholly self-defeating: the main effect would be to drive down prices, especially for tropical products. In the case of temperate products and sugar cane, developed country producers might be driven out of the market; but as yet there is little sign that developed country governments are willing to let this happen".[78]

One study suggests that market liberalisation could lead to half a million people losing their livelihoods in the Philippines alone.[79] For the corporate agribusiness giants which now control the bulk of the world's trade in foodstuffs, however, "the liberalisation of the South's agricultural markets offers the prospect of lucrative new markets." As Kevin Watkins points out, "The expectation of US policymakers is that import liberalisation will accelerate considerably the conversion of consumer demand in South-East Asia from locally produced staples such as rice, cassava and grains towards US wheat."[80]

Indeed, far from ushering in a new era for agricultural trade, argues Watkins, the Uruguay Round of GATT marked "the latest phase in the emergence of a global food system structured around powerful vested interests based in the North to the detriment of poorer

people in the South."[81]

The Rule of Law

Through GATT, transnational investors now have the backing not only of national law but of an international legal and political framework which privileges Northern interests over Southern ones; transnational corporations over national and local businesses; and the rights of capital over those of peoples. In the process, state institutions in the most economically powerful countries have gained considerable new powers to impose market discipline outside their own territories. Since the Uruguay Round, for example, trade disputes are now to be settled through a new body, the World Trade Organisation (WTO). Should the WTO rule that a country is in contravention of WTO rules, then the injured party can impose cross-sectoral retaliatory measures.[82]

But whilst GATT and other "free trade" agreements have extended the economic sovereignty of transnational interests within nation states, they have simultaneously eroded the powers formerly enjoyed by state institutions (at least in theory) to correct political and economic imbalances resulting from the operations of the market within their own borders. Indeed, many of the rules agreed under free trade agreements effectively pre-empt the possibility of states unilaterally adopting progressive social, economic or environmental legislation.[83]

In Europe, for example, EU governments have agreed under the 1992 Maastricht Treaty a timeframe for monetary union in 1999. To qualify, countries must meet strict criteria, including reducing their budgetary deficits (that is, the excess of government spending over tax income) to within three per cent of annual GDP. Those countries which qualify - and elect to participate - will surrender all control over monetary policy to an unelected body, the European Monetary Institute (EMI), which will formulate "the overall orientation of monetary policy and exchange rate policy". A soon-to-be-created European Central Bank, meanwhile, will supervise their economies to ensure that they adhere to the Central Bank's monetarist policies, as laid down in the Maastricht Treaty. Excess deficit spending will only be permitted on approval of the European Commission which will assess, among other factors, whether or not the excess constitutes "investment expenditure".[84] The implication, critics argue, is that governments will be able to borrow money only for "productive" spending, such as infrastructure programmes: borrowing money for social programmes which supposedly do not yield a financial return - health programmes or higher pensions or welfare benefits for the unemployed - is unlikely to be permitted. In cases where a member state persistently fails to reduce its excess deficit, the European Council of Ministers, acting on the recommendation of the European Central Bank, will have the power to impose structural adjustment programmes and to fine the offending state. Underlying the Treaty is, at best, a misplaced assumption that there is now a consensus within the EU that Keynesian or other interventionist policies will never again be seen as a rational and popular solution to society's problems; at worst, an undemocratic attempt to foreclose such interventionist options to future generations.

"An Effective State" - But Effective For Whom?

Given the central role that the state has played in implementing neoliberal policies and its continued "intimate and ubiquitous"[85] involvement in regulating the minutiae of the market economy — a direct consequence of the hand-in-glove relationship that neoliberal governments have fostered between "adjusted" state institutions and market interests — the fashionable free market view that states and markets are somehow intrinsically opposed to each other emerges as something of a myth. The "free" market needs the protection of states — and it needs their powers of enforcement. The minimalist state is, quite simply, utopian — in the original sense of the word, it exists nowhere.

At issue, therefore, is not whether modern economies require any involvement from the state, but to *what* ends and in *whose* interests the state operates. The central call of the World Bank's 1997 *World Development Report* for "an effective state" thus inevitably raises the question: what does the Bank mean by "effective"? Effective for what? Effective for whom?

2.
Hit for Six: Neoliberalism and Social Exclusion

From a conventional economic perspective, there have been undeniable gains coinciding with the rise of neoliberal economic reforms in the 1980s and 1990s. Among these is 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.[86] Wages in many countries have risen: in Korea, for instance, the last ten years have seen wages rise by an average of 15 per cent a year.[87] Between 1975 and 1995, the number 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.[88] Selling state assets has, according to the World Bank, increased productivity and investment and made pricing more efficient for companies analysed in Chile, Mexico, Malaysia and the UK[89], whilst worldwide official and private capital flows to developing countries have expanded by about a factor of ten in the past two decades.[90] 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 as well as richer investors have gained (or stand to gain) from the scrapping of oppressive bureaucratic regulations imposed by state institutions in the pursuit of top-down planning. As Gail Omvedt, an activist from India, notes of existing bureaucratic 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."[91]

The liberalisation of markets has also opened up economic opportunities which were not previously available for some groups in society. 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, has led to more young unchaperoned women travelling on buses, walking on the streets and going to cinemas in Dhaka.[92] For women with children, part-time and home work can be a way of earning money while still shouldering family responsibilities.

Any gains, however, should be seen in a wider context. The economic booms that have helped create billionaires and bring mobile 'phones 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 — through the WTO, for example. In addition, in many developed 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.[93] 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."[94]

Growing Inequalities

Whilst billionaires and millionaires abound in the new global economy, 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 that 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 finds are causing a chasm between the haves and havenots which could erupt in major social upheavals.[95] 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."[96]

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.[97] This increase, notes UNCTAD, "has been due to the erosion of real wages and entitlements in recent years."[98] The Bank reports a similar picture for East Asia, where despite strong growth rates, more than two-thirds of people still live in poverty — and inequality is increasing.[99] In India, according to the Bank, the numbers living in poverty have almost doubled since 1951; infant mortality rates are one of the highest in the world; and one third of India's six to ten year olds are not in school.[100]

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: real wages, having risen are also falling.[101] A recent study concludes that "the new economic model has done little to improve poverty and has a tendency to harm income distribution"[102] Indeed, "real minimum wages fell substantially in almost all countries as local industries adapted to increased competition from imports".[103] In Mexico, between 1989 and 1992, the richest 5 per cent of the population increased their 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.[104]

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, high-technology sectors, such as electronics, are favoured over more "traditional" industrial sectors; areas of cheap or unorganised labour preferred over areas where wages are high or where trade unions are strong. 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."[105]

In Mexico, the divide is 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 policy analyst Kevin Watkins of Oxfam UK and Ireland concludes:

> "The upshot is that 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."[106]

During the 1994-5 economic crisis in the country, the number of billionaires increased from ten to fifteeen, 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.[107]

Structural Adjustment Programmes (SAPs), imposed on governments by the IMF and World Bank in exchange for loans, have further fuelled hardship. In almost all cases, adjustment required deflationary policies and cuts in welfare spending, which have increased pressure on poorer people.'. In early 1996, a 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.[108] 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.[109] A 1990 study by the International Labour Organisation of 28 countries in Africa reported that the real minimum wage fell by 20 per cent during the 1980s - with public sector wages falling faster than those in the private sector.[110] As Frances Stewart, Director of the International Development Centre, Queen Elizabeth House, Oxford, reports: "In some cases, the fall was very large. For example, in Tanzania the real minimum wage in 1987 was only 36 per cent of its 1980 value."[111] 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 throughout sub-Saharan Africa, particularly in urban areas.[112] 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."[113]

Indeed, in the late 1980s, the World Bank itself admitted 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.[114] In some cases, powerful interest groups may block the way; in others, the blocks 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."[115]

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. Even in India, where rural development programmes have been relatively successful at reaching women, only 16 per cent of participants were women.[116]

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.[117] The predominant immediate cause of the increase in poverty was unemployment, but taxation and benefit changes have also been significant.[118] 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.[119] Hunger has also become a constant fact of life for at least 29 million Americans, 25 million of whom — one in every ten — now receive federal food stamps.[120] By 1992 almost 50 per cent of children in minority groups were considered to be living in poverty, and the overall US 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)."[121]

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[122] — the majority of jobs are poorly paid: if the unemployed are quick to take them up, argues Kevin Watkins of Oxfam, it is largely "because the harsh benefits system threatens the unemployed with poverty and then delivers on the threat."[123] 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".[124]

Indeed, North and South, the "jobs" that liberalisation has undoubtedly created increasingly fail to provide the security that people used to associate with the word. Instead, the "jobs" on offer tend to involve poorly-paid, casual work — three out of every ten new jobs are part-time.[125] 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".[126] These included 4.4 million part-time workers, of whom 65 per cent were women.[127] 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."[128]

In the South, "flexible" labour policies have likewise become what Oxfam terms "a euphemism for the creation of jobs at sub-poverty-level wages."[129] 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.[130] 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-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."[131] The NGOS note that such labour practices have not been condemned by institutions such as 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."[132]

As in the North, women feature prominently in casual labour forces. Moreover, the industrial setting of many of the jobs on offer frequently reinforces patriachal forms of control. To attract investors, some Asian countries such as Malaysia and Thailand emphasise the "dexterity of the small hands of the Oriental women and traditional attitude of submission". Women workers are particularly exposed to sexual harassment, "a form of violence which reflects the subordination to which they have to submit to be allowed to work", with complaints often leading to dismissal.[133] 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.[134] [135]

Services for Whom?[1]Services for Whom?[1]

Many workers and poorer people, North and South, have had their positions further undermined by the privatisation of essential utilities and services. Southern governments, in a weak position through indebtedness and a 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.[137]

In Britain, often used by the World Bank and others as a role model for privatisation, 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 frequent convicted polluters in Britain.[138] The number of people in Britain 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 — threatening to undermine the security of poorer people further. 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."[139] 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.[140] 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 United States. 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)."[141]

These changes are intended to foster the rise of private, for-profit providers of health services which will compete with each other 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."[142]

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)."[143] 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 . . . Throughout the 1980s, an average of less than $1 million per year was spent on maintaining and building public health facilities."[144] 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 — they 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."[145]

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."[146]

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, pre-existing 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.[147]

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 even "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.[148]

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 neo-liberal 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 remote 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. As these new global concentrations of power have grown in influence, 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 .**• 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 what has been termed "regulatory arbitrage".[149] 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."[150]

For example, when US microprocessor chip manufacturer Intel sought to expand in 1992, a site selection team visited six sites, all adjacent to current plants, in California, Oregon, Arizona, New Mexico, Utah and Texas. The new fabrication plant went to New Mexico after an auction in which the six 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 granted to Intel and other incentives such as roads built out of public funds. Taking these into account, the true subsidy, according to a local citizens's group, is closer to $250 million. Moreover, microprocessing is developing so fast that the new fabrication plant is likely to be out of date within six years — at which point Intel will no doubt be looking to rebuild again, putting the local community under intense pressure to come up with new "incentives" to retain the company and the work it provides.[151]

Similarly, in India, the state government of Orissa is offering huge subsidies to entice inward investment. According to the Delhi-based Public Interest Research group, these include: 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.[152]

*• Second, with capital and companies free to move across borders, the scope for playing workers and communities off against each other in order to gain concessions on wages and conditions has greatly expanded.**• Second, with capital and companies free to move across borders, the scope for playing workers and communities off against each other in order 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".[153] 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.[154]

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 a hour) are below those in Korea.[155] 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 subsidised by the state to a certain extent.

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 from £15 per thousand to £12 a thousand.[156] 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."[157] 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, are using new inflows of foreign capital to upgrade their domestic plants and "to relocate their lower-skill operations to even lower wage countries" such as Vietnam, Laos and China.[158] 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 several dozen factories around the world, including six in Indonesia. 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.[159] 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", so increasing numbers of people are forced to migrate in search of work, pricing other workers out of the market and creating yet more downward pressure on wages.**• Third, as free market policies create a pool of "surplus labour", so increasing numbers of people are forced to 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 by capital as a source of cheap labour and a tool for driving down the rates of pay. Britain, for example, has traditionally 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 dirtiest and most poorly-paid industries.

As free market policies undermine job security and add to already high levels of 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.[160] 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.

As the demand for cheap labour intensifies, so networks of "labour brokers" have emerged to supply migrant workers. Doubly discriminated against as "aliens" and as the lowest paid of workers, such migrants frequently work and live in atrocious conditions and are subject to racist scapegoating, especially during times of high unemployment. As Nigel Harris, Professor of Development Studies at London University remarks:

> "The misery of the unemployed and the low-skilled in the developed countries is painfully visible in the great cities, nearly as painful now as the poverty of the developing countries . . . The political establishments need easy targets in order to deflect any anger that might be directed against them . . . and few governments can resist the temptation to blame the immigrant."[161]

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

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."[162]

Low taxation and low government borrowing (and in turn cuts in public spending) are thus the key priorities of government.

The need to curb deficit spending is dictated both by free market ideology and by the globalisation of financial markets. Borrowing money requires high taxes if the interest charges are to be met without fuelling inflation by increasing the money supply. 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 maintain 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 to raise 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 major 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.[163]

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".[164] According to the Bank;

> "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."[165]

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 internationally freer 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; even if wages are lower, people's purchasing power will therefore 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 first developed by British economist Adam Smith in the late eighteenth century and refined by David Ricardo in 1817. 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".[166] 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.[167] 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 developed 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".[168]

Unnatural Advantages

Indeed, even on its own terms, the Bank's simplistic assumptions are not a realistic or

desirable basis to inform important decisions. High-tech production systems that are supposed to be "reserved" for the North, for example, 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 a World Bank report describes as "a relatively mobile, low-cost source of labour [who] must find their own jobs and have no tenure beyond their contract period."[169] With such a huge and growing 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" (the Bank's description) finding the sort of jobs which would enable them to afford Western imports: many of the factories where they queue in search of work are automated.

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 largely determined by such political and historical factors.[170]

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 the 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'."[171]

Success in the marketplace, nationally and internationally, says Lazonic, 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; a world that does not require workers on a permanent basis but in which companies use people only as they need them; a world of "just-in-time" employment.[172] Combine automation with deregulation and the imposition of a global "free market" in which protective barriers, such as tariffs and quotas, are striped away and the prospects for workers are 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.[173] Nonetheless, guaranteeing such "openness" is the root idea behind instruments such as NAFTA, the EU and GATT. For example, The Heritage Foundation, a conservative US think tank, claims that under NAFTA, "trade has increased, US exports and employment levels

have risen significantly, and the average living standards of American workers have improved." Yet the evidence is the opposite. Recent research by the Washington-based Economic Policy Institute (EPI), for example, reveals that NAFTA has 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.[174]

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 has enabled capital to pursue "a much more aggressive class politics".[175]

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.[176]

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 forgoods 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."[177]

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 government tax revenues.[178] Indeed, according to Lance Taylor of the Massachusetts Institute of Technology, the continuing debt crisis effectively means that half the world's people and two-third 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."[179]

For many Southern states, the blocks on state intervention to reduce poverty and address inequity are further compounded by falling tax revenues, not least because of the tax concessions that governments have made to business in order to attract inward investment and by the increase of black market transactions as people look to the informal sector as a

means of coping with austerity. In the North, too, falling tax revenues are increasingly curtailing the scope for government welfare and public spending projects. Corporation tax has been falling in Europe since 1975. 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 "transfer pricing"[180] 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.[181] Tax revenues are also declining due to high unemployment and the casualization of labour.

A further constraint on the ability of states to take action to address social inequities at home arises from their competitive interdependence. As they have become embedded within an increasingly globalised economy, so they have become embedded within a system of competing states. For a state to take measures unilaterally in order to address the social inequities — which is likely to entail restricting market forces or introducing 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.[182]

Indeed, as individual states become increasingly geared to international markets, so their ability to resist pressure from international 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."[183]

The collapse of the Thai baht and the Malaysian ringgit in August 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."[184] 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 to rein in markets.[185] 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, apparently conveying a widespread view 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."[186]

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

3. Responses to Neoliberalism: Redefining the State

The theory and practice of neoliberalism have never gone unchallenged, any more than the state-centred development model in the years after the Second World War went unchallenged. The challenges today emanate from many quarters and have widely differing agendas, some positive, some profoundly disturbing. Five broad groupings — some with grassroots constituencies, others more elite-based — stand out each making different (though sometimes overlapping) demands and each presenting very different views of what constitutes an "effective state" in the late twentieth century.

At one end of the spectrum, a range of populist movements have emerged whose response is rooted in exploiting the insecurities of globalisation in order to ferment exclusionary, xenophobic and socially regressive nationalisms. At the other are movements seeking to build economies based on "cosmopolitan localism". Other constituencies, notably those associated with several influential Washington-based think tanks, have emerged around attempts to rehabilitate the neoliberal agenda by softening its implementation. Still other groupings, particularly among policy-makers in East Asia, argue for states to take a leading and, if necessary, authoritarian, role in industrial planning to direct resources to selected, vital sectors which can transform the national economy, with the state's power being used to "manage" the shock of imposing a new value system on society. The fifth broad grouping has emerged around an agenda aimed at addressing the distributional inequities created (or exacerbated) by economic liberalisation - for example, by pressing for measures that would create a genuinely level playing field in world trade and that would ensure access to essential public and welfare services as a fundamental right rather than as privilege of wealth and power.

The broad diversity of such views and their constituencies illustrates the intensity of the public debate, North and South, which now surrounds the role of the state. Indeed, many have argued that the single greatest weakness of the 1997 World Development Report lies in its failure to engage with the wide diversity of challenges to existing state and market structures - a diversity which, in many instances, reflects attempts by civil society "to recover politics from politicians and political brokers".[187] In adopting a tone and language that frequently suggests that there is one view - and one view only - of how markets and states should operate, the Bank stands accused of displaying the same institutional arrogance that the World Development Report itself criticises in past Bank policy documents. Equally serious, the failure to acknowledge other views has led to many of the key issues raised by other groupings seemingly to be written out of the debate.

Chauvinism and Protection

One response to the neoliberal agenda has come in the form of xenophobic nationalism. Playing on the insecurities that globalisation and liberalisation have spawned for workers in particular, a number of movements - many of them led by those whose power base has been threatened by the opening up of national economies - have made considerable headway in Europe, India and the US by stoking racist and nativistic sentiments in an attempt to build a populist and nationalist response. Such responses are exemplified in the politics of the New Right in Europe, Pat Buchanan in the US, Vladimir Zhirinovsky in Russia and the Hindu chauvinist political groupings in

India. In some cases, the reaction has taken the form of a mix of conservative social policies, free-market neoliberalism and protectionism. In others, it involves the vilification of all things "foreign", a rejection of all external trade and a yearning for "traditional" forms of family and community life, many of which have either never existed or which play to highly-authoritarian power structures.

In India, aggressive "Hindutva" communalist and economic nationalist politics have been built up by the Bharatiya Janata Party (BJP) and its allies such as the Shiv Sena. Based on divisive, fundamentalist ideologies which party leader Atal Behari Vajpayee describes as "uncompromising nationalism, commitment to probity in public life, [and] opposition to pandering to casteism and minorityism"[188], the BJP has secured a quarter of the popular vote, and emerged as the single most powerful political grouping in the national legislature now that the long-standing political hegemony of the Congress party appears to have ended. Editor and political commentator N. Ram commented recently that whilst this movement is confined to certain areas of the country, it is "taking a very high toll and threatening the integrity and basic character of the polity."[189] In the US, the response is exemplified by Pat Buchanan who stood for the Republican nomination in the 1996 presidential elections on a platform that promoted a"free enterprise" economy within the US; protectionist policies to create a "Fortress US" to shield US industry against foreign competition and US society against immigrants; and the use of trade sanctions and other political measures to secure new markets for US industry abroad.

Such "Might-Is-Right" Protectionism (actually a neo-mercantilism) has undoubted popular appeal in the US, as reflected in the support gained by Buchanan in the polls. However, a Fortress US (and likewise a Fortress Europe) — even if stripped of the xenophobia and authoritarianism of those most voluble in promoting it — has little to offer those seeking a better deal for labour and the poor, not least because within the manufacturing sector, the major economic actors in the global economy — the transnationals — have long established a variety of means to circumvent many protectionist barriers proposed by neo-mercantilists. Twenty-five per cent of world trade, for example, takes place within companies and thus escapes national tariffs (such trade is not governed by GATT).[190] Other strategies, such as the use of "screwdriver assembly plants", have been used to overcome import duties on products which fail to meet minimum local content levels. Tariffs can also be overcome through barter agreements, which make up another 25 per cent of world trade.

In addition, a Fortress US or Fortress Europe strategy, in which capital is still free to flow within the Fortress, does not address the growing internal polarisation between the Fortress's core and periphery, caused by companies shifting between regions in search of the cheapest operating costs. Likewise, Buchanan-style protectionism - which explicitly eschews policies aimed at curbing corporate power - would do little to redress the imbalance of bargaining power between labour and capital in an age of flexible production. In addition, its aggressive accent on pushing US trading interests overseas would, in all probability (given past experience), be severely detrimental to the economies of the South. Nevertheless, the xenophobia whipped up by the Fortress US and Fortress Europe lobbies is already having severe impacts on immigrant communities and other marginalised groups who fail to "fit" with the new nationalism.

Softly, Softly

A second set of responses to the neoliberal agenda comes from a number of mainstream think tanks, business leaders, academic economists and many others who are broadly sympathetic to "free market" policies but who caution that structural adjustment has gone "too far", straining society to a point that is intolerable, not only from the point of view of social justice but also, critically, from a business perspective.

As the Brookings Institute, a market-orientated but liberal Washington-based think tank, recently commented:

> "In many countries of Latin America, market-oriented economic policies have become widely identified with unending austerity, and are often considered detrimental to the interests of the poor and even the middle class. Accurate or not, such perceptions can produce pressures to modify or abandon sound policy directions. They can also undercut the credibility of governments trying to carry out the policies. Indeed, under conditions of extreme income inequality, social conflicts can make it difficult to implement coherent economic programmes of any kind".[191]

A major concern, argues the Institute, is the threat that "mass poverty and inequality" pose to political stability:

> "Policy-makers and politicians are increasingly concerned with the effects of poverty and income inequality on political stability and economic prosperity. High and rising levels of poverty and inequality, some argue, could undermine economic reform, bring back the so-called populist policy agenda, intensify environmental degradation, put social and political stability in jeopardy, and reduce long-term economic growth. This view is not ill-founded. The fear that increased poverty and economic inequality may breed a political backlash against fiscal prudence and efficiency-orientated structural reforms is based on the acknowledgement that large groups in the population identify stabilisation policies and structural reform, whether accurately or not, as detrimental to the poor and as the cause of greater inequality."[192]

Responding to that political backlash, argues the Institute in a 1995 report[193] that foreshadows much of the thinking in The World Bank's *The State in a Changing World,* requires the state to take a proactive role in combating inequality and poverty. That proactive role, however, should not compromise the structural changes in the economy brought about by the market-orientated reforms of the 1980s. Rather than seeking to reintroduce the types of redistributive instruments - from subsidies to pricing - that governments have traditionally used to address inequality and poverty, policymakers should instead make use of market-based but state-assisted policies aimed at:

- improving the access of poorer people to education;
- improving access to "social services and social infrastructure"; and
- the development of legal systems prohibiting discrimination against women, indigenous |

Such initiatives, the Institute makes clear, "require government resources to be put in to practice", forcing governments to take "tough decisions in allocating limited revenues" if inflationary deficit spending is to be averted. In effect, the state should become more active in countering poverty and inequality, but its activism should be constrained by the disciplines of maintaining a market-friendly environment.

The Brookings Institute's views are echoed in a recent report by the Washington-based Institute for International Economics (IIE), which until recently has been among the strongest neoliberal proponents of the view that the state should be removed from most areas of public life, has similarly published material sympathetic to muted state intervention. In a 1997 IIE publication — entitled, significantly, *Has Globalization Gone Too Far?* — Harvard University economist Dani Rodrik, writing for the IIE, argues that "policy makers should steer a middle course between responding to the concerns [of social upheaval] and sheltering groups from foreign competition through protectionism."[194] Trade-offs between maintaining "social cohesion" and opening borders to trade are inevitable, says Rodrik, but "it makes little sense to sacrifice social concerns completely for the sake of liberalisation".[195] In short, "as policymakers sort out economic and social objectives, free trade policies are not automatically entitled to first

priority."[196]

Rodrik goes on to argue that, given the extent to which tariff and non-tariff restrictions on manufactured goods have already been slashed, "the efficiency benefits of further reductions in [remaining] barriers are unlikely to be large."[197] Indeed:

> "the dirty little secret of international economics is that a tiny bit of protection reduces efficiency only a bit. A logical implication is that the case for further liberalisation in the traditional area of manufactured goods is rather weak. Moreover, there is a case for taking greater advantage of the World Trade Organisation's existing escape clause, which allows countries to institute otherwise-illegal restrictions under specified conditions, as well as for broadening the scope of these multilateral safeguard actions."[198]

Nation states, argues Rodrik, in a significant departure from the views held by the US government, also "have the right — and should be allowed — to restrict trade when it conflicts with *widely held* norms at home or undermines domestic social arrangements that enjoy *broad* support."[199] Countries should not abuse this right by making complaints against other nations "when very similar practices abound at home" or by using it to impose their own institutions on others. "It is perfectly legitimate for the United States to make it illegal for domestic firms to engage in corrupt practices abroad . . . but it is not acceptable to unilaterally threaten retaliation against other countries because their business practices do not comply with domestic standards at home" - a view that directly challenges the recent announcement by the US Trade Representative that corruption in foreign countries will in future be considered as unfair trade.[200]

Such is the extent of the shift away from pure neoliberalism amongst Washington-based think tanks that *The Economist* newspaper now refers to "a new policy consensus".[201] Summarising its broad contours, the paper singles out and comments on the shift's most salient features. These include:

• A call to strengthen the state and in particular to ensure strong central government. "In their zeal to end the overbearing state, some reformers fear they went too far. Devolution of central power can allow local elites to derail reform. It is clear that tackling profligate state governors in Brazil and Argentina, or drug barons in Mexico or Colombia, requires a strong president."

• Greater emphasis on economic supervision. "Privatisation and deregulation have sometimes ended in corruption or corporate crisis. [One recommendation is] the setting up of institutions similar to America's Securities and Exchange Commission to improve supervision. Many argue for a Central Bank."

• Bolstering institutions. "Disregard for the law has made reform of the judiciary and police essential. Already, America's US AID is helping train new police forces in Haiti and El Salvador. The World Bank is helping overhaul Venezuela's secretive and inefficient judicial system."

• Target social spending where it is most needed. "Latin America spends more of its GDP on social services than the Asian tigers, but lags behind in standards of primary education and basic public health. A main reason, suggests the Inter-American Development Bank in its [1996] report, is that social spending is run by centralised bureaucracies which are corrupt. It argues that local governments and non-governmental agencies should be permitted to provide social services."

Without such reforms, warns *The Economist*, there may be growing violence and military rule as popular discontent at structural adjustment boils over into guerrilla warfare, rioting and social unrest. The agenda is still broadly right, but more effort needs to be placed on

better "explaining" the benefits of the free market to people and, in particular, to those at the sharp end of reforms.

The Japanese Government View

Fears over the backlash against liberalisation and globalisation also feature prominently in strong critiques from the Japanese government, now the world's largest funder of development assistance and the largest contributor to the World Bank. These critiques are understood to be one of the main reasons why the Bank decided to dedicate its 1997 *World Development Report* to the issue of the state.

Whereas the Brookings Institute and the IIE are still committed to the neoliberal agenda - albeit in a softer form - the Japanese authorities question many core features of the neoliberal economic model and the intellectual, social and political assumptions which underlie it. They reject a blind insistence on structural adjustment as the only path to economic prosperity. Pointing to East Asian "Tiger" economies, Japan's Ministry of International Trade and Industry (MITI) has long argued that it was not the free market that was the central factor in the "take-off" of these economies but an interventionist state. Indeed, such was the Japanese government's concern in the early 1990s that the World Bank was downplaying or ignoring the key potential role of the state in promoting economic growth that, in 1993, the Japanese government proposed and funded a World Bank study on *The East Asian Miracle*.[202]

This study acknowledged the important role played by the state in promoting growth in the New Industrialised Countries (NICs) of South East Asia - for example, through "picking industrial winners", strategic protectionism, and providing subsidised loans to the private sector in order to compensate for "market failures" - but argued that the model would not be applicable elsewhere. The lesson which the report sought to impress upon the South was clear, reports Walden Bello of the Bangkok-based NGO Global Focus on the Global South: "It is still better not to intervene than to intervene".[203]

Unsatisfied, the Japanese government subsequently pressed hard for the World Bank to make a more considered evaluation of the Japanese arguments that it should revise or tone down its advocacy of deregulation and the stripping away of tariffs as the sole means of creating an efficient market economy.

At a very early stage of the 1997 *World Development Report* production process, Kenichi Ohno of Saitama and Tsukuba Universities, Japan, provided the Bank with a remarkably candid background paper "summarising current discussions taking place among officials and academic researchers responsible for Japanese aid policy".[204] The paper raises many fundamental concerns and criticisms of the Bretton Woods institutions' approach and presents arguments which many argue the Bank should have outlined and discussed in full in *The State in a Changing World*. Significantly, however, Ohno's paper is merely listed in the bibliography and is not referenced once in the Bank's report, although some of the individual points emerge in muted form.

The Ohno paper notes that at the time of the Bank's *East Asian Miracle* report, Japanese observers felt the Bank was moving towards a more even-handed treatment of governments' roles, but that more recent bank publications, such as *Bureaucrats in Business*[205] and *From Plan to Market*[206], "seem to have reverted to the more neoclassical line".[207] Ohno is stinging in its criticism of the Bank's "big bang" approach to adjustment and its "obsession with macroeconomy and finance".[208] The following quotes give a flavour not only of the arguments put forward in the paper but of the deep anger within the Japanese development community that its views are being ignored:

> "Since the marketization process is critically dependent on the existing structure of each individual society, we believe that the marriage of the neoclassical paradigm

> and development economics is a theoretical mismatch. Neoclassical development economics would automatically rule out the most important topic for investigation from the outset. Where deductive logic reigns supreme over empirics, it is difficult to even ask the question: how do the unique inheritances of each society from its own past affect the formation process of the market economy?"[209]

> "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."[210]

> "The government of a developing or transition country faces a large number of grave issues, while its budget, time and a number of competent officials are severely limited. Advising such a government to solve all problems simultaneously is no advice at all."[211]

> "As a matter of highest priority, international financial institutions - especially the IMF which plays a catalytic role in mobilising external finance - advise macroeconomic stability and 'structural adjustment' . . . to a country in economic crisis. . . Most Japanese aid officials find such an obsession with macroeconomy and finance too narrow and unbalanced. True, inflation must be dealt with, but not at all costs to the society, especially when the country is in deep crisis with collapsing output, joblessness, political instability, ethnic conflicts, lawlessness, and public discontent. Under such circumstances, highest priority for Japan would be real and not financial: how to arrest the fall in output, how to secure jobs, what initial steps must be taken to revive and restructure industries etc. These real concerns take precedence over money, budget and inflation. "[212]

The paper sets out in detail the Japanese government's rationale for an alternative approach to liberalisation, one that envisages not only an active role for the state but which, critically, argues that an active — even authoritarian — state is essential in the early stages of development. Underlying this espousal of top-down state planning is a rejection of the fundamental premises and methodologies of neoclassical economics. Particularly problematic, says Ohno, are:

- The use made by neoliberals of unrealistic models based on purely hypothetical models of perfect competition;
- The presupposition that markets will automatically work if certain obstacles are removed;
- value judgements based solely on efficiency; and
- the failure to deal with "how various classes, institutions, and spirits in support of the market economy form, develop, and interact within each individual society".[213]

Ohno comments that aid agencies and governments should be clear that:

> "Highly advanced industrial economies apart, we do not believe that the market economy is ubiquitous in any human society and only suppressed by inappropriate state control and bureaucratic meddling. We do not subscribe to the view that, in *any* country, removal of government intervention alone would immediately release the potential power of the market economy. That may happen in some countries, but certainly not all . . . The market economy is a very demanding system. It requires a large number of conditions to be satisfied for its proper operation. Provision of these

> conditions is not automatic and only those societies which happen to be equipped with them - or those that deliberately transform themselves to be compatible with the market mechanism - can successfully adopt it."[214]

It follows that market thinking has to be instilled. The process of economic development - or, as Ohno terms it, "systemic transition" - is thus "a deliberate attempt, perhaps only once in the history of any country, to implant a system from without that does not arise automatically from within the existing society."[215] The implications for "latecoming" developing countries are twofold, argues Ohno:

> "Marketization [in the developing countries] entails two grave problems that are peculiar to them. First, there is the serious risk that the existing society is unready for or incompatible with the requirements of the newly introduced market economy. If inconsistencies are left unattended, the market economy may well remain underdeveloped. Second, the government must act first to start the process of marketization, since the existing society does not contain within itself the dynamism for creating the market economy."[216]

In effect, in many societies, "the government must take the initiative to marketize the economy or it will not be marketized."[217] To that end, the state must, on the Japanese view, take an active, leading role not only in creating an appropriate social division of labour, an infrastructure for distributing goods and rules for market exchange, but also in "creating an imagined community" that binds differing groups and interests into "nations" and "states" whose "existence is the prerequisite for the execution of development policy":

> "When a country is about to undertake a total social change like marketization, with inevitable pains and adjustments, maintenance of centripetal force in the society is indispensable. Otherwise, the country will break up along . . . ethnic lines, and political crisis and even civil war may ensue."[218]

The "East Asian solution to the vicious circle of weak government and economic backwardness is authoritarian developmentalism" for early stages of modernisation. This position, says Ohno, is "not explicit in official documents, but nonetheless real",[219] as exemplified by Japan and the East Asian "Tiger" economies. To Western eyes, argues Ohno, such a policy may seem reprehensible, but it is wrong, he insists, to judge it by "the standards of advanced democratic market-economies": rather, it should be judged by its effectiveness which lies in maintaining stability in the face of the pressures "due to fierce competition, overcapacity and monopolies that come and go."[220] The "vital role of the government is to let . . . industry enjoy ever lower cost without such 'excess' competition", in addition to undertaking "certain supplementary policies" aimed at redistributing income, instituting universal education and mobilising resources against external threats.[221]

Moreover, Japanese analysts argue, the social and economic change achieved through authoritarian developmentalism will create pressures that cause the authoritarian regime to "dissolve" itself":

> "rising income, diversification of social strata, emerging middle class, educated and sophisticated population, fading appeal of materialism, individualism, acceptance of different values, access to global information networks . . . all increase the demand for more political freedom comparable to the now higher living standard. The rigid regime becomes increasingly incompatible with the changing needs of the people - eventually leading to its demise."[222]

Following this logic, Ohno argues, there is a need to accept "authoritarian developmentalism in the early stages of development"[223] and allow national governments to see to it, in their own way, that "the newly introduced market mechanism is accepted by the

base society."[224] Within this framework, the broad role of the state is:

• *To improve, not remove, government.* "Government intervention is a necessary - although not sufficient - condition for starting economic development".

• *To formulate long-term development strategies, to be implemented mainly by the private sector, with targets and steps clearly outlined.*[225]

> "This approach with long-term real vision contrasts sharply with the IMF's current negotiating procedure which relies on short-term performance criteria with a large number of variables to be monitored quarterly and monthly . . . Even the World Bank, which is more directly involved with the real sector than the IMF, rarely recommends mobilisation of limited resources to a few vital sectors in order to transform the national economy . . . The only routine long-term exercise at these institutions is the financial projection of debt relief operations. Long term selective industrial policy is never put on the negotiation table because, according to these institutions, it is the market, and not the government, that determines the future industrial structure."[226]

• *To plan in terms of decades and generations, not years.* "Marketization is a total social process involving economy, politics, culture, class, ethnicity, international relations — and not just a technical problem to be solved by economic principles only." Indeed, on this view, the Russian "shock therapy" reforms of the early 1990s were, says Ohno, "incomprehensible" to Japanese analysts.

Challenges from Below

The Ohno paper makes clear that the "Japanese consensus" is shared by many other development agencies and governments in Asia and other regions. Ohno argues that the authoritarian state which the Japanese Government seeks to foster "should not be confused with Stalinism or Maoism, or the personal kingdom of a badly-run African state."[227] Trade unions, political dissidents and numerous ordinary citizens who have found themselves at the sharp end of the "benevolent authoritarianism" that Ohno promotes would vigorously disagree, however. As the International Confederation of Free Trade Unions (ICFTU) points out in a report prepared for the 1997 annual meeting of the IMF and World Bank:

> "The downside of the East Asian 'miracle' is in the form of repressive governments that systematically violate human and trade union rights, including in export processing zones where the workers - predominantly young women - are subjected to exploitative sweat-shop conditions and denied the right to form or join unions . . . Over the long-term, the East Asian model will be unsustainable in the absence of a balance between economic and social policies within a consultative framework which allows a place and a voice for free, independent unions in determining policies affecting the lives of working people."[228]

Similar concerns have been expressed by other NGOs in the region who vigorously contest the claim that the region's economic and social gains can be ascribed to the benevolent use of authoritarian state power for the general good, arguing, to the contrary, that such gains have largely resulted from resistance to such authoritarianism. Commenting on the World Bank's East Asian Miracle report, the groups write:

> "The stifling of independent labour and social movements and the constraints on freedom of association and freedom of speech, restrictions or the elimination of opposition political parties, and the fusion of the interests of the state and large conglomerates, all form part of an effective authoritarian regime. In Taiwan and

> South Korea, severe restrictions on workers' organising, repression of independent trade union movements and extensive controls over trade unions highlight the entire period of "miraculous growth". In Hong Kong, the colonial regime restricted labour movement activities and denied workers their fundamental rights. In Singapore, civil rights organisations continue to be suppressed, while the trade union functions merely as an extension of the government. However, while the World bank views this authoritarianism as necessary, if not crucial, for economic growth, it was precisely because workers, independent trade unions, NGOs and social movements struggled against authoritarian regimes that there has been a redistribution of resources towards health, education and other 'social fundamentals'." [229]

Indeed, many social movements in East Asia are becoming increasingly vocal in their rejection not only of neoliberalism but also of the Asian Tiger/Newly Industrialised Countries (NIC) model. As political analyst and activist Walden Bello reports, NGOs throughout the region are beginning to articulate a similar set of core ideas that, for want of a better term, come under the rubric of "sustainable development". He outlines seven key perspectives:

• "In opposition to the blind play of market forces in the free-market approach and to state fiat in the NIC model, the sustainable development perspective makes transparent, rational and democratic decision-making the fundamental mechanism of production, distribution and exchange;

• "In contrast to impersonal control by the 'invisible hand' of the market and the hierarchical and centralising thrust of decision-making in the NIC model, the sustainable development model decentralises economic decision-making and management to communities, regions or ecological zones and makes national planning a bottom-up process;

• "In opposition to the premium put on economic growth by the free market and the NIC models, the sustainable development model de-emphasises growth in favour of equity, the quality of life and ecological harmony;

• "Whereas both the free market and NIC models are heavily biased towards urban-based industry, sustainable development puts agriculture and the re-invigoration of rural society at the centre of the development process;

• "Whereas in both the free market and NIC models, the pursuit of profitability dictates the adoption of capital-intensive high technology in industry and chemical-intensive technology in agriculture, the sustainable development approach tries to reverse uncontrolled technological change which takes place at the expense of people, favouring instead the development of labour-intensive appropriate technology for industry and organic, chemical-free agro-technology;

• "Whereas, in the free-market model, the private sector calls the shots and in the NIC model, the state-'big business' partnership has a 'duopoly' over political and economic decision-making, the sustainable development approach organises the popular sector, represented by NGOs, as the third pillar of the political and economic system as a balance to state and business in the short-term, but with the perspective of making it the dominant force in the long-term"; and

• "Finally, in contrast to a property system based on the division between private and public ownership in both the free market and NIC models, the sustainable development approach supports the recognition, institutionalisation and expansion of the realm of the 'commons' or community or ancestral property that cannot be disposed of by market transaction or state fiat."[230]

In other regions, similar demands have been articulated by growing alliances of

development groups, trade unionists, environmentalists, consumer groups and anti-poverty groups. Although these alliances are generally informal, a number of broad approaches are emerging to address at the international and national level the inequities and social impacts of liberalisation.

Within regards to agriculture, for example, there is growing pressure from a wide range of social movements to renegotiate key sections of the Uruguay Round of GATT in order to secure the right of countries to curb the power of TNCs in agriculture and to address agricultural liberalisation's impacts on food security. Kevin Watkins of Oxfam UK and Ireland outlines the immediate priorities:

> "The World Trade Organisation (WTO), the body set up to replace GATT, should enforce a comprehensive anti-dumping provision, outlawing the use of direct and indirect subsidies to gain market share. More importantly, a new food security clause is needed in the WTO which would entitle all food deficit countries to protect their food systems up to the point of food self-sufficiency, if their governments so choose."[231]

Watkins argues that the social, environmental and employment grounds for such a clause, in addition to food security considerations, are overwhelming:

> "It is surely unacceptable for the world's industrial countries (where farming now accounts for a tiny fraction of employment and national income) to transfer to the WTO the authority to dictate policies in a sector which accounts for over half the employment in most developing countries. This basic inequity is reinforced by an equally blatant double standard in that the US and the EU are now denying to the world's poorest countries the right to pursue many of the agricultural policies - including trade protection and farm price support - which they themselves pursued for the last 50 years."[232]

The second strand of a new agenda to promote food security, says Watkins, should concentrate on enhancing the capacity of smallholders to supply national and regional food needs locally, while increasing their control over production and marketing. This implies a broad range of public policy interventions, including redistributive agrarian reforms, strengthened tenancy legislation and a redirection of public investment towards staple food crops and more marginal areas. Investment in post-harvest storage facilities, rural feeder roads and research on food staples is especially important, according to Watkins, as is a commitment to the establishment of regional food security stocks capable of responding to fluctuations in supply and demand.[233]

A similar set of policy changes was advocated by NGOs attending the UN Food and Agriculture Organisation's 1996 Food Summit. The groups proposed that governments legislate a new set of principles for international agricultural trade which would ensure "the intrinsic right and obligation" of every nation "to strive for a high degree of self-sufficiency of basic food stuffs as part of a national food security strategy" and "the right of Food Deficit Countries to protect their internal markets" by means of anti-dumping tariffs and subsidies for the protection of the environment and socially vulnerable producer and consumer groups.[234]

Spurred by the need to resist the threat of the proposed OECD Multilateral Agreement on Investments (MAI) which would further liberalise international trade by preventing signatory countries from introducing tariffs, taxes or any other measures which can be viewed as discriminating against foreign investors or traders,[235] other groups have set the general principles for an international agreement that would ensure the right of states to regulate investments within their own borders, in particular, to disallow any takeovers, mergers, amalgamations, or strategic alliances deemed detrimental to the public interest.[236]

There is also deepening support for measures to tax speculative capital flows and to limit the economic power of transnational corporations. As a first step to controlling footloose money, for example, governments could adopt the so-called Tobin Tax (named after Nobel prize-winning economist James Tobin who first proposed it in 1972), which would tax all international capital transactions, raising considerable funds for national and regional exchequers in the process.[237] With regard to reining in TNCs, a starting point for a new regulatory framework could be the Code of Conduct for TNCs developed under the auspices of the United Nations in the 1970s — although it should be stressed that such Codes of Conduct are not seen as a substitute for regulations where required or for wider measures to address the disproportionate power that TNCs exert in the global economy. In addition, says Oxfam, anti-trust legislation (laws intended to prevent companies from establishing monopolies) should be introduced at the international level to prevent the abuse of corporate power and a new international framework evolved for combating transfer-pricing and the avoidance of tax through underinvoicing.[238]

The urgent need to address the issue of international debt - a key factor which has long undermined the bargaining power of many developing countries in the global economy - is also recognised by a wide range of groups, academics and politicians, North and South. Such groups are demanding that the World Bank and IMF reduce repayments on the debt they are owed, and support measures to reduce the debt owed to private banks.

More controversially, at least from the point of view of many Southern groups and governments, a broad alliance of trade unionists (North and South), governments and peoples' movements have called for a social clause to be incorporated into the WTO which would mandate certain defined labour standards. Infraction of the social clause by a country, according to current proposals, would lead to trade sanctions against that country, authorised by a joint advisory body of the WTO and International labour Organisation.[239] The opposition to the proposal (from progressive Southern groups as many well as not so progressive governments) is based on concerns that such a social clause will be used as protectionist measure by Northern governments. For that reason, the Third World Network, a Malaysian-based international NGO, argues against labour standards being dealt with by the WTO.[240]

Improving Public Services[1]

Underlying such approaches is an insistence that sustainable livelihoods, decent working conditions, access to food and public services, and a healthy environment are all fundamental human rights - an approach that differs markedly from that in many World Bank documents where the preoccupation, particularly in discussions on public services, is with economic efficiency rather than rights. Yet, as numerous initiatives by public sector unions now show, there is no fundamental conflict between public services being provided by the state as a right and such services being run efficiently and in a manner that is both equitable and democratically accountable.

In Sweden, the public service union, SKAF, has developed an alternative to privatisation that saves money, improves quality of services and increases job satisfaction. SKAF has for many years stressed that the traditional hierarchical organisation of work in local government administration must be inefficient if it does not use the knowledge and experience of employees. To that end, the union has developed "a model to build more efficient, non-hierarchical organisation by involving the employees, with the aim of saving money without making people redundant." Its ideas were tested in 1991 in one municipality, Malung, which, by the following year had saved 10.5 per cent of costs.

SKAF called the model "Kom An!" ("Come on!") and claim a 100 per cent success rate for its application in 60 municipalities so far. The secret? Trusting and acting upon the experience, knowledge and expertise of the key experts in any organisation - the front line

workers. Under the Kom An approach, when a decision has been taken to set up a project in a workplace, all the employees are informed and then divided into groups of between 8 and 12 people, each with an appointed leader. The groups then spend up to ten months analysing their organisation, identifying its strengths and weaknesses and finding ways to build on the former and eradicate the latter. One union organiser explains:

> "The members become researchers in their own jobs. They discuss how to improve quality, where responsibility lies and should lie, what are their training needs. They measure the costs of specific tasks, so that each person knows the costs associated with their own job."

The workplace groups break down their organisation's budget into its smallest components to enable everyone to understand it and see where the money goes. Each employee gets to learn the costs associated with their own job and to develop ways of reducing them. Structures are flattened, with hierarchies reduced to the minimum. Training needs are identified and personal initiative encouraged. One of the workers becomes a tutor who receives training from Kom An before systematically meeting fellow employees over a period of five to six months to analyse problems in each employee's work experience and assist them in developing their own solutions.

Although the self-consultancy approach is common to the Kom An projects, its outcome, of course, varies. In one case, the members developed their own system in which individual workers took particular responsibilities for budget, sickness monitoring, temporary redeployment and arange of other management tasks, linked together in a way that inspired the name they gave the system, "the spider web model".

In another case, the workers developed a purpose-designed computer programme to predict staffing and other resources needs in their hospital wards. Their system measures levels of dependence of patients against a number of indices, such as their ability to feed themselves, their toilet needs, their mobility, availability of social contact, ability to manage personal hygiene needs, and so on. Giving each patient marks from one to three against the various categories, the staff then add them up to assess nursing needs in the ward as a whole. At the same time, they developed a system to examine their own activities, identifying ways to make more time for direct patient care by reducing the amount they spent on, for example, administration.

Reflecting on the experience, which has parallels in other countries, a union representative comments:

> "Public sector organisations with the traditional pyramid hierarchical structure can no longer be defended because they cannot solve our economic problems or provide the right working conditions or give the best quality of service. We need new systems not because the old ones were always wrong — they were right for their time — but because the new era requires new concepts . . . Our ethos has been more concerned in the past with public structure than with quality, but we will defend the idea of public service only through good results. The more people get to control their own jobs, the more interesting it becomes and the greater their job satisfaction. It leads to better management and pay systems, which produces real job security in the long run because it is the only way to increase productivity."

Indeed, the union sees employees at a workplace being allowed to take part in shaping the future as key to the success of the Malung model. The effect of this is that everyone is mobilised as part of the creative process. Their expertise and experience are put to use and the quality of the suggestions made is higher. Participation means that the employees are prepared to "let themselves go" and even try out unexpected solutions. Changes are seen not as threats but as opportunities — not least because they are not imposed by management and are designed by the workforce itself.

Reclaiming the Commons: Cosmopolitan Localism

Many of the above proposals enjoy widespread support amongst movements which, although deeply critical of the current global economy, are not opposed to globalisation itself, or who see it as an unstoppable process. Rather their analysis — and resulting demands — are primarily addressed to ensuring a more level playing field in world trade and national economic policy. In the words of Oxfam, "The challenge for Northern governments — as it is for their Southern counterparts — is to harness the market to the cause of social justice through regulatory measures designed to generate and distribute wealth more equitably".[241]

Key to that position is the recognition that neither people nor nations enter markets as equal partners, and so "often leave with unequal rewards".[242] Viewed from this perspective, the immediate priority is to identify and implement policies "which enable poor people to participate more equitably in markets, at both the national and the global levels". In addition, the stress is on ensuring that efficiency gains in service provision are not made at the expense of workers' rights, accountability, affordability and access for marginalised groups.

For other analysts and movements, however, efforts to ensure more equitable and sustainable outcomes to international trade are part of a more general political struggle to relocalise economies in the conviction that genuine equity in the marketplace and in political decision-making is only possible at the local level, where people can better exert control over their lives and livelihoods.

Arguing that the very notion of export-led growth and enhanced corporate competitiveness as the routes to prosperity must be questioned, such movements are pressing for a different economy, one that seeks to move from specialisation to diversification; that prioritises self-reliance over trade; that adequately safeguards the environment; that produces for use rather than profit; that protects the economy of the commons rather than the economy of the corporation; and that insists on the right of a community to protect itself precisely because it does not seek to infringe the rights of others to protect themselves.

Often committed to what Indian activist Vandana Shiva has termed "democratic pluralism", such movements are redefining both the role of the state and of the market through political action rather than abstract debate. As Shiva explains:

> "Democratic pluralism recognises the anti-democratic nature of the centralised nation-state on which state protectionism of the past was founded. But it also sees the emergence of corporate protectionism as the real threat to democratic rights and economic livelihoods. Countering this recolonisation requires the reinvention of national sovereignty by democratic processes to create national systems which act in partnership with local communities to protect the natural wealth, the economic livelihoods and the cultural and intellectual heritage of the country." [243]

More specifically, the appeal of a number of groups — notably the UK-based Protect the Local Globally — is for citizens from groupings of countries:

- to organise to dismantle corporate control over their individual economies and workplaces;
- to restrict capital flows — an "invest here to prosper here" policy;
- to localise markets, with long distance trade an option of the last resort — a "site here to
- to redirect subsidises away from transnational economic interests towards support for local production for local use;
- to reclaim the political process and to re-root it within the local community; and

- to challenge those power structures at the local, national and international level which deny local communities democratic control over their livelihoods.[244]

The open espousal of "protection for the local" has undoubtedly attracted many who, like Buchanan in the US, have a xenophobic bent or authoritarian views of community.[245] However, others have steadfastly distanced themselves from such views, actively promoting what has been described as "cosmopolitan localism".

In many instances, the demand for a localised economy is thus closely linked with efforts to reclaim a space for the commons — those locally-oriented systems of production, distribution, exchange and property rights where the bargaining power of any one group or individual is checked by both a culture of shared responsibilities and a practical need to cooperate.[246] The rough equity that results, it has been argued, arises:

> "not out of any romantic preconceived notion of 'communitas' but as a by-product of the inability of a small community's elite to eliminate entirely the bargaining power of any one of its members, the limited amount of goods any one group can make away with under the other's gaze, and the calculated jockeying for position of many individuals who know each other and share an interest both in minimising their own risks and in not letting any one of their members become too powerful."[247]

For some, the immediate issue is defending existing commons against enclosure by market or state interests; for others, it is the reclaiming of those commons that have been "enclosed". In other instances, local people have begun to evolve their own institutions, accountable to the community as a whole, to redress the imbalance in power wrought by market- and state-led development. In India, for example, the failure of local panchayats (effectively district councils) to reflect the will of the commons has led many communities to create alternative village-level institutions "that can work with a high order of democracy."[248] Only by so doing have villagers been able to regain the authority necessary to check and even reverse resource depletion.

Such everyday struggles, however, are rarely , if ever, guided by a theoretical debate over the merits of states versus markets: rather they rest on a pragmatic use of the political space that existing state and market formations provide.[249] In some instances, the state may be approached as a protector against the market: in others, the market may be perceived as a liberating force in reclaiming a political order that secures livelihoods and promotes virtues such as receptivity, flexibility, patience, open-mindedness, non-defensiveness, humour, curiosity and respect for the opinions of others as a counterweight to the formulas, principles and economic dogmas that result in all-encompassing solutions.

In that respect, the perception of “power” articulated by many commons-based movements shares much with some feminist movements. Power is not seen as singular commodity that a small minority ("the powerful") *have* and that others — the vast "powerless" majority — *lack*. Rather power — the ability to control — is perceived as the constantly shifting outcome of the everyday processes of social and economic life. In that respect, discussions of "state", "market" and "civil society" that assume each can be neatly demarcated as identifiable actors can, many commons-oriented critics argue, lead to a dangerously misleading understanding of the exercise of power — just as some feminist critics have long argued that "the way in which the economy is conventionally understood (as the sphere of paid labour performed outside the household) has systematically disprivileged women."[250] In the same way, the World Bank's equation of civil society with NGOs and companies disprivileges those who see themselves as "active citizens" but who may not be organised into NGOs or business forums. Nor can the workings of power in the modern world be understood by reducing the state to the civil service and the market to corporations.

Indeed, explanations of state and market which fail to consider the role played by ordinary citizens in actively shaping and reshaping the boundaries of states and markets through their everyday actions as workers, consumers, carers, daughters and sons fail to capture the dynamics of power or the way in which power structures are replicated and changed. They also fail to capture the sense in which many movements now talk of "active citizenship" — the possibility of citizens using their multiple powers as citizens to "shape their lives", "transcending the status of recipient or beneficiary of economic, social and political change and [becoming] the agents of social transformation."[251] In that respect, the *World Development Report* fails to engage with the agenda of many movements most active in opposing neoliberalism — although the subject of the Report clearly reflects pressure on the Bank to respond to (and contain) those challenges. While the Bank appears to see it as a priority to make its version of politics and economics more "people-friendly", many peoples' movements are looking to recover politics and economics from institutions such as the Bank by unsettling those structures of power - from patriachy to racism and class - that deny people the right to exercise control over their lives and livelihoods.[252]

4.
The World Bank in an Unchanging State

The Bank's 1997 World Development Report is clearly a response to the wide array of concerns about globalisation and economic liberalisation emanating from many quarters (see Chapter 3). As such it reflects the rethinking evident in policy units such as the Brookings Institute (see Chapter 3)

Markets and states, says the Report, should not be viewed as opposites, but as complementary — the state's role being "essential for putting in place the appropriate institutional foundations for markets." Indeed, the Report warns that, unless states can improve their "effectiveness" and invigorate public institutions, their prospects may be bleak. Increasing public strife, rampant corruption and the collapse of many states are likely to be the result.

The Bank argues that government credibility - defined as the "predictability of rules and policies and their consistent application" - is now as important for attracting foreign investment as the content of those rules and policies. The Bank thus puts forward a two-pronged approach to strengthening the state. First, states must try to match their role to their capability: and, second, they should work to raise their capability. Weak states should concentrate on the basics, the most urgent tasks being to:

- establish a foundation of law;
- maintain macroeconomic stability;
- invest in basic social services and infrastructure;
- protect the vulnerable; and
- protect the environment.

Weak states are also advised to formulate only modest goals whilst considering two strategies that might help them become more "successful". One is to bolster policies with strict rules that make policies costly to reverse. This implies such ideas as currency boards (a panel of economic experts who restrict a government's ability to vary monetary policy) and international agreements that make it difficult to retreat from commitments to more open trade. Another suggestion is for weak states to remove themselves from project or programme implementation by contracting private firms or non-governmental organisations to do so. A third central set of proposed reforms involves "reinvigorating the state's institutional capability by providing incentives for public officials to perform better while keeping arbitrary action in check." Key to that process are policies aimed at:

- establishing effective rules and restraints;
- fostering competition; and
- increasing "citizen's voice and partnership with the private sector".

Addressing corruption, says the Report, is particularly important if authority is to be restored to the institutions of the state: policies that lower controls on foreign trade, remove entry barriers for private industry and privatise state firms are thus essential since these introduce the competition that "will help fight corruption".

Finally, the Report lays major emphasis on the need to involve citizens in decision-making. Governments are most effective, it argues, when they listen to, and work with, citizens and businesses. "Where governments lack ways to listen they are not responsive to people's interests, especially those of minorities and the poor." Greater information and transparency, combined with participatory approaches to project implementation, are thus deemed vital for informed public debate and "to increase popular trust and confidence in the state."

Some Welcome Rethinking . . .

The Report's apparent rejection of any further roll back of the state - and its calls for an "effective state" - have been welcomed by many as signalling a rejection of the Bank's previous free market fundamentalism. On its publication, the left of centre London newspaper, *The Guardian*, called the Report "an astonishing volte-face", in which "the Bank has abandoned its long-running support for minimal government in favour of a new model based on a strong and vigorous state". Britain's Secretary of State for International Development, Clare Short, similarly interpreted the report as evidence of a change of strategy: "Thank heaven - the era of complete enmity to the public sector in general and state provision in particular is coming to an end".

Even before the Report's publication and in the process of its production, there were signs of some welcome rethinking within the Bank and an openness to other peoples' views. The Bank involved non-governmental organisations and others in discussions at a very early stage of preparing the Report rather than, as previously, simply asking for written comments on a draft. Statements from senior Bank officials also signalled what many interpreted as a sea-change.

At the Annual Bank Conference on Development Economics in April 1997, for example, Joseph E. Stiglitz, the World Bank's recently recruited Chief Economist, acknowledged that recent reforms have emphasised economic fundamentals to the exclusion of social, institutional and environmental issues. He said that: "Theory may tell us that under certain idealized circumstances market economies are efficient. But theory provides us with less clear prescriptions for the second-best situations in which we inevitably find ourselves, in which many of the idealized circumstances underlying the pure theory are not satisfied."

The Bank, said Stiglitz, should recognise that "many of the countries that were successful did not take the particular medicine that was then being dispensed by the development community" and that "what is required is not deregulation, the naive stripping away of regulation, but regulatory redesign, the changing of the regulatory structure in ways that promote competition where it is viable and that ensure that monopoly power is not too badly exploited where competition is not viable."

Similar sentiments are expressed throughout the 1997 World Development Report. Recent reforms, says the Report, "have emphasised economic fundamentals [but] social and institutional (including legal) fundamentals are equally important to avoid social disruption and ensure sustained development."[253] It comments that "well-functioning markets are usually the most efficient means of providing the goods and services an economy needs — but not always. In particular, markets under-supply a range of collective goods — public goods and private goods that have important spillover benefits for society at large. Generally these are goods that have a significant impact on the quality of life: clean air and safe water, basic literacy and public health, and low-cost transportation and communications."[254] Moreover the Report concedes that "in some areas the traditional roles for regulation remain and market liberalisation and privatisation have themselves brought new issues to the fore".[255]

Having long denied the role of state intervention in the rise of many of today's successful market economies the Bank now readily acknowledges the "vital, catalytic role" played by

the state "in the development and growth of markets in Europe, Japan and North America" and goes on to clearly state that:

> "An effective state is vital for the provision of goods and services — and the rules and institutions that allow markets to flourish and people to live healthier and happier lives."[256]

State-dominated development has clearly failed, argues the Report, but some countries have moved too far towards market-friendly strategies and "without an effective state, sustainable development, both economic and social, is impossible." The Report uses the examples of the collapse of states such as Liberia and Somalia as a stark warning of where stateless development can lead.[257]

The Bank also appears to have shifted its stance on the East Asian Newly Industrialised Countries (NICs): whereas in previous reports it had denied, or downplayed, the relevance of NIC policies to other areas, it now ascribes the poor economic performance of African countries as compared to the NICs in large part to "the superior performance of the state in East Asia".[258] Indeed, the NICs are presented as the model for other countries to emulate: not only have they achieved high levels of industrial growth by "harness[ing] the energy of the private business and individuals and acting as their partners . . . instead of restricting their partnership" but, through introducing private competition with their civil services, they have "transformed weak, corrupt, patronage-based bureaucracies into reasonably well functioning systems"[259]

In addition, the Report appears to eschew the Bank's previous commitment to the blanket imposition of a single, uniform set of policies in each and every country: "What works in the Netherlands or New Zealand, say, may not work in Nepal. Even among countries at the same level of income, differences in size, ethnic make-up, culture and political systems make every state unique." To improve the effectiveness of states, the Bank now argues, requires "matching the state's role to its capabilities" and a less dogmatic approach to implementation. There is no "one-size-fits-all" reform programme and inflexible insistence on monetarist policies can cause considerable economic damage as policy makers "overshoot the mark".[260] As the Report puts it, "cutting consumption indiscriminately to boost equally indiscriminate investment is clearly not the answer."[261]

On globalisation, the Report makes clear that “roughly half of the developing world’s people have been left out of the much-discussed rise in the volume of international trade and capital flows”.[262]

. . . Or Old Medicine in a New Bottle? . . .

A close reading of the Report, however, and consideration of the wider international and historical context in which it has been written suggests that, in many important respects, the WDR constitutes not so much a sea-change in Bank thinking as a repackaging and updating of the neoliberal agenda. The political significance of the Report's rejection of a minimalist state, for example, amounts to little in the face of now abundant evidence that neoliberalism has been less about stripping back the state than about redirecting it: disavowing a minimalist state that has never existed constitutes intelligent political manoeuvring rather than a U-turn.

The End Of Ideology?The End Of Ideology?

Although calling for an effective state, the Report begs the key question: Effective for whom? The Bank acknowledges that "different groups may hold conflicting views about the role of the state"[263] but fails to engage with those different views or to discuss their validity.

Instead, the WDR adopts a tone and a language which implies that the superiority of neoliberal policies over other development agendas is self-evident. Throughout the Report, "good policies" are equated with neoliberal policies, as if the debate over what constitutes "good policies" was somehow resolved.[264] “Although the recipe for good policies is well-known, too many countries still fail to take it to heart”.[265] “Market liberalisation, privatisation and "clear cut rules for imposing restraints on actors at each level of government"[266] represent the right approach; penalising private wealth and other "wrong kind of rules" do not.[267]

Indeed, the Bank suggests, the debate over economic policy was effectively settled 200 years ago with the publication of Adam Smith's *Wealth of Nations* when it became "generally recognised that the market was the best instrument for realising growth and improving welfare".[268] Underlying the Report is an assumption - neither discussed nor supported - that market-led economic growth is the only way to provide "healthier, happier lives", the efficient provision of services, the sustainable use of the environment, the stamping out of corruption, the relief of poverty and the promotion of democracy.[269] No consideration is given to the role of the market in creating social exclusion, to the inequitable power relations that are strengthened by market forces, or to the role of past market reforms in exacerbating “ethnic” tensions and introducing new forms of corruption.[270]

Unsurprisingly, the Report fails to engage directly with critics of neoliberalism, or with alternative approaches to development. Nowhere, for example, is there any discussion of the substantive points raised by anti-poverty groups about the role that Northern states could play in relieving Third World sovereign debt. There is no discussion of the many proposals made by trade unionists and others to address states’ role in securing labour rights in a globalised economy. Likewise, the Report is silent on the issue of states implementing international and national controls on transnational companies or on NGO proposals to reform the WTO in order to address inequities in the world trade system. Nor, significantly, does the Report engage anywhere with the fundamental criticisms of neoliberal economics and its underlying neoclassical theory made which have been made by the Japanese aid community and others (see Chapter 3).

Instead, there is a tendency either to distort the case made by critics by simplifying its complex and varied politics: "in many countries that have previously relied entirely on state utilities, many groups continue to resist privatisation on ideological grounds"[271] or by relying on a partial view of recent history. Popular opposition to economic policies are transformed into a "clamour for greater government effectiveness . . . in many developing countries where the state has failed to deliver even such fundamental public goods as property rights, roads and basic health and education".[272] The Report does not deal with the role of structural adjustment reform programmes in weakening states and causing unrest but argues that postponing reforms may cause “political and social unrest and, in some cases, disintegration, exacting a tremendous toll on stability, productive capacity, and human life”.[273]

Elsewhere critics who question the social and other impacts of liberalisation, for example, are guided towards the membership figures of the WTO for reassurance: "The growing global consensus on the benefits of more liberal trade and international market expansion is reflected in the large and growing membership of the WTO".[274] There is, however, no substantive discussion anywhere in the Report of the uneven nature of those "benefits" nor any acknowledgement of the external political pressures placed on countries (not least through the logic of World Bank conditionalities) to join the WTO.

Reflecting the Bank's continued neoliberal framework, the Report views an effective state almost exclusively through the lens of economic efficiency.[275] The state, says the Report, is essential for putting in place the appropriate institutional foundations for markets. Its existence is justified where it acts to support private sector-led growth and unjustified where it does not. State owned enterprises should therefore be privatised where possible. "Getting the state of the business of providing many of the goods and services it now provides", however, "will still leave it with plenty to do"[276]:

> "Where it is no longer a direct provider, the state must become a partner and facilitator, regulating markets, enforcing contracts and pursuing the essential roles [of investing in basic infrastructure and social services, protecting the vulnerable and protecting the environment."[277]

Indeed, "the mark of a capable state . . . is its ability to set the rules that underpin markets and permit them to function."[278] From the Bank's neoliberal perspective, using public money to bolster the effectiveness and capacity of the state (as defined by the Bank) is justified, since "faith in governments' ability to sustain good policies can be as important for attracting private investment as the content of those rules and policies."[279]

One outcome of this economistic approach is that the Report grossly oversimplifies the complex political, social, cultural and economic landscape in which states and markets operate. It also depoliticises the debate over what constitutes an effective state. The underlying assumption in the Report is that what the state can or should do is a technical question, largely independent of society.[280] The key objective is neoliberal reform and the only issue at stake is how best to implement the package. Rather than concluding that economic liberalisation risks seriously undermining governments' budgetary and other powers, it concludes that reliance on external capital increases "discipline on policy-makers" and "makes it more costly to pursue inconsistent policies".[281] The Bank does not consider the dangers of policy being so heavily influenced by the interests of the financial markets or that government actions should reflect the wider collective interests of society as a whole.

As a result, minimal consideration is given to the fundamental question of what institutional and other social and economic arrangements best ensure that the state and all levels of government are representative of collective interests and that policy is decided in a manner that includes all citizens. There is no discussion, for example, of the appropriateness or otherwise of Western-style multi-party systems in non-Western contexts[282], or of the strengths and weaknesses of commons-based approaches to governance and the provision of livelihoods.

On the contrary, the Bank's sole benchmark for assessing the "effectiveness" of political processes, procedures and institutions is whether or not they act as lubricants or potential barriers to reform and fiscal discipline. The report expresses disapproval of Uruguay's practice of holding referendums on key issues, for example, because two recent plebiscites — in 1989 and 1992 — respectively guaranteed full wage indexation every three months and reversed major privatization legislation.[283] Likewise, the Bank expresses concern that the coalition politics that frequently result from proportional representation (PR) voting systems can prove "a barrier to reform"[284] and notes disapprovingly that "both Belgium's and Italy's very high level of public debt have been partly attributed to two decades of being governed by large and unstable coalitions." The economic success of countries such as Germany which also use a PR system is ignored and no consideration is given to the success or failure of such systems in achieving wider social consensus on government policy.

An econometric analysis outlined in chapter 9 of the Report claims to show, and notes without comment, that governments' ideology is a statistically insignificant factor when countries expand their welfare spending. Increases in welfare spending (on pensions, unemployment and family assistance) are explained mainly by the percentage of people

above 65 years of age in the population and the checks and balances in the constitution.[285] The Report attempts to use economists' techniques to provide guidance on sensitive political decisions in its advocacy of a "political cost benefit approach". The latter aims to assess the benefits of reforms such as trade liberalisation by forming equations to answer the question of "how much redistribution takes place for a given amount of efficiency gain".[286]

Locking Society Out

Nor is this surprising, for many in the Bank are deeply suspicious of the public having too great a say in policy making. Although the Report emphasises the need for greater participation in decision-making in order to bring "government closer to the people", the Bank expressly rules a number of key policy areas off limits to public participation, since they "require insulation from political pressure."[287] Chief among these is macroeconomic policy, where, the Bank argues, "strong, central guidance, in budget and financial matters has proved critical in ensuring sound public finances and a reliable framework for economic development in most industrialised countries."[288]

Of particular concern to the Bank is the possibility that participation, popular protests, elections or similar expressions of peoples' views may lead to reforms being reversed. Whilst in the long-run the Bank advocates building up domestic institutions to maintain policy stability and show investors that policies will be maintained, for the near future it argues that reforms can only be entrenched through "international commitment mechanisms" by which it means "stronger ties with external actors, for example through stabilisation programmes with the IMF". The Bank explains:

> "To some extent, extraterritorial and international restraints can substitute for limitations on the ability of national institutions to enforce rules and to signal credibly that the rules will remain reasonably stable over time."[289]

The Bank's treatment of the state's role in enforcing the "rule of law" should be clearly understood. Although much of the Report's discussion on this theme concerns conventional "law and order" issues, such as reducing crime and corruption, it is important to recognise the very specific meaning that the notion "Rule of Law" has in the neoliberal canon. The idea is not that citizens should have the right to promote legislation through their own democratic institutions or that states should have the authority to enforce popularly-mandated legislation: rather it is that the scope of state action should be limited through laws or other lock-in mechanisms.

The notion is profoundly undemocratic. Indeed, one of the principal intellectual architects of neoliberalism, Frederick Hayek, makes it clear that if democracy means "the unrestricted will of the majority", he is "not a democrat".[290] In his view, unless the majority are constrained in their actions by general rules — the Rule of Law — there is no guarantee that what they decide will be good or wise.[291] Hayek's disdain for liberal democracy is echoed in the Bank's concern that "transitions to democracy are sometimes associated with increased budget deficits and inflation" and that therefore "states need skill to manage the transition [to democracy] in such a way that it does not impede the development agenda".[292]

Neoliberals have followed Hayek's logic to argue that the regulations needed to ensure the proper functioning of markets — which they hold to be the only legitimate means of ordering human material resources[293] — should be agreed internationally and be enforceable through international law, since national legislation invariably leads to protection and trade barriers.

On macroeconomics, the Report is very much in this tradition. International agreements are seen as a particularly important means of "strengthening commitments not anchored by any

domestic institution".[294] "On the trade front, both the European Union and the North American Free Trade Agreement have been able to play this role," comments the Bank, adding that "many countries will find it an important reason to join the World Trade Organisation."[295] A number of other "lock-in mechanisms" ("all with the same basic logic: to provide checks that restrain any impulse to depart from announced commitments") are also recommended by the Bank.[296] A well-functioning, independent, central bank, for example, can reduce the threat of politically motivated monetary expansion while maintaining some flexibility to accommodate unavoidable outside shocks. Where countries lack "a prior foundation of checks and balances on arbitrary action by public officials", however, an independent central bank may not deliver the desired low inflation rates. In such circumstances, says the Bank, another possible means for shoring up the neoliberal agenda is to choose "a conservative central bank governor, one who is more opposed to inflation than society in general."[297] A second option is "to assign the bank only instrument independence — the day-to-day setting of policy to achieve a certain goal — while leaving the choice of goal itself to the political authorities", whilst a third is "to establish a contract for a central bank governor that provides for some penalty for deviating from an announced inflation target", which has "the effect of employing a conservative central banker without relying on subjective judgements about the person holding the position".[298] Of these three options, only the second allows for any role for the public in deciding economic policy — assuming, that is, that the government is democratically accountable.

Engineering Consent

Indeed, to the extent that the Bank sees people being involved in decision-making, it is in discussions on how services are best delivered at the local level, on how local commonlands are best managed, and on the planning and implementation of individual infrastructure projects.[299] At this level, NGOs are seen as a cost-effective means of delivering many of the services currently provided by many states.[300] The case for decentralisation, which many favour as a means of allowing people a greater say in the decisions that affect their lives, is similarly evaluated largely in economic terms,[301] although the Bank expresses concern that too much decentralisation may lead to increasing demands on the state and pressure to reverse reforms:

> "Policy makers in central government may lose control over the macroeconomy as a result of uncoordinated local decisions and regional disparities can widen, exacerbating economic and social tensions. Local government can fall under the sway of particular interests, leading to abuse of state power and even less responsive and accountable government. The message, here as elsewhere, is that bringing government closer to the people will only be effective if it is part of a larger strategy for improving the institutional capability of the state."[302]

Public involvement in defining the state’s major actions and policy directions, however, is not something that the Bank seeks to encourage. On the contrary, participation is portrayed primarily as a tool for engineering consent at a local level to policies already framed by "right-minded" governments at the national level. Indeed, much of the discussion on participation appears to be motivated by a perceived need to manage and contain the backlash that reforms may provoke from politically-organised groups. As the Bank puts it:

> "Reform will . . . encounter considerable political opposition. But reformers can make a good start by strengthening central agencies for strategic policy formulation, introducing more transparency and competition, hiving off activities with easy specified outputs, seeking more feedback from users about the delivery of services, and working with labour unions on programmes that will enable workers to seek security in change rather than seek security against change."
>
> "Compensation of groups adversely affected by reform . . . can help secure their

> support. Although compensation may be costly in the short run, it will pay off in the long run."
>
> "Evidence is mounting that government programmes work better when they seek the participation of potential users and when they tap the community's reservoir of social capital rather than work against it. The benefits show up in smoother implementation, greater sustainability, and better feedback to government agencies;"[303]

The Report does not mention or address more radical analyses which see participation as not just a check on the power of government, but as a means to empower marginalised groups in a way that may enable the shifts in power necessary to alleviate poverty. As Caroline Harper, Research Director of UK-based development charity Save the Children, explained in a recent paper:

> "when individuals and agencies talk about participation and empowerment they may be talking about working within the current set of relations to achieve project objectives or they may be talking about participation and empowerment to achieve fundamental structural change."
>
> "Participation, confined to the administration of development projects, is bureaucratised and loses its political potential for structural change. In these situations the immense development apparatus aimed at improving the lives of the marginalised and poor can effectively prop up an unsustainable system and lend an acceptable face to unacceptable structural inequality. Many NGOs and other groups argue therefore that participation must be extended to policy dialogue."[304]

Blind to Corporate Power

Underlying the Bank's analysis is a deep fear of the "capricious" state. The text is littered with references to the need to limit the scope for "arbitrary action"[305] by officials and the need to "cut back on their discretionary authority"[306] Yet, the Report makes little or no mention of capricious, unaccountable or arbitrary action by the corporate sector or of controls which could be introduced to address the abuse of corporate power. The discussion on corruption exemplifies the approach. Almost an entire chapter is devoted to corruption in the public sector, yet there is no analysis of the extent of corruption and patronage in market economies or of the many well-documented instances of money being used by private sector companies to manipulate political and legal systems in free market economies, such as the US and UK and in Malaysia, where Prime Minister Mahathir Mohamad recently expressed concern over the prevalence of "money politics" within the Malaysian polity.[307,308]

Likewise, whilst the Report insists on a causal link between protectionist policies and corruption ("any policy that creates an artificial gap between demand and supply creates a profitable opportunity for opportunistic middlemen"[309]), it fails to examine how liberalisation may also have created an environment in which corruption flourishes.[310] Structural adjustment, for example, has created a host of waged but unpaid civil servants, who frequently have little option but to charge clients extra for their services or to moonlight as entrepreneurs if they and their families are to survive. Nonetheless, despite not being paid, millions of civil servants around the world turn up every day to staff hospitals, teach in schools, administer government departments and keep antiquated public services going. A sense of civil duty and community survives (and even flourishes) despite the prevalence of petty corruption — a side of the story that is omitted from the Bank's discussions.

The discussion of political patronage in the Bank's Report is similarly skewed, the policy recommendations being restricted to combating patronage systems within state bureaucracies, thus creating the impression that political patronage is exclusively (or almost

exclusively) a feature of "overblown states". The following passage is illustrative:

> "Reforms that open opportunities for private entry into closed sectors of the economy, but leave that entry to the discretion of public officials rather than establish open and competitive processes, also create enormous scope for corruption. Formal checks and balances can also help reduce official corruption, but they are seldom enough. Reforming the civil service, restraining political patronage and improving civil service pay have also been shown to reduce corruption by giving public officials more incentive to play by the rules."[311]

A more rigorous analysis by the Bank might have looked also at the transformation of patronage networks as a result of privatisation and the opening up of countries to international trade. In Malaysia, for example, recent studies document the extent to which many large contracts for private sector projects have been awarded not as a result of open tendering but purely on the basis of personal contact and/or ethnic criteria.[312] Similar examples abound in the North, as exemplified in the Pergau Dam scandal in Britain.[313]

Market discipline does not simply reduce corruption; it replaces state actors by market actors. Indeed, when it comes to the market in general and the corporate sector in particular, the Bank appears power blind. Although it shows itself to be quite at home with the issue of power when analysing the operation of state enterprises,[314] it ignores all issues of power when it comes to the operations of the market — this despite the trenchant critique of neoliberal economic theory made by the Japanese development community in the background paper it prepared for the Report and similar, equally telling, critiques from NGOs and academics. The structural imbalances of power that mean people enter markets unequally are not addressed anywhere in the Report, nor is there any discussion of what actions states should take to address those structural inequalities (see Chapter 3) and whether they will have the power to do so.

Likewise, there is extensive treatment of the need to prevent the "local capture" of state institutions by "rent seeking" officials, but no discussion of the need to address corporations capturing regulatory and legislative processes, of the means at states' disposal to assess and address the monopoly power of companies or of companies' use of techniques such as transfer pricing and offshore accounting.

Inevitably, the Bank's power blind approach to the market leads to exaggerated claims for its market-led reforms. In putting the case for privatising certain health care services, for example, the Bank argues that public funding of clinical health services has "entrenched social inequalities because wealthier groups benefit disproportionately from hospital care." Most curative health care, the Bank argues, is a (nearly) pure private good — "if governments do not foot the bill, all but the poorest will find ways to care for themselves."[315] The experience of health care privatisation in Chile, however, suggests that this is far from the case: inequalities of power and wealth mean that privatisation has excluded an increasing number of people from health care (see Chapter 2) and that, in many cases, the poor and middle classes still end up subsidising the rich. Moreover, as Public Services International, a trade union federation, points out, "It will surprise many people who have benefited from public health services to hear that the Bank regards most curative health care and higher education as a 'nearly pure private good' - in other words, it is of benefit only to the people treated or educated and not to society as a whole." [316]

Danish academic John Martinussen explained the limitations of the Report's focus on market mechanisms as follows:

> "Effectiveness and efficiency cannot be treated as socially neutral. It may be at the margin of the Bank's mandate, but it has become part of the tradition among donors to expect from the Bank special considerations concerning the poor. These are

> lacking in most of the Report. Improving delivery [of services] needs to be tackled in a differentiating manner, as seen from the perspective of the rich as well as from the perspective of the poor. And it is evidently more costly for the state to deliver services to the poor who cannot contribute financially or only marginally so. This issue is only dealt with sporadically in the Report. It is not systematically integrated into the recommendations on institutional development strategies. This is particularly evident in the discussion of external [citizen] pressure as a means to improve performance [WDR p 86 ff]. The outcome in social terms depends very much on the kinds of external pressure, and it is generally the case that resource-weak segments of the population are in a bad position to exert any major pressure on the state agencies and even worse off when it comes to exerting pressure against commercial undertakings. In other words, external pressure — although in principle one of the available means to enhance performance — may in practice result in socially biased delivery. Again the underlying assumptions about society as free of conflicts and about citizens as a homogenous group interferes with the Report's recommendations."[317]

A Role for Intervention?

The Bank accepts that the state has a major role to play in "protecting the vulnerable" through social welfare programmes. It is not enough for states "merely to deliver growth": the state also has an obligation "to ensure that the benefits of market-led growth are shared through investments in basic education and health."[318] More generally, the Bank also acknowledges that "market failures continue to offer powerful economic arguments for state intervention."[319]

Nonetheless, the Report's support for regulation is at best lukewarm. Indeed, it explicitly argues against intervention in many of the areas where regulation is perceived by critics to be most urgent — for example on the environment. "Government intervention is not the only answer to pollution", the Report opines. "An expanding toolkit of innovative and flexible incentives is now available to get polluters to clean up their act. Although there is no substitute for meaningful regulatory frameworks and information about the environment, these new tools, which rely on persuasion, social pressure and market forces to help push for improved environmental performance, can often succeed where regulation cannot."[320]

The many severe difficulties with market-based approaches to pollution control are glossed over, leaving the impression that the "non-regulatory" approach is unproblematic and a realistic alternative to regulation — although the Report itself notes that the Indonesian Clean Rivers programme, relying on voluntary codes and self-regulation by industry, failed to generate any positive action by nearly half the firms claiming to participate in it.[321] Similarly experience in Europe suggests that while some products and processes have undoubtedly been improved, overall voluntary schemes have failed to encourage industry to strive for higher environmental performances: rather they have degenerated into a means whereby industry can set the standards it likes. Where improvements have been made, they largely reflect changes that industry had planned to make in any case.[322]

The Report's section on international cooperation is also rendered extremely superficial by its failure to identify the key corporate and country interest groups which are obstructing progress on issues such as climate change prevention and realising a peace dividend after the Cold War. On the former, the Bank discusses the "strong economic rationale for adopting market-based instruments, such as tradable carbon emissions entitlements, to reduce greenhouse gas emissions"[323] but fails to point out that vested interests such as oil and car companies, and countries such as the US which produce or consume large quantities of oil, are currently obstructing any moves to address climate change in an equitable manner. The Bank, apparently arguing that the political playing field is level, says that "government willingness" is required to create and regulate emissions entitlements, but fails to point out the main obstacles to an effective agreement on this issue which may have far more serious social and economic consequences than any of the other policy failures

the Bank seeks to address .

Do What we Tell You

Despite the powerful evidence submitted to the Report's team by the Japanese government on the inappropriateness of promoting a single, universal approach to "reform", the Bank's report gives space to one view — and one view only — of what constitutes an effective market economy and an effective state.

The result is that the Bank's approach to reform is only marginally less formulaic than its previous approaches and still involves a highly technocratic model for assessing what the Bank judges to be the capability of state institutions. Although the Bank argues "the state's role should be matched to its capability"[324] and that "in the realm of liberalisation and privatisation, regulation and industrial policy, there is no one-size-fits-all formula", its universalist model for assessing the capability of states means that very different countries will be prescribed the same set of "reforms" based on the Bank's assessment of the "weakness" or "strength" of their state institutions.[325]

In "weak" states, for example, where "a mass of inefficient state enterprises blocks private dynamism entirely, even as it imposes an unmanageable fiscal and administrative burden on the rest of the public sector", the Bank argues that there is no option but to introduce full-blown structural adjustment; "in such countries, the first step toward increasing the state's effectiveness must be to reduce its reach".[326]

This, says the Report, should be achieved through privatisation and liberalisation which "are the appropriate priorities for countries whose governments have been overextended."[327] Countries with low state capability should not take on functions such as planning an activist industrial policy, says the Report, and concentrate instead on basic functions: "the provision of pure public goods such as property rights, macroeconomic stability, control of infectious diseases, safe water, roads and protection of the environment."[328] Weak states should also be wary of taking on "intermediate" functions, "such as management of externalities (pollution, for example), regulation of monopolies and the provision of social insurance (pensions, unemployment benefits)" and should seek to "work in partnership with markets and civil society to ensure these public goods are provided."[329]

Critically, it is not citizens in the countries involved who will decide how "institutionally strong" is the state in which they live, nor on which actions states should concentrate their resources, but the World Bank.

No Self-Assessment

Throughout the Report the Bank tells others — particularly developing country governments — how to assess their performance and how to perform better. There is almost no critical assessment of international agencies, for example their roles in pressing many countries to accept loans for economic reform programs which have then failed to meet their objectives, or of backing "predatory governments" such as Ceaucescu's Romania, Pinochet's Chile and Mobutu's Zaire. Commenting on this "implicit blame-and-responsibility-lies-within-developing -countries stance", Mick Moore, Fellow of the Institute of Development Studies at the University of Sussex, quotes a colleague: "By supporting the denigration of public sector and the public services for so many years, the Bank has contributed to loss of morale and thus to the very problems that [the Report] now addresses. The least it could have done is to acknowledge that its own position and advice on these issues has changed substantially."[330] Moore also points out that "inadequate attention" is paid in the Report to "the structural causes of poor governance" - not least of which are the political forces that result in many governing elites in poorer countries having "more incentive to please external agents (other states, large transnational companies) than

to build or maintain legitimacy among their own citizens." Such forces, argues Moore, include levels of development aid which, in many instances, exceed half the annual income of many governments — "[shifting] de facto accountability from citizens to aid donors". Moore remarks: "One might justify this on the grounds that aid donors can do little, and developing countries should be told that these are their problems. If, however, one believes that aid is currently part of the problem but potentially part of the solution, the case for silence on this issue is less strong."[331]

Readers of the *World Development Report* are given the impression that the World Bank, with its huge research budget and unparallelled operational experience across the world, has neutrally presented the most important evidence and analytical tools for assessing the benefits of and best approaches to institutional reform. No mention is made, however, of the fact that 38 per cent of World Bank operations supporting privatisation and public sector reform are rated "unsatisfactory" according to the Bank's own internal classification. In 1996 the Bank's Private Sector Development Department was asked to write a report outlining the causes for this high failure rate. The report stated that "the causes of bad performance lie as much with Bank incentives, procedures and culture as with conditions within the recipient country". Unsatisfactory projects "tended to be quite obviously over-optimistic and ambitious" and staff preparing projects failed to analyse likely risks or set out contingency strategies. Staff action is explained as follows:

> "pressure to lend; fear of offending the client; 'institutional optimism' — a tendency to give the borrower a very large benefit of the doubt and to consistently regard the glass as half full —; fear that a realistic and thus more modest project would be dismissed as too small, as having an inadequate impact; a sense of urgency based on the knowledge that fiscal resources diverted to inefficient Public Enterprises are no longer available to other critical sectors such as health and education; and, in general, a conviction on the part of many staff that the function of the Bank is to create conditions in which operations can go forward and succeed, not to 'sit around and wait' ... The view stemmed both from a laudable desire to promote socio-economic development and from a more self-interested perception that a modicum of lending must take place to justify the institution and the job of the staff member".[332]

The Bank's 1997 *World Development Report* team, perhaps because they did not want to offend their operational colleagues in the Bank, does not address these issues of institutional failure within the Bank itself, and whether the Bank's interventions are actually helping poor people in developing countries, supposedly the Bank's key constituency.

More fundamentally there is also no consideration in the report as to whether or not the Bank — or other aid agencies — are the appropriate institutions to carry out programmes designed to redefine the role of the state in societies where they have no democratic mandate and their actions are unaccountable.

Scapegoats and New Roles

Given such omissions, many have questioned the Bank's motives for raising the issue of the state in such a prominent way. One interpretation (which some may feel overemphasises the unity within the Bank and its ability to overcome internal policy splits) is that the Bank is following its own institutional imperatives; by focusing on the "ineffectiveness" of states, for example, it is able to use the state as whipping boy for failures that should properly be ascribed to market-led reforms. At the same time, it is tactically retreating from an outright public commitment to hardline neoliberalism, and is seeking to ensure that its role as a provider of North-South finance and advice will be maintained, even as the private sector is undertaking many of the projects it used to finance. The fear is that the Bank is seeking to carve out a new niche for itself as arbiter of the politics as well as economics of Southern states. This concern was clearly expressed

by authors Susan George and Fabrizio Sabelli following the Bank's 1992 report *Governance and Development*:

> "The effect — and the intention — of structural adjustment has been to weaken the state and make sure that many of its traditional functions are taken over by outsiders, acting on behalf of the global market ... The next logical step is the substitution of supranational for national authority, under the banner of governance."[333]

On this view, the World Development Report 1997 may plausibly be interpreted as a tentative attempt by the Bank to carve out a new role as a supranational authority. Whether or not it succeeds will depend not on the strength of its theoretical models but on how the promotion of those models plays out when confronted by ordinary people fulfilling their potential as active citizens. In that respect, the 1997 World Development Report is to bewelcomed - though not perhaps for reasons which the bank would endorse. By revealing a chink in the neoliberal armour, the Report arguably provides social movements with political space that they might not otherwise have had.[334] More than that, the Report offers social movements a clear view of how the Bank views their future. To be forewarned is to be forearmed.

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6.. The most sophisisticated neoliberal thinkers have always openly acknowledged that their programme required a "strong state" to provide a secure legal and political framework within which business, trade and "family life" can prosper. For a discussion, see: Held, D., Models of Democracy, Polity Press/ Basil Blackwell, Oxford, 1987, p.244.

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8.. The Economist, World Economy Survey: The Future of the State, September 20th 1997, p.8.

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11..Meanwhile, as British economic journalist Will Hutton records in his book, *The State to Come*, "the Conservatives [in Britain] sought to extend into social life the same individualism, market-contract dominance competition which underpin[ned] their economic reforms." Crime, poverty and social inequality, for example, were consistently blamed on the individual or the corrupting influences of the welfare state: any role for wider social or economic factors, particularly those implicated in the "free" market, in these problems was downplayed or dismissed. Even family breakdown, complex in its causes, was "simplified into a story of the bad state corrupting the individual."

As a result, the neoliberal policy eschewed social and economic reforms directed at removing the social and economic causes of poverty, insecurity and crime in favour of a state-initiated attempt to remoralise society through the punitive use of social welfare programmes, the restriction of benefits and the redisciplining of education: "Moral individuals, smacked at home, caned at school, wary of steep punishment in prison fixed by automatic sentencing, and who keep their families together [were] seen as [Britain's] only hope against future social implosion."

Hutton, W., The State to Come, Vintage/Observer Books, London, 1997, p.16. See also: Bowring, B., "Law and order in the 'New' Britain, Soundings (Special Issue: The Next Ten Years - Key Issues for Blair's Britain), Lawrence and Wishart, London, 1997.

Much the same story may be told for the US and other Northern countries which have embraced (willingly or unwillingly) the neoliberal agenda. In the US, for example, the numbers of people in prison have swelled as politicians have

responded to growing social exclusion by introducing tougher "law and order" measures.

See Sklar, H., Chaos or Community? Seeking Solutions, not Scapegoats for Bad Economics, South End Press, Boston, 1995 and

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17.. Indian Express, 25 August 1995. In Bangladesh, too, there has been an increase in government spending on various instruments of government repression to ensure public order in the face of unpopular and oppressive economic reforms. See: O'Connell, H., Equality Postponed: Gender, Rights and Development, WorldView Publishing, Oxford, 1996, p. 120

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21.. This figure does not include the tens of thousands of enterprises privatised through mass voucher schemes in the former 'communist' countries.

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23.. Some privatisations certainly involved public share floatations to small investors, "buy-outs" by local management and workers or the transfer of ownership to local entrepreneurs and even cooperatives. But few companies formed through management buy-outs, under-capitalised in comparison with their transnational rivals which frequently operate in effect as cartels, have been able to survive independently. In Britain, there was a spate of bankruptcies among firms set up as a result of management buy-outs of local authority service departments. In sectors such as refuse (solid waste) collection, the small, new companies found themselves losing out to loss-leader bids from their larger, better capitalised competitors, which have more favourable access to finance. Similarly, share flotation's to the public and employees have in the main failed to prevent a concentration of ownership. Although the number of people in Britain, for instance, holding shares in stock market companies has risen as a result of nearly two decades of privatisation, most individual investors buying shares in a public company tended to sell again soon after its flotation to cash in quickly on the certainty, in almost every case, of an immediate profit. Moreover, the majority of shares were set aside for institutional investors, the proportion of shares on the stock market held by them edging upwards with each flotation.

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327.. Ibid., p. 75.

328.. Also “high intensity initiatives [such as coordinating investment or backing companies in strategic sectors] should be approached cautiously, or not at all, unless countries have unusually strong administrative capacity, commitment mechanisms that credibly restrain arbitrary government action, the ability to respond flexibly to surprises, a competitive business environment, and a track record of public-private partnership” The State in a Changing World, World Bank, 1997, p. 75.

329.. Ibid., p. 27.

330.. Moore, M., "Towards a Useful Consensus? The 1997 World Development Report and the Role of Government in Development", Paper prepared for European Policy Forum on the 1997 World Development Report, Brighton, 1997, p.14.

331.. Ibid., p. 15.

332.. Review of public enterprise reform and privatisation operation, Private Sector Development Group, World Bank, August 1996.

333.. George, S., and Sabelli, F., Faith and Credit: The World Bank's Secular Empire, Penguin, Harmondsworth, 1994, p.159.

334.. As Public Services International notes: "In the right hands, this Report could be the basis for putting many governments on the defensive - especially those which have for years been defending their anti-worker, anti-union and pro-privatisation policies on the basis that this is what the bank advises them to do. The huge number of examples which the Bank provides of how the public sector can be effective, the calls for an effective, open and participatory state, the need for services to be designed by and with people wherever possible, the need for adequate resources for the state to be able to fulfil its functions, the need for rooting out corruption and authoritarianism, the obvious failures of market mechanisms to meet the full needs of people in a democractic and sustainable manner - these things give public sector trade unions a powerful weapon to go to governments in all kinds of countries and say, 'Even the World Bank shares many of the demands and prescriptions which we as unions have been putting to you for decades.'", "The State of the Bank", PSI Focus, No. 3, September 1997.