# An Ocean of Inequality:
## The Effects of Globalisation on the "Developing" World

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*From time to time TJSGA will issue essays on topics relevant to The Living Wages North and South Initiative (TLWNSI). This paper is the Eleventh in the series "The Neo-Capitalist Assault" –a collection in development about Neoliberalism.*

*The essay discusses the effect of The Neo-Capitalist Assault on the Third World and the social polarization that it has generated because of the extreme inequalities that have emerged. In this way, the goal of the essay is to establish that Neoliberalism has not been of any benefit to the welfare of the majority of the population in the Third World. The essay opens by stating that poverty in the Third World has been exacerbated because the dies are loaded in favour of those who control economic and political power.*

Despite the fact that economic wealth in the world has increased consistently since World War II, this wealth has concentrated more and more on an increasingly smaller portion of the population, as I have repeatedly mentioned throughout this work. This has generated a tendency of more than twenty years of social polarization, when the poverty indicators have increased dramatically worldwide. It is unquestionable, then, that poverty is being exacerbated because the dies are loaded in favour of those in control of economic and, thus, political power. We have arrived at a situation of tremendous extremes in today's Capitalism.

***Summary***



### *An Ocean of Inequality*

Jo Marie Griesgraber, former Director of the Project "Rethinking Bretton Woods" with the NGO The Centre of Concern in Washington, asserts that there is something profoundly wrong with a financial system that generates and perpetuates the following obscenities:[1]

• In 1998 the world's 225 richest people had a combined wealth of $1 trillion. That is equal to the combined annual income of the world's 2.5 billion poorest people.

• The wealth of the three most well-to-do individuals now exceeds the combined GDP of the 48 least developed countries.

• UNDP reported in 1996 that 100 countries were worse off than 15 years ago.

• Three decades ago, the people in the well-to-do countries were 30 times better off than those in countries where the poorest 20 percent of the world's population live. By 1998, this gap had widened to 82 times.

One must suffer from a complete lack of social conscious not to find these comparisons insulting. We should ask ourselves if there is any trace of fairness in a system where 0.00000004% of the world's population has as much wealth as the poorest 42% of the world's population. This is really mind-boggling and all reasonable people would agree that great unfairness exists today in the capitalist world. If 225 people in the world are as wealthy as 2.5 billion people combined, then it is only common sense to conclude that the system is completely unfair. Indeed, we live in a system designed to exclude the totally dispossessed and to exploit many of the rest in favour of an infinitesimal part of the people in this world –the multi-billionaires– and their new global society of the chosen few. According to the UNDP's Human Development Report, the top fifth of the world's people in the richest countries of the world enjoy 82% of the expanding export trade and 68% of foreign direct investment, whilst the bottom fifth barely receive more than 1%.[2]

The truth of the matter is that the untrammelled capitalist system, supported primarily by the U.S. and Britain, has not failed but triumphed in imposing its ethos. This is because this brand of Capitalism is designed specifically to include only the fittest and the best endowed in talent or social position. What has failed is the democratic system that was supposed to end the millenary injustice that has characterized the history of humanity. The democratic system, which we are supposed to be enjoying, is now completely a hoax, for it is a system of exclusion. And, of all the people of the world, it is in the Third World where the great majority of the population lives in dire misery in conditions far worse than thirty years ago. This is the result of the neoliberalisation of their economies as the neoliberal mantra globalizes the countries participating in the current capitalist system. The evidence is found in a group of essential economic aspects, which provide a clear indication of the health of Third World economies, relative to their ability to invest in human development across the entire social spectrum and pursue economic justice under a neoliberal ethos.

### *Foreign Debt*

The debt that has been contracted by all the so-called "developing" economies as a result of mismanagement, corruption and the negative effects of globalization has been enormous. Some countries have indebted themselves because of bad management strategies when they borrowed against the future projected income of commodities that represented a substantial part of their income. A clear example during the seventies and eighties was the borrowing against projected oil revenues from countries such as Venezuela and Mexico. They borrowed billions of dollars and then defaulted on their debt service commitments when the price of oil collapsed in the early eighties. In addition, many countries used the borrowed money freely and even spent it dishonestly in a myriad of schemes that personally benefited high-ranking politicians.

A detailed discussion of the process of indebtedness of the Third World is covered in essay II, part II. In this essay, the focus is to comment on the continuous growth pattern of foreign debt and the current, so far, unsuccessful effort to condone it for the most impoverished countries of the world.

A direct comparison of the external debt figures in all developing economies, reported in the World Bank's World Economic Indicators, shows a very strong increase of 21% just in two years between 1996 and 1998 from $2.095 trillion to $2.536 trillion. Not only that, since 1980, Third World debt has increased 316%, from $609 billion to the current $2.536 trillion. Of this, more than $1.8 trillion corresponds to middle-income nations and $721 billion to low income nations.[3] But the ten most Highly-Indebted-Nations, or HICs, account for $1.45 trillion or 57.2% of the entire debt. These are all members of the so-called emerging economies: Brazil, Mexico, Argentina, China, India, Indonesia, South Korea, Thailand, Turkey and the Russian Federation. Their so-called "emergence" is a rather sardonic term, for as long as their economic structure remains generating gross inequalities, the promise of development will remain very much in question for most of them, despite the positive outlook for economic growth for the next few years in most of these economies. For it is the equitable growth of their economies, giving a real opportunity to all sectors, and equitable participation in the world economy, that is the only path to sustained growth with social justice. The true outlook is that indebtedness and inequality will continue to emerge, lingering on as dead weight for most of these nations. Just in the last twenty years, the amount of debt service as a percent of GDP has easily more than doubled for most of these nations.[4]

The heavy burden of these emerging economies notwithstanding, there are other nations labelled the Highly-Indebted-Poor Countries, or HIPCs, that have a far more terrible burden. This is a fairly large group of nations that have a very negative outlook. Their economies have stagnated while their populations have risen with ubiquitous inequality. They had been lent huge amounts of funds during the 1970s, and fell behind payment when interests rose and the price of commodities plummeted. As the World Bank confirms, the financing offered to them in the hopes of stimulating new growth has become a burden of unmanageable debt.[5] Their prospects for development are so improbable that, in the last few years, there have been growing demands asking for the total condonation of their debts; for they have no possibility, whatsoever, to pay their debt as it stands. As a result, in September of 1996, the Bretton Woods Institutions announced the initiative to provide debt relief. It was called the Heavily Indebted Poor Countries HIPC Debt Relief Initiative. However, the plan was a very timid one and with little commitment from the donor countries. Then, in the annual IMF/WB meeting in Cologne, Germany, in the summer of 1999, a new Enhanced HIPC initiative was announced. Still, the amount of planned debt relief was rather pathetic compared to the debt burden of the poorest countries.

As part of the process, the Bretton Woods Institutions developed a series of policies in order to approve debt relief for a country. Some of these policies are certainly reasonable and worth their observance. A basic criterion is that countries take ownership of the program. The World Bank asserts that effectiveness can be achieved if debt relief is delivered in such a way that encourages countries to take ownership by using instruments that provide incentives to use the resources for poverty reduction.[6] This is due to past experiences with the use of aid that have shown that debt relief alone will not improve the lot of the people. Mismanagement and corruption hinder the efficient use of aid and debt relief. Thus, the Bretton Woods Institutions considered it critical to establish criteria that guarantee that these resources are used for poverty reduction and defined two criteria intended to avoid mismanagement and corruption. These are the linkage of resources from debt relief to results in poverty reduction and the strengthening of accountability in the use of public resources, to minimize diversion to other uses.[7]

The Enhanced HIPC Initiative envisions providing debt relief to HIPCs, but the attempt is still extremely lukewarm, and the commitment from donors is coming very slowly. From an original group of seven or eight, the Cologne meeting focused on 41 countries likely to qualify, but more recent reports talk about only 33 nations. From the BWIs perspective, the program is likely to cut by half the net present value of public debt for the 33 countries likely to qualify. But even this stated objective is still far from a real solution. Some recent press reports argue that the program would help to reduce the debt of these countries by about $90 billion, or roughly 20%, from a total debt burden of $430 billion.[8] Moreover, there is the criticism that part of the criteria are the same macroeconomic policies that have been used for many years for structural adjustment. It is claimed that the same logic that impoverished and indebted these countries is being used once again. The key requirements are: three years of structural adjustment, budget austerity, massive privatizations and an economy completely focused on exports, [which implies the abandonment of the small business sector] and the imposition of neoliberal practices.[9] Other hurdles are the fact that bilateral debt [debt owed by a country's government to another] has not been paid back because debt owed to the Bretton Woods Institutions and regional development banks has to be paid in full and on time. As a consequence, even though bilateral debt accounts for just over a fifth of the total debt owed by the HIPCs, it accounts for almost 50% of their total debt service. In the meantime, since bilateral debt is not paid, its interests keep adding up, and the debt keeps growing, trapping these poor countries into a vicious debt cycle.[10] Another hurdle has been the negative position of country creditors to the reduction of bilateral debt. Since the mid-1980s, their position has been that only old debt can be reduced but not new debt. However, the extremely precarious situation of the HIPCs has forced them to continue borrowing bilateral debt. As a result, many countries have accumulated more than ten years of new debt.[11] Yet, the G7 continues to arrogantly demand a series of conditions that show how far we are from a real debt reduction. In Cologne, it was approved that the only debt eligible for 100% relief is debt that has never been rescheduled and that was contracted before the cut-off date used to differentiate old debt from new. Moreover, creditor countries can choose which debt to cancel and how to cancel it. Such position clearly seems, in my opinion, a lot of wishful thinking and a total lack of political will from the G7. Indeed, some of their positions edge on cynicism. The G7 approved debt relief from "debt overhang" – the debt that was not being serviced anyway. However, if the main purpose of debt relief is to free funds to meet the minimum social demands of the masses of poor, then it is obvious that the condonation of debt overhang frees no funds to revamp the social programs. Consistent with its attitude, the G7 has not listened to the demand that the same principle of bankruptcy law be applied to debtor countries instead of giving all the leverage to creditors in deciding what, when and how debt will be condoned.[12]

The HIPC initiative is actually the result of a high-profile effort of many civic organizations in many countries to pressure the creditors of the poorest countries to completely condone their debt. As the end of the Millennium neared, a coalition of many Christian churches, including the Catholic Church, and many NGOs called for complete debt forgiveness for these countries as a way to celebrate the Jubilee of the year 2000. This was proposed under the spirit of the Old Testament, which proclaims that jubilee years be marked by forgiveness of debts.[13] Unfortunately, at the end of 2000 little progress had been achieved. The world's centres of economic power have been clearly reluctant to condone a debt that in most cases is the result of a very unjust world order. What is at stake is the total inability of the poorest countries to meet the basic needs of their poorest citizens because the scarce funds available go to pay debts first. It is a basic principle of justice and human solidarity.

Obviously, these topics are of no importance whatsoever to the creditors. In the case of the U.S., after countless advocacy efforts by a coalition of Civil Society organizations, the U.S. Congress approved a meagre $123 million for the fiscal year 2000. And this was after they initially approved just $33 million. In November of 2000, the U.S. Congress approved $435 million for Fiscal 2001.[14] This only makes it slightly less pathetic, for it does not address the spirit of the Jubilee 2000 campaign of cancelling the debt, altogether, to bring about a real solution. Again, the central issue is to release badly needed funds for governments to use in social programs immediately, not gradually. The aim is to support sustainable development. But these pleas have fallen on deaf ears with the rich countries of the G7. For the plan proposed in Cologne envisioned reducing the total debt by $40 to $50 billion, for the qualifying countries, over a 30-year period and it doesn't even specify if this goal was based on real or nominal value.[15] At that rate, interests on their various outstanding debts in the billions of dollars will grow faster than the relief provided and more than offset the benefits of the rather pathetic helping hand of the G7.[16]

This is also a far cry from the solutions offered to Germany and Japan for debt relief after their defeat in World War II. In their case, debt was reduced to a nominal sum in order to rebuild their domestic markets. The same was true in the case of Britain that incurred huge loans from the U.S. to finance its war efforts but was relieved of the burden under the lend-lease scheme, as I mentioned in essay IV, part I. In great contrast, the fate of the world's poorest appears to not matter, and little progress is being made. Indeed, there is clear opposition, mostly among conservative sectors of society. Many opponents of debt relief argue that the money would go to arms or private accounts. However, given the conditionality that would be imposed on potentially qualifying countries, the criticism sounds rather hollow. Professor Jeffrey Sachs commented in a TV interview with PBS to this respect by insisting that in new fledgling democracies that are struggling with incredible economic hardships, making good on their debt to commercial banks must not be put on top of the health and general well being of their very poor citizens. Sachs criticized the ignorance of the broad-brushed arguments that are used to deal with poor countries. He spoke of countries like Nigeria, where the expenditure in public health is currently less than $3 per-person per-year, and yet the International Financial establishment questions, "why should we give it to the crooks?" Against these objections, he argues that if people would actually look at the realities, we can save democracies and help consolidate fragile reform-minded governments in the developing world.[17] Simply put, it is a matter of minimal justice.

### *The New Global Division of Labour*

The absolute and utmost importance of fair labour endowments is evident in the view presented throughout this essay. Third World Nations' wages are dramatically lower than in First World nations, particularly with respect to blue-collar and agricultural work. With globalisation the already unfair situation that prevailed during the Keynesian Era becomes much more extreme. I deem necessary to briefly revisit the structure of exploitation that has continued with Neoliberalism, for the traditional oligarchic and, consequently, undemocratic structure of domestic economic power continues to be the fundamental reason for the absence of living wages in the Third World. Local industry has traditionally resolved its lack of efficiency and competitiveness through the payment of very low wages. Even in those economic sectors where a country has become competitive, by achieving international standards of efficiency in the overall operation, companies tend to keep a very large share of the wealth generated, at the expense of labour. This has been a situation inherited since the times of colonialism, where tiny plutocracies practically owned their countries, and millions of people lived in quasi-slavery conditions, even after independence from their metropolises. Thus, in classic oligarchic fashion, governments protect the economic interests of their business class and systematically fight the development and activity of unions, violating their own legislations and frequently resorting to outright violence. Moreover, in middle-income developing countries with significant industrial development, in addition to paying low wages, there is a tendency to favour the largest corporate groups and leave medium and small businesses to fend for themselves.

In the case of agriculture, in both developed and developing nations, it has always been a policy to maintain artificially low food prices to make food affordable to the largest possible portion of the population. This is why the G7 nations subsidize their farmers to compensate their income. But in many Third World nations, a traditional structure of large landowners, with hundreds of labourers, replicates the exploitation of the industrial sector, only that in this case wages are much lower. And even if land reform has granted peasants title or right of exploitation to a parcel of land, the economic structure ensures that wholesalers and retailers keep the vast majority of the wealth generated by the commercialization of produce. Thus, Third World agricultural workers generally subsidize the price of food with their miserable wages. The central issue is clearly a lack of real democracy even if the official structure is supposed to be democratic. Indeed, the old colonial structure, using top down democracy, maintains an archaic capitalist system, even mediaeval, where labour endowments are strapped of their fair share in favour of the owners of money.

The other major reason for very low salaries is the activity of foreign interests in the developing world. They have as much responsibility as the local elite for the unjust order, and their role consolidates this structure of exploitation. From the times of the merchant empires to the times of the first neo-colonialism, during the early twentieth century, foreign capital has always imposed a structure of exploitation in partnership with the local elite. In the First World, the ideal of living wages only became possible with the consolidation of democratic rule. In the Third World, where democracy is still in its infancy, the owners of capital, both foreign and domestic, maintain a system of exploitation. In fact, in many cases, exploitation has openly discriminated against domestic workers. For example, in Mexico, in the early twentieth century, the mining workers of Cananea and Rio Blanco went on strike because their wages and working conditions were dramatically worse than those given to U.S. workers working on the same mines. Nonetheless, the Mexican government protected its partnership providing full support to the foreign mining companies by crushing the strike and killing some of the workers.

After WW II, when many developing countries entered a clear phase of industrialization, foreign companies invested in subsidiaries or partnered with local entrepreneurs or host governments, paying wages that were generally higher than those paid by domestic competitors but far lower than those paid to their workers in their home countries. As a fundamental element in the core-periphery relations, it is estimated that 25 to 40% of the cost of labour in the First World was subsidized[18] during those years by paying far lower wages in their new colonial enclaves. Companies would repatriate profits, through different schemes, and support the standard of living in their home countries, in great part through their Third World investments. The justification used at the time, by both the local oligarchy and the MNCs for paying far lower wages in the Third World, was that the economic components were significantly different, particularly the cost of living. However, although this was partially true, the relationship between salaries and the cost of living was proportionally quite different than in the First World. Thus, for the great majority of workers, their wages were far from being living wages even if indexed to fit their own local standards, for they were being paid miserable wages as a conscious business decision made by their employers. Furthermore, the lower cost of living at the time was a direct result of the permanent exploitation of workers, which hampered the generation of aggregate demand and the formation of a large middle class, which in turn blocked the possibility of increasing the standard of living for most people. This is far different from the traditional claim that salaries are lower because the cost of living is lower. The truth is exactly the opposite.

With globalization, the state of the labour endowments has become much worse. Real Third World wages have deteriorated enormously because of the recurring crises and competitive devaluations demanded by the owners of the Washington Consensus and administered by the corrupt local oligarchies. There are many countries, especially middle-income countries, where real wages have lost as much as 70% of their value in the last twenty years. Indeed, the flexible method of production of Neoliberalism, where MNCs can flee a country if the environment turns "unfriendly" –meaning that unions become demanding– and the lack of democratic rule, has created the worst inequality in the Third World in modern times.

If the World Bank's report shows that 2.8 billion people, mostly in the Third World and almost half of the world's population, live with less than $2 per day, and 1.2 billion people or one-fifth of the world's population live with less than $1 per day,[19] it is not surprising to see a constant increase in labour demonstrations all over the world. Just in Iberian America, peasant movements have been particularly restless lately. The protests of peasants and farmers, including blockades to main highways, went on for weeks in 2000 to protest the bankruptcy of the agricultural sector, the old tradition of unequal distribution of land and very low wages.[20] In Bolivia, peasants threatened to take armed actions. In Guatemala, road transportation was paralyzed when all main highways suffered a blockade to protest that 1% of the farmers hold 75% of the best land and that wages are $0.45/hour. In Peru, 1.5 million farm labourers went on strike to protest the bankruptcy of the agricultural system. Salvadorian farmers demanded loans to save their crops. In Argentina, Uruguay and Brazil, protests against an exploitative system in the agricultural sector also experienced renewed energy in October. In Brazil, the invasion of large land holdings by masses of dispossessed peasants, the so-called *Sem Terra* [landless], has been going on for two decades.[21] One big surprise occurred during the World Economic Forum's Spring 2000 meeting in Davos, Switzerland. Brazil's President Cardoso, traditionally a strong supporter of neoliberal structural adjustments, blamed the IMF's "neoliberal fundamentalism" for the lack of resources for social programs, since they are exhausted in the service of its foreign debt. This came in the midst of strong peasant and workers demonstrations against Brasilia's economic policies. The central issue of all of these conflicts is a tremendously unequal distribution of wealth based on an increasingly diminishing share of the labour endowments and of the wealth that is being generated.

The root of the problem is not difficult to identify. If, from an economic perspective, the justification for paying lower wages during Fordist times was mainly untruthful, the justification in a neoliberal ethos is completely a lie. The Economic Commission for Latin America and the Caribbean or ECLAC explains that, in most countries, there is either an increase in open unemployment, deterioration in the quality of jobs or a combination of both. For seven out of ten new jobs have been generated in the informal sector, the underground economy where people's last resort for survival lies.[22]

This is how this directly links with the process of globalization. In the Fordist Era, low wages were paid in part because of lower living costs, but, mainly, because of top down democracy deciding that labour were to be exploited to benefit the local oligarchy, the MNCs and First World wages. Now, with the new flexible method of production, the supply side has been globalised but not the demand side. That is, the availability of raw materials for production, freedom to set up shop in locations strategically chosen in any country in the global system and access to worldwide consumer markets, selling at a global price, have been enthusiastically provided by governments to the MNCs. This way they can have full control of all the variables in their global operations and charge roughly a similar price for their products worldwide. To be sure, efficiency has increased exponentially. During the Fordist Era, MNCs were not selling at the same price because the components of their operating costs in each country were different. The economies of scale were usually limited to each economy, and many governments used price controls to allow more people access to consumer goods. Many governments also demanded a minimum of local content in production, ranging from 30% to as much as 60%. The fact that each market was localized nonetheless, MNCs still generally enjoyed greater margins to repatriate to their home countries. Now, with the freedom to do as they please in order to have in place the most competitive global network of production and market at global prices, MNCs have completely globalised supply. This shift to a new production paradigm has been achieved in the span of just two decades. Yet, and this is the key variable in contention, the demand has not been globalised while the supply has.

The demand has not been globalised because the need for a global pool of cheap labour is absolutely a critical component, on the supply side, to the success in efficiency of the flexible method of production. Thus, the demand side of the equation has not been globalised. But, if wages in the Third World remain at meagre levels, the prospects for creating aggregate demand in each market are slim. How is the Third World supposed to grow and develop then? In fact, we should ask ourselves the following question: If, during the Fordist Era, companies, for various reasons, could not usually charge the same prices as in their home countries, and now they do charge roughly similar prices, which are generally higher, shouldn't they also equalize all the other components of their operating cost everywhere, especially wages? It turns out that wages are indeed equalized, but downwardly [and only in the Third World of course]. For, with full freedom to access a global labour pool, MNCs go for the lowest bidder with the full acquiescence of local governments. Thus, as the process of liberalization is completed, MNCs will be able to charge the same price globally. Indeed, in the European Union, the entire equalization process, as it pertains to the freedom of movement for European MNCs, is completing the phasing out of price differences for their products by simply "liberalizing" the entire European market and establishing a single currency. In the case of NAFTA, most import tariffs will be completely phased out by the end of this decade, complete with a neoliberal framework for FDI that was the spirit of the failed MAI and the pride of neoliberal fundamentalists.

Why, then, we should ask ourselves, if prices will be similar worldwide in a few more years, can't workers in Third World countries enjoy an equalization of wages with those of their First World counterparts? If the quality of their work is the same, or sometimes superior, to that of their First World counterparts, why do they earn, on the average, less than a tenth than their fellow counterparts? Well, that is not how Capitalism works, many conservative minds would say; Capitalism is always looking for maximum efficiency, and it exists for profit and not as a charity. Well, yes, but the centre of the world is not Capitalism; the centre of the world is the people of the world; and, thus, justice to all must come first. Furthermore, there are different brands of Capitalism. Thus, against its will neoliberal Capitalism will have to downsize its profit and efficiency objectives and give back to workers in their Third World operations their fair share. To be sure, Capitalism will have to be humane Capitalism, which is a real oxymoron nonetheless.

The truth of the matter is that, in the new global society that cuts across national boundaries, with a global middle-class and the masses of global dispossessed, global strategy calls for a new global division of labour, where the global workers of the periphery, as part of the core-periphery relations, are expected to always earn miserable wages. The traditional centres of power no longer form the core. The new core is formed by the chosen ones of the new global society of the neoliberal paradigm in both First and Third world countries. The periphery is the masses of low-paid workers that provide their surplus to the multinationals regardless of their passport. We should consider that since the beginning of Capitalism in the sixteenth century, the system established arbitrary hierarchies for rewarding different occupational tasks. This already unequal compensation of different labour has been exacerbated by the different wages levels that have been also arbitrarily applied in different regions with different degrees of development. Thus, the system not only appropriates the surplus value of the economic activity, but it also allows the appropriation of the whole economy by the leading economic powers of the capitalist world.[23] In sum, the real reason why Third World labour, and, increasingly, First World labour, are earning meagre salaries is because this is part of the new strategic vision of the global multinationals that rule the new global society. Of course, the vast majority of the supply for global cheap labour comes from the Third World and will continue to be so unless Civil Society stops top down democracy. The rationalization provided to explain why there is such a disparage in salaries is just a masquerade to hide the real rationalization, which is to simply maximize profits under the spirit of Darwinian Capitalism.

Indeed, the dice are loaded in favour of the MNCs. Thus, for now, the core will continue to be composed by a majority of First World citizens and the oligarchies of the Third World countries with their small middle classes. The periphery, of course, will be where MNCs will mostly rely to fulfil their needs for commodity labour at the lowest possible cost. A recent proof of this reality was the staunch opposition of Third World governments to any kind of discussion regarding Third World wages. As I previously mentioned, they consider the miserable salaries that most of their citizens are paid as their most competitive advantage. Third World governments have grown accustomed to compete for FDI first and foremost with very low labour costs. As detailed in essay III, part III, during the failed WTO Seattle round, U.S. labour organizations with the support of many NGOs, were able to put enough pressure on the U.S. government to make President Clinton try to include on the agenda the issues of labour standards, wages and environment in the Third World. First World workers have felt the pain of losing jobs mostly to Iberian America and Asia where MNCs pay 10% or less of what they were paying. But Third World Governments had a ferocious reaction to the idea of including the topics on the agenda. Even before the summit, when the European Union proposed at a WTO meeting in Geneva that workplace matters be included on the Seattle agenda, there was overwhelming opposition from Third World governments.[24]

In the case of the poorest countries, many fear they could ultimately be forced to improve the lot of their workers at a cost that would price their products out of rich of overseas markets. In many cases, their exports are commodities and it is indeed difficult for them to increase salaries when commodities are at an all time low. But this also points to the fact that employers keep the overwhelming majority of the surplus and are largely inefficient in their methods of production and environmental conservation. In the case of more industrialized countries, they also staunchly oppose raising salaries. Since the local industrialists are accustomed to traditionally exploiting their workers, with the liberalization of markets and the competition of multinationals that come to demand meagre salaries, they argue that they need to remain competitive in their labour costs. Naturally, multinationals come and demand to pay the same wages. Moreover, domestic industry in Third World countries has to compete not only against labour costs paid by multinationals in the host's own territory, but also against the competing products that multinationals bring from other Third World countries where they also pay meagre labour costs. This way labour in both the Third and First Worlds gets the losing end of the stick. Wages in the First World are always under pressure as multinationals move jobs to the Third World and the Third World labour is systematically exploited. On behalf of who, then, are the governments of both the First and Third Worlds working for?

Lastly, the issue is of course not just with wages. Labour standards and environmental protection are horrific in many cases, especially in the case of border in-bond plants where many MNCs contract production for the assembly of parts. NGOs have consistently denounced the ineffectiveness of trade treaties in changing the norm for falling wages and high injury rates in border factories. *In many cases, workers are considered used up at 29, and there's nowhere for them to go but the streets*, an NGO worker said to the *Los Angeles Times* in an interview. The article reports the case of a Korean sub-contractor, the Han Young factory in Tijuana, Mexico, where workers claimed they were exposed to dangerous working conditions and were threatened and fired when they tried to form an independent union. Two years after an official complaint was filed in 1995, under NAFTA with the U.S. Labour Department, the independent union had not been recognized and the fired workers have not been reinstated.[25] In these situations, MNCs are very well shielded from any legal actions. They are only subcontracting production and have no direct responsibility for labour practices, wages or the environment. But this is certainly a central part of their strategy and the sole reason why these in-bond contractors exist. Thus, outsourcing to increase efficiency and avoid regulation is, as well, a critical part of the strategic concept for the neoliberal global system of production based on a global division of labour.

### *Unequal Terms of Trade in Commodities*

The structure of the labour endowments described above, which reigns in the relations between the core and periphery, is part of the unequal terms of trade that I discussed in detail in essay I, part II. In that essay, I focused on North-South relations before the imposition of the global market system. Now the relationship is not between the North and South but, as I explained, between the core and periphery, cutting across national boundaries. However, in the Neoliberal Era, the trade of commodities still constitutes an important portion of the exports of many Third World nations; and, for the poorest nations, commodities represent their only means of trade. For the poorest forty-eight nations, trading their commodities to generate foreign exchange to pay for the imports they need is vital. However, up to this date, the economic centres of power of the core continue refusing to provide better terms of trade for commodities in terms of prices and market access.

The so-called dependency theories of Prebisch and Wallerstein, which explain that the North has always acted upon the South with an exploitative nature and has imposed the asymmetric conditions necessary for it to profit at the South's expense, are not theories but dire realities. Vivid proof is the complete failure of the Seattle Summit of the WTO, beyond the disruptions caused by Civil Society's demonstrations. Specifically, many Third World nations refused to sign any resolutions since the G7 nations continued to avoid making good on the commitment made during the Uruguay Round to open their markets to these nations' products. For many years, there has been a group of 77 developing countries that have tried in vain to negotiate in block fair access to the markets of industrial nations for textile and agricultural products. This group has complained about the dilatory tactics of the U.S. and the EU to open their markets to these products by 2004, as they had promised. At the time of the Seattle Round, the U.S. had only cancelled 13 of the 750 quotas that controlled the importation of these products, and the European Union had cancelled only 14 of 250 quotas.[26] For this reason, India and Malaysia, among others, had been particularly hostile to the celebration of the Seattle Summit, unless the G7 would show clear indication of its intention to move forward on its commitment to open its markets to these products. This, of course, did not happen. Instead, most developing countries were shunned out of the secretive deliberations held by G7 countries during the summit. This left the Third World livid, and it boycotted the signing of any accord. To make things worse, there were nasty disputes, not only between developing nations and the G7, but also within the members of the G7 itself. The U.S, with the support of the Cairns

Group –a group integrated by fifteen large agricultural exporters (Argentina, Australia, Brazil, Canada, Colombia, Chile, Fiji, the Philippines, Indonesia, New Zealand, Malaysia, Paraguay, Thailand, South Africa and Uruguay) tried to force the European Union to open its market and stop subsidies:[27] Something that did not prosper at all as I previously explained.

As we have seen, the agricultural sector, and related sectors such as the textile industry, fall into the most staunchly defended area of protectionism of the G7. Its members refuse to cancel their protectionism despite their neoliberal gospel to open all markets for all products. However, the G7 has put enormous pressure on developing nations to open their agriculture sector, and in some cases they have succeeded. The most notorious case has been the NAFTA agreement signed with Mexico that has devastated its agricultural sector.

Another dispute between the U.S. and the EU linked directly to Third World countries is the banana dispute that clearly illustrates the control of the terms of trade by the First World. In 1999, the U.S. accused the EU of not opening its market to bananas from countries such as Guatemala and Ecuador. The Europeans refused, and the WTO, based on its principles, demanded equality of treatment for similar products from different member countries. But the Europeans argued that they could not do that because they were giving access to countries that were competing against countries where U.S. multinationals, such as Chiquita Brands, [Chiquita Brands is famous for its role in the U.S. plot that sacked Guatemala's democratically elected President Arbenz in the 1950s] controlled banana production. And these MNCs, the Europeans said, were much more efficient because they were exploitative and paid much less than the countries they favoured. The EU favours a group of tiny Caribbean nations that were formerly European colonies. To these countries, bananas are an extremely important export.[28] In Guatemala the pay is $30 for a six-day week, which is about $0.63/hour. In Belize, which is favoured by the EU, the pay is about $72 for a six-day week, which is more than twice that paid by Chiquita Brands.[29]

The issue here is not the difference in wages, which in both instances provide the means to live a miserable life. The real issue is that the terms of trade for Third World countries, in many instances, are already controlled by multinationals. Since the EU refused to obey the mandate of the WTO, the WTO in turn ruled against the EU and allowed the U.S. to take punitive measures and collect $191 million in retaliatory tariffs against German coffee grinders and French handbags. Chiquita Brands from Cincinnati, Ohio, was the interested party that had initiated the dispute.[30] In conclusion, I ask, was it the Guatemalans or Chiquita who were going to benefit by the opening of the European market?

What has happened in the Third World is that the MNCs and their local partners are trying to take full control of their entire economies and rule them like a business where everything is tradable. Susan George, President of the Observatoire de la Mondialisation (Paris) and Associate Director of the Transnational Institute (Amsterdam), comments, that in the background, multinationals' lobbyists, who already enjoyed the good disposition of the official negotiators, rubbed their hands with glee, for the WTO now gave them the ideal weapon to impose their own rules to make all human activity "objects of trade."[31]

The last but not least issue of the permanent disputes on the terms of trade is the historic situation of unstable commodity prices. Since the 1970s, the Third World has been demanding to establish a system that stabilizes prices. But this has gone in direct opposition to current trends. Many products have lost most of their value or completely lost their markets to artificial products or other technologies that make these products obsolete; artificial fibbers are a classic example. However, the worst contributor to low commodity prices has been one of the elements in the recipe of the Bretton Woods Institutions to lower indebtedness. Since the early 1980s, they demanded that countries concentrate on the export of commodities, including of course oil. The end result was that the world markets were flooded by an abundance of supply of many commodities, which drove down their prices dramatically. In Sub-Saharan Africa, for example, the terms of trade during the 1980s fell faster than in any other region. Many countries concentrated so intensively in exporting commodities that they gained GDP share at the expense of industry during that period, reversing the previous trend.[32] This greatly benefited the industrial world. Thus, not surprisingly, the First World has dragged its feet as much as possible in reaching an agreement at the WTO that would benefit the developing world. For twenty years now, since before the Uruguay trade round, they have avoided offering reasonable terms of trade to the developing world. This is why the Third World took a hard stance in Seattle and refused to accept the systematic abuse from the G7.

### *Privatization with Top Down Democracy*

Before privatizations are carried out, honest, democratically elected and socially conscious governments must be in place in order to benefit their civil societies at large. The sad thing for the Third World, notwithstanding the pros and cons of privatization, is that much of its assets have already been privatized under the worst possible circumstances. Countries in all of Iberian America, Africa and many parts of Asia have already carried out most of their privatizations under the pressure of a big debt burden and the instruments of the Washington Consensus, and they have done it with a high degree of corruption. And, as I mentioned earlier, they went mostly to foreign concerns or to crony *impresarios* since no one else in these countries had the financial means to acquire these assets. Privatizations are not intrinsically negative; they can certainly bring benefit to a country. Countries that have a large portion of the economy in the hands of public companies, in all types of economic activities, most likely have a very inefficient economy. But it should be clear that efficiency should not be the overriding principle. The overriding principle must be what brings the most benefit to society because we are talking of public assets. If a public company can be more beneficial to Civil Society at large under private interests, then privatization is perfectly fine. Precisely because of this, it is difficult to establish standard criteria to determine if a specific economic activity better serves society privately or publicly. Common sense can help a lot but each country interacts in its own political, social, economic and geopolitical environment. Thus, for some countries, for instance, the availability of specific natural resources and its geopolitical situation may make it necessary to treat an economic activity as a matter of national security, even in the era of globalization, and to maintain it under direct public control. In other countries, the same resources may better serve Civil Society in private hands. There is no golden rule except that the welfare of Civil Society at large must be, in truly democratic societies, the overriding principle.

Nonetheless, this has not been the case in the Third World. Privatizations have been a standard element of the neoliberal structural adjustments, forced upon indebted Third World nations by the Bretton Woods institutions. In the overwhelming majority of circumstances, they have not brought any benefit to civil societies; and, in many cases, they have brought a greater burden when many of the assets sold ended in bankruptcies such as in the case of banks and toll highways. Unbelievably, governments rescued their cronies and passed the bill to their taxpayers. Only a real participatory democratic process will bring accountability and allow the use of rational criteria, in the management of the remaining assets that may still be privatized, which places Civil Society on top of any other considerations.

### *FDI and Deregulation*

Two critical aspects of the neoliberalisation of Third World economies, and of its consequences, are Foreign Direct Investment and deregulation. These are central elements in the imposition of the neoliberal paradigm in the economic environment of developing nations. They link together all other elements in a logic aimed at capturing foreign direct investment. After all the indebtedness and subsequent economic crises, attracting foreign direct investment has become of utmost importance to Third World nations. However, in the eagerness to capture investment, Third World nations have focused on the demands of potential foreign investors, the MNCs, and have abandoned not only important social responsibilities but also the great majority of the domestic economic structure. To be sure, it has clearly been a win–lose situation, for the whole strategy has created a system of diminishing returns for the host countries.

As part of this eagerness, a very competitive climate has developed, which, as more and more developing nations seek to capture FDI, they make it easier and easier for MNCs to invest. This has made it more difficult for the host nations to accomplish their intended objective. For, as host nations become more liberal in their policies, the strategy to attract more FDI becomes less and less effective. This is because as multinationals found a greater availability of options, they become more selective and demanding. But the more flexible that a country became to FDI, the smaller the benefit that it obtained for its economy; for, by providing a very competitive framework for multinationals, the multinationals have been able to take most of the surplus resulting from the investment. This way, a system of diminishing returns for the host countries is increasingly been generated.

As part of this process of liberalization of investment, countries have gone well beyond modifying their specific policy framework for FDI and included many other elements in their menu of items to offer to MNCs. The most important elements are the deregulation of virtually all economic sectors that were previously closely regulated. Such are the cases of the airline industry; the privatization of companies under public management and the opening to both domestic and foreign private investment of sectors previously exclusively held under public control, such as the energy sector. The liberalization of labour laws to allow flexible on-demand hiring and firing practices; the liberalization of the corporate tax structure to increase competitiveness; a competitive climate relative to environmental protection vis-à-vis the far more stringent policies prevailing in the multinationals home countries; and the liberalization of the stock markets. As to the liberalization of the specific framework of policies for FDI, host countries moved from a concept of import substitution to a concept designed to fulfil the needs of the multinationals' global system of production. Thus, topics such as domestic content, the importation of components from other host countries and the assembly of parts to feed other points in the global system of production have been completely liberalized.

Macro-economically, developing nations have moved to implement monetary and fiscal policies that provide an investment climate of stability. Thus, monetarist policies have been used with great orthodoxy to provide low inflation and fiscal and trade balances, regardless of any social considerations, in order to present an attractive investment horizon to potential investors. As if all the restructuring were not enough, multinationals have demanded a complete framework for the liberalization and protection of investment, embodied in the Multilateral Agreement on Investment discussed in essay III, part III. They have not succeeded, as we know, albeit regional agreements, such as NAFTA, meet many of the demands of the multinationals.

As a consequence, the liberalization of the previous national FDI policies, which were designed to support the development of a domestic infrastructure, has left small and medium size industries completely unable to compete against the multinationals that entered their markets as part of their global business strategy. With far superior technological, financial, operational and marketing resources than these small and medium size companies, multinationals have rapidly captured the greatest market shares in each industry in each host country. Only in those cases where a large domestic company has achieved international competitiveness have the multinationals encountered real competition. In most of these exceptions, it is only the very few larger companies that are able to withstand competition from multinationals entering the market. However, in many cases, they have reacted by buying them out or partnering with them. When the size of the domestic market of the host country is attractive enough, mergers and acquisitions have been a frequently-used strategy to gain a strong position in a host country. Only in a few exceptions, when a host country has corporations that have developed to become multinationals by their own merits and already have a presence internationally, have the multinationals been forced to compete with them. But, in a very dynamic world ruled by information age corporations with no national allegiance, nothing is permanent. If many of the biggest global corporations in a sector, such as DaimlerChrysler, have merged, the merger or acquisition of smaller multinationals will surely continue. Moreover, it is not only the larger fish that want to swallow the smaller ones. In many cases, the smaller fish seek to partner with larger ones to survive, although their major shareholders tend to lose control to the shareholders of the larger one.

In spite of all of this restructuring of the FDI environment by legal means, to provide "business facilitation", Third World nations competing for FDI frequently violate their own laws to please MNCs. When some degree of democracy has blocked the adequacy of the legal framework to facilitate the business activity of MNCs, many governments resort to outright violation of the law. As it can be expected, labour legislation is the most typically violated area. The right to strike, hiring practices and workplace safety regulations, among others, are violated when Civil Society has been able to block a legal amendment that benefits investment by facilitating the business environment at the expense of workers. As always, human rights are the first to go. Consider how the UNDP regards the following typical violations of humanity and the environment. Wages imposed on female garment workers that are less than the minimum and are a violation of the minimum wage law, and workplaces put under lock and key with workers inside and women dying inside because they cannot get out, are human rights violations and a human tragedy. Indeed, the UNDP regards as flagrant violations of workers rights and basic human rights the fact that 27 million workers in the world's 845 export processing zones are not allowed to organize in unions. As to the environment, the UNDP considers that the continuing degradation of the environment for economic gain deprives current and future generations of the opportunities that are their due.[33]

The liberalization of FDI is the most critical aspect of globalization, for it encompasses all aspects, macro or micro-economic, of an economy. It has a profound effect on the capacity of the economy to provide wealth for many or just for a few. Deregulation, privatization, labour, monetary and fiscal policy, trade, the environment, tax and infrastructure incentives, are all directly affected by philosophies of business facilitation to attract FDI.

Nowadays, countries are rated by companies such as Moodys and Standard and Poor according to their economic framework for both FDI and speculative investment in the stock market. This criterion of measurement has been, in many instances, the most important reference for developing governments to design their plan of governance. It is the same as developing a strategic business plan to achieve a high investment grading that benefits only a few of its citizens. Indeed, globalization has completely changed the values by which governments try to pass legislation to guide the daily life of their citizens. Instead of seeking to procure the common good, they seek to govern for the MNCs and the host countries' global citizens; and yet, foreign investment is completely free to leave, as it deems convenient. It is the difference between good governance and top down democracy; it is the difference between government for a Civil Society and managing a country as if it were a for-profit corporation.

As a result of these profound changes in the economic framework, the demise of small and medium businesses has had a devastating effect on the welfare of the majority of the population of Third World Countries, except in those cases where governments have given some priority to human development. Overall, the liberalization of FDI rules has forced hundreds of thousands of small and medium size businesses to close. This is a real tragedy because they typically generate the majority of jobs, as high as 80%. The International Labour Organization (ILO) recently reported that, in Iberian America alone, 60% of the new jobs are generated by the informal sector [the underground economy of self-employed and micro-enterprises]; and, as a consequence, only 55% of all new jobs provide the basic legal social security benefits.[34] This is because only 25% of the new jobs generated by the informal sector can afford to pay, or are willing to pay, social security benefits. The ILO reports that this is due to the fact that most countries in Iberian America have not been able to recover from the 1980s crises and are suffering from high unemployment rates. In the name of efficiency, millions of jobs have been lost in a process of oligopolisation by global corporations that only generate a fraction of the jobs lost. And, although in most cases these jobs are better paid, what are developing countries supposed to do with the mass of unemployed: forget about them in the name of efficiency?

The great blunder of the majority of countries has been to focus on growth per se without even considering growth with human development through equitable wealth redistribution. They have focused on fulfilling the demands of foreign investors with total disregard for their Civil

Society. The liberalization of labour legislation has been a central element in attracting FDI, despite the fact that there is no proof that this boosts efficiency. The UNDP reports that there is no proof that flexible labour markets increase competitiveness, and, thus, it concludes that the trade-off between worker protection and competitiveness may be illusory.[35] To be sure, those developing countries that have shown some regard for the common good and departed from neoliberal orthodoxy are the ones that have coped the best with globalization.

### *Short-term Financial Capital*

Speculative investments in the developing worlds' stock markets have had negative and sometimes devastating effects on their economic health. The boost and then sudden bust behaviour of these investments in the stock markets has disrupted the overall structure of the economies. The Mexican crisis of 1994 and the Asian crises of 1997 had, in the sudden outflow of speculative investments, a very important component. The UN Development Programme provides a very illustrative report in this respect. In an analysis of more than 300 economic crises in more than 80 countries since 1973, it concludes that past crises show that output recovered the pre-crisis levels in one year on the average, whilst real wages averaged four years to recover and employment growth averaged five years.[36] This is only an average. In many instances, economies have not yet recovered after two decades, especially in the case of real wages. The clearest effects of these crises should be evident: bankruptcies of small and medium size businesses, rising poverty, surging unemployment, reduced schooling, reduced public services and increased social stress and dissolution.

The UNDP report provides a specific analysis of the particular effect of speculative and other short-term flows in economic crises. In the 1990s, short-term financial capital entered Iberian America and Asia in huge flows. In the case of Asia, financial capital flows averaged 5% of GDP to East Asian countries. In the case of Thailand and Malaysia, they reached 13% and 17%, respectively, in one year. Then the flow abruptly reversed in 1997. The outflows reached 20% of GDP in some of these countries.[37]

Nevertheless, the negative effects are not the result of the sudden outflows. These are only the final consequence of the negative effect of huge inflows of financial capital occurring before the crises. As reported by the UNDP, the large inflows, prior to the crises, had the following effects: contributed to the appreciation of real exchange rates and delayed devaluation in a time of increasing current account deficits; reduced international competitiveness and expanded domestic bank lending, increasing its vulnerability to sudden outflows. In addition to the extreme volatility of stock market investments, the huge offering of short-term capital contributed to high ratios of short-to-long-term indebtedness, especially in Thailand and South Korea.[38] As we know, the crisis exploded in Thailand and then it spread to the rest of the East Asian countries. The central issue with short-term financial capital, however, is that regardless of how well each government managed its economy, globalization removed a high degree of control of the economy from governments and put it in the hands of the owners of capital. Capital roams the world looking for good markets for investment, and it stays there as long as the risk is perceived as less than the benefits. But it is free to move as it pleases, generally, whilst the countries where it enters and then leaves bear the consequences. The sudden inflows and outflows of capital that globalization have brought are one of the main culprits of the crises' devastating effects, regardless of the stability of the host countries. An UNCTAD study found that, in any country, developed or developing, where there was a large and rapid increase of liquidity in financial capital, an overextending of lending, and a worsening of quality of assets due to laxer risk management occurred.[39]

Sudden increases in financial capital notwithstanding, giving priority to domestic needs has helped countries to cope better with their crises by resorting to policies that sometimes contravened the orthodoxy of the instruments of the Washington consensus. This is the case of countries in Asia such as South Korea and Malaysia. Consider the case of speculative investments. To deal with sudden outflows of capital, South Korea controlled speculative investments by funnelling them through its own banking system and favoured a gradual opening of its own financial markets despite the pressure from the G7 nations to completely liberalize. Thus, its banks borrowed in foreign markets and distributed the funds in domestic markets.[40] Malaysia's strategy to cope with the Asian Crises of 1997 was to impose capital controls and excise an exit tax of 30% of the principal, despite strong criticism from the centres of power.

Regardless of the nature of foreign capital, policies that seek to protect the common good usually coped better with productive or speculative foreign capital. Consider the case of overall development in the middle of the process of globalization. Between 1980 and 1995, Malaysia managed FDI through economic measures that were backed by social and structural measures. A strong human development policy reduced social disparities. As a result, Malaysia reduced poverty to 13% in 1995 from 29% in 1980. Its Gini index improved from .49 in 1980 to .45 in 1993. Wage employment grew at 8% per year between 1970 and 1992. This is clear proof that FDI can be attracted while emphasizing human development.[41] We should not forget, however, that although inflows of foreign assets typically boost GDP growth, they keep wealth at the top unless human development becomes the primary objective. And that can only occur when top down democracy is overcome by a democratic mandate emanating from Civil Society and not from the local oligarchy.

### *Globalisation Trends*

The following group of key economic indicators and other statistics clearly shows the effects of globalization in the World. I start by giving perspective to the power of MNCs by showing how globalization has catapulted them as economic players at par with many countries. Subsequently, I present a selection of key indicators that illustrate the growing gap between rich and poor, with an extreme concentration of wealth in the upper income brackets of the population of most Third World countries during the past two decades. Other key indicators complete the widening gap picture.

• *The sheer size of MNCs.*[42] The top five MNCs are larger than the economies of 126 countries out of the 148 countries, listed by the World Bank in its World Economic Indicators report. The top ten MNCs: GM, Wal-Mart, Exxon Mobil, Ford, DaimlerChrysler, Mitsui, Mitsubishi, Toyota, GE and Itochu are larger than middle and high income economies such as Chile, Colombia, Egypt, Indonesia, Ireland, Israel, Malaysia, New Zealand, Pakistan, Peru, Philippines, Portugal, Singapore, Thailand and Venezuela. Even the top 50 MNCs are larger than 98 of these countries. General Motors would rank as the 23rd largest economy in the world, above Denmark and South Africa and, based on income, it would easily qualify for the OECD, the club of mostly wealthy economies.

• *Income Inequality in the New Global Society.* Wealth has always been concentrated in the upper echelons, but in the new global society, the stark disparities between rich and poor are mind-boggling. Consider three 1997 key indicators of the share between the top and the lowest quintiles of the world's population: The top 20% enjoys 86% of the GDP, 82% of the exports of goods and services and 68% of FDI, whilst the bottom 20% share is 1% for all three. The poorest of the poor are extremely poor.[43]

• *Global integration is leaving many countries behind.* Of 171 countries surveyed between 1980 and 1997, 59 or 35%, experienced a loss in GNP *per capita* growth. Another 46% averaged gains of 3% or less; only 33 nations, or 19%, had rate increases of more than 3%, most of them developed nations.[44]

• *Since 1975, GDP per capita improved for all rich countries but not for almost two thirds of the developing world.* Of 27 developed economies surveyed, all had substantial GDP *per capita* gains between 1975 and 1997, with an average increase of 60.2% during that period. There were 55 developing economies that averaged a GDP *per capita* growth of 78.5%. This is far below what is required to develop. Indeed, only 16 economies did some catching up by more than doubling their GDPs *per capita* during the period; but only 10 of these economies had significant populations [China, South Korea, Malaysia, Thailand, Indonesia, Egypt, Botswana, Lesotho, Equatorial Guinea and Chile], with the rest being tiny insular states. On the other hand, 74 developing economies experienced loses in GDP *per capita*, averaging a drop of 21.7% in the same period. What is worse, 47 of these economies had a lower GDP *per capita* in 1997 than twenty-two years earlier. The other 27 developing economies registered lower *per capita* GDPs in 1997 than in their peak years, with an average loss of 17.7%. Eight of these economies had their peak GDP *per capita* between 1976 and 1979, 16 in the 1980s while only three reached their peak in the 1990s.[45]

• *Highly indebted poor countries are losing ground.* The GNP *per capita* of HIPCs dropped from $400 in 1980 to $300 in 1998, whilst the GNP *per capita* of other low-in-come countries that were not highly indebted increased from $290 to $580 in the same period. As a result, HIPCs have been less effective in reducing illiteracy, fertility and infant mortality than non-HIPCs. They are also losing ground in developing infrastructure such as telephone lines and paved roads.[46] They have consistently increased their share of exports, following the advice of the BWIs, but their earnings have gone more to pay debt than imports with the obvious consequences.

• *The gap between rich and poor countries is growing at the fastest rate in post WWII times.* According to the UNDP, the ratio in income distribution between the richest and poorest countries was 35 to 1 in 1950, 44 to 1 in 1973 and 72 to 1 in 1992. If the gap grew 26% between 1950 and 1973, a lapse of 23 years, it grew 64% in the next 19 years. What is more, information age globalization is speeding the pace of inequality, for this is a growth of more than twice the previous pace, precisely when the capitalist world embraced the neoliberal economic paradigm.[47]

• *Inequality also worsened between the wealthy countries of the OECD during the 1980s and early 1990s.*[48] Except for Germany and Italy, all OECD countries had an increase in wage inequality, with the U.S. and U.K experiencing the highest increases.

• *Absolute and relative poverty have remained fairly stable since 1987 for the developing world.* Using the definition for poverty of British sociologist Peter Townsend: "a lack of the resources required to participate in activities and to enjoy living standards that are customary or widely accepted in the society in which poverty is being measured", the World Bank measured the percentage of poverty that is appropriate for each region. The criterion used for absolute poverty reflects what it means to be poor in the world's poorest countries, whilst the criterion for relative poverty is based on the poverty standards of each region. The benchmark to draw the line for relative poverty, however, is the same for each region, which is equal to one-third of a country's average consumption level in 1993 at 1993 purchasing power parity (PPP) prices. The results between absolute and relative poverty are strikingly different for regions with great inequality as can be drawn by comparing tables 11.1 and 11.2. Thus in the case of South Asia, for example, the levels of relative and absolute poverty were almost the same in 1998 (40.0% vs. 40.2%), whilst for Iberian Americans the comparison draws a startling difference (15.55 vs. 51.4%). This is because South Asia's poverty standard is near $1 a day, and there is much less inequality than in Iberian America. The average poverty line in this latter region is $3.3 a day and suffers from dramatic inequalities between rich and poor. The analysis is important for it shows that the proportion of poor based on regional standards is much greater than if we only focus on those living just with one dollar a day. In the case of Iberian America, for example, the total population below the poverty line, by its own standard, is 258 million for the population surveyed, instead of just 78.2 million based on the world's poorest standards. Overall, East Asia, with the so-called "Asian Tigers," reduced relative poverty significantly between 1987 and 1998.

*Table 11.1 Relative Income Poverty by Region, Selected Years, 1987–98*

| Region | Regional average poverty line (1993 PPP dollars a day) | Share of population living on less than one-third of average national consumption for 1993 (percent) 1987 | 1990 | 1993 | 1996 | 1998a |
|---|---|---|---|---|---|---|
| E. Asia and Pacific | 1.3 | 33.0 | 33.7 | 29.8 | 19.0 | 19.6 |
| Excluding China | 1.9 | 45.1 | 38.7 | 30.8 | 23.2 | 24.6 |
| Europe & Central Asia | 2.7 | 7.5 | 16.2 | 25.3 | 26.1 | 25.6 |
| Iberian America & Caribbean | 3.3 | 50.2 | 51.5 | 51.1 | 52.0 | 51.4 |
| Middle East and N. Africa | 1.8 | 18.9 | 14.5 | 13.6 | 11.4 | 10.8 |
| South Asia | 1.1 | 45.2 | 44.2 | 42.5 | 42.5 | 40.2 |
| Sub-Saharan Africa | 1.3 | 51.1 | 52.1 | 54.0 | 52.8 | 50.5 |
| Total | 1.6 | 36.3 | 37.4 | 36.7 | 32.8 | 32.1 |
| Excluding China | 1.8 | 39.3 | 39.5 | 39.3 | 38.1 | 37.0 |

a. Preliminary.
Source: World Development Report 2000/2001.
The Nature and Evolution of Poverty: 24.
The World Bank

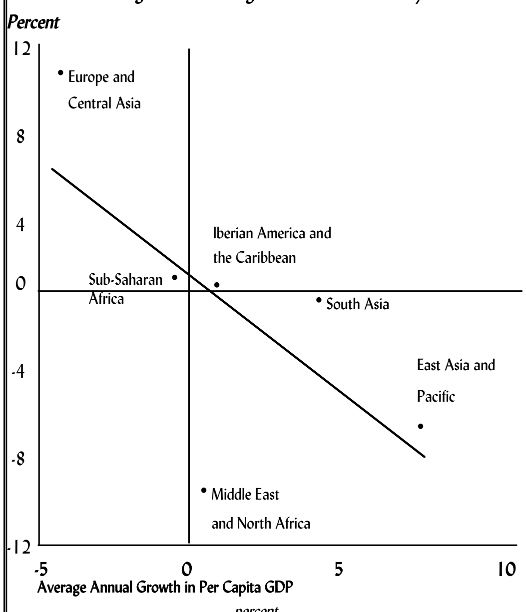
*Table 11.2 Income Poverty by Region, Selected Years, 1987–98*

| | Share of population living on less than $1 a day (percent) | | | | |
|---|---|---|---|---|---|
| | 1987 | 1990 | 1993 | 1996 | 1998a |
| E. Asia and Pacific | 26.6 | 27.6 | 25.2 | 14.9 | 15.3 |
| Excluding China | 23.9 | 18.5 | 15.9 | 10.0 | 11.3 |
| Europe & Central Asia | 0.2 | 1.6 | 4.0 | 5.1 | 5.1 |
| Iberian America & Caribbean | 15.3 | 16.8 | 15.3 | 15.6 | 15.6 |
| Middle East and N. Africa | 4.3 | 2.4 | 1.9 | 1.8 | 1.9 |
| South Asia | 44.9 | 44.0 | 42.4 | 42.3 | 40.0 |
| Sub-Saharan Africa | 46.6 | 47.7 | 49.7 | 48.5 | 46.3 |
| Total | 28.3 | 29.0 | 28.1 | 24.5 | 24.0 |
| Excluding China | 28.5 | 28.1 | 27.7 | 27.0 | 26.2 |

a. Preliminary.
Source: World Development Report 2000/2001.
The Nature and Evolution of Poverty: 23. The World Bank

The same occurred with the Middle East, which includes many oil exporting countries. However, these are the exceptions. In the rest of the world, as chart 11.1 illustrates, poverty has remained very stable during this period, except in Eastern Europe where it has gotten dramatically worse as it struggles to transition into a capitalist society.

*Chart 11.1 Average Annual Change in Incidence of Poverty 1987–1998*




Source
World Development Report 2000/2001
Growth, inequality and poverty: 48 The World Bank

## The Small-Minded View of the Washington Consensus

Neoliberal globalization is certainly not the only culprit for the world's inequality. Inequality has been present in human societies since the dawn of man. Thus, it can be asserted that inequality is a direct result of human nature; but human solidarity is also part of human nature, otherwise, there would no debate about globalization. We would just go about our individual business, like beasts, competing in a natural game of the survival of the fittest. Nonetheless, even from a cold market perspective, the most efficient allocation of resources must include an efficient allocation of wealth over time, because concentrating it in the hands of a few is not the most efficient option, for better wealth distribution generates more aggregate demand with many more consumers, ergo, bigger markets.

Hence, one could reasonably expect that market philosophy would agree that support for better wealth distribution in the developing world generates stronger growth and, particularly, a sustained growth of aggregate demand overtime. This should sound very attractive from a market perspective, and I imagine that some supporters of Neoliberalism would agree with the concept. Unfortunately, agreement does not mean support, for this does not fall in the realm of their interests. The priorities of those who control the global market are dominated by short-term goals dictated by the shareholders, as I have repeatedly mentioned. Thus, mid and long-term projections become irrelevant to the centres of economic power and, in fact, they oppose them. This is why the recipe of the Washington Consensus for the Third World, focuses on structural changes that have altered the economic landscape of these economies to provide more stability for investment as soon as they are implemented, but not to improve the lot of their citizens. The only item in their agenda that is clearly a win-win concept, directly benefiting Civil Society, is their acquiescence for the need to build human capital through education and health. However, not a word is mentioned about increasing real wages, overtime, to gradually equalize these wages with their equivalent in the First World, with the goal to strengthen the efforts to maintain economic growth through a sustained growth in aggregate demand.

Indeed, in its small-mindedness, the Washington Consensus provided, two decades ago, ten policy priorities that have been the backbone of the policies of the Bretton Woods institutions ever since they were dictated:[49]

- Fiscal discipline
- Redirection of public expenditure toward education, health and infrastructure investment
- Tax reform–broadening the tax base and cutting marginal tax rates
- Interest rates that are market determined and positive (but moderate) in real terms
- Competitive exchange rates
- Trade liberalization–replacement of quantitative restrictions with low and uniform tariffs
- Openness to foreign direct investment
- Privatization of state enterprises
- Deregulation–abolishment of regulations that impede entry or restrict competition, except for those justified on safety, environmental, and consumer protection grounds, and prudential oversight of financial institutions
- Legal security for property rights

The World Bank argues, in its World Development Report 2000/2001, that earlier thinking suggested that greater inequality might be good for growth by redistributing income to the wealthy, who save, instead of to the impoverished, who do not.[50] The idea implied that more growth could be bought for the price of more inequality. This is obviously a concept detached from any social consideration. However, the World Bank explains, that ideas that are more recent as well as evidence weaken that case and show that lower inequality can boost efficiency as well as economic growth through various means.[51] The rationale is that unequal societies are more likely to find difficulties in collective action. This is because they have dysfunctional institutions, they suffer from political instability, and their governments are more likely to resort to populist redistributive policies that are constantly changed, all of which can lower growth. Indeed, corruption, as the Bank agrees, is a major hurdle to development. The World Bank intellectual commentary to this respect is very illustrative of some of the major hurdles for human development in many Third World economies; namely, that as long as imperfect credit markets coexist with inequality in income or assets, poor people may never increase their human and physical capital, a situation that is very detrimental to sustainable growth. Therefore, the conclusions that can be drawn from these findings open a window of opportunity to make polices designed to reduce inequality that have a double positive effect of making growth more sustainable by increasing the share of growth of the impoverished.[52] These views, coming from the World Bank, are concurrently refreshing and amazing. For, although it cleans an air full of dogmatic Neoliberalism, it seems to me amazing that the prevailing view tends to consider inequality a better option for economic growth than redistributing wealth to the dispossessed. Fortunately, at least now it seems that there is a slight change of air.

Indeed, until very recent months, the official discourse from the global establishment was that globalization was the best thing that could happen to the world. As I have mentioned, they would pompously affirm that the rule of the market would provide the most efficient allocation of resources to the various participants in the global economy. The government, they said, should limit itself to be the manager of monetary and fiscal policies to procure the ideal economic conditions, which are necessary for the market to thrive. As their discourse would have it, the market is the engine of our culture, and all resources should be placed under its aegis. The market has the supreme savvy to take the world to the greatest prosperity of our times. Countries must strictly adhere to the directions of the market through its multilateral instruments, on pain of becoming pariahs in the global village. In the way they put it, the market is God and God knows best.

However, the unavoidable reality of the ever-increasing masses of people living in dire misery and the mobilization of Civil Society to denounce it has forced them to reluctantly admit that things are quite bad for many people as a result of the imposition of the market as the supreme ruler of our lives. I say that reluctantly, for, rather than a lack of conviction, they lack the slightest of interests in the welfare of humanity. Their greed blinds them to acknowledge the human drama that is exploding in their faces. And, thus, for political posture, they only acknowledge that there are several problems –imbalances they say– that need to be corrected so that the market continues its triumphant rule. The strong level of denunciation has forced them to take a political posture that projects them as reasonable people. But their goal of upholding the global market of the MNCs as the centre of life in the planet is unyielding.

A recent interview of the chief of the OECD office in Mexico, Gabriela Ilián, provides a good illustration. Ilián rejected the accusation that the OECD is part of a neoliberal conspiracy and criticized those who blindly believe in this paradigm. She asserted that it is not a question of stopping the process of Neoliberalism, but of making sure that the multinational corporations respect the local legislation and the standards of "basic behaviour". In that context, she said, "governments must take a leading role and not abandon a single part of their responsibilities in order to replace the deficiencies of the market and revert the negative effects of globalization". "However", she insisted, "governments should let the market do its work in the areas where it has the best results in the allocation of resources and economic efficiency. But, in many other areas, such as in the allocation of income and where citizens have access to the opportunities of globalization, governments must redefine their role and play it openly".[53] The obvious problem is that if the market continues deciding which is the most efficient allocation of resources, it will do it on behalf of the owners of capital. And, if governments have to redefine their roles and play them openly in areas such as the allocation of income, then the market will still be the supreme ruler and will decide who gets what. Therefore, I can only conclude that this kind of discourse is just a game of words. For nothing that she expressed on behalf of the OECD departs from the idea of free markets making the best allocation of resources. Thus, if this is to be the case, who else, then, is supposed to have a voice in the allocation of income, so that it is not more efficient for the owners of capital, but, instead, fair for Civil Society at large? I must remark that the best market efficiency is inevitably the one that provides the lowest operating costs; and, in order to accomplish this goal, the market has to be free to make the most efficient allocation of resources; there is no disagreement here. This entails roaming for places where the market –the MNCs– can have the cheapest labour and the lowest regulations. All of this, of course, moves in direct confrontation with the responsibilities of a democratic government, for nothing expressed by this OECD representative shows any change in the prevailing ethos. Thus, in my opinion, her comments about the MNCs basic behaviour are at best a lukewarm tactic to contain criticism. This has been the ethos that has reallocated the economic resources away from the Third World, and even from many workers of the First World, and has created the greatest inequality of our era. Unfortunately, despite the big controversy, Ilian's view remains stubbornly entrenched in the governments of the centres of power and the periphery. It is unlikely that there is a preconceived conspiracy from the global establishment, but they certainly have an agenda to maintain a neoliberal ethos above all considerations.

The new postures of the World Bank relative to income distribution and inequality, which I just discussed in the preceding pages, reflect a change of attitude at least rhetorically. But it is still too early to tell. There have been a clear number of signs of dissent and self-criticism inside the Bretton Woods institutions. Joseph Stiglits, the World Bank's former chief economist and other professionals have resigned because of disagreements with the prevailing view. It is speculated that Michelle Camdessus, the former director of the IMF, resigned because of rising criticism against the role of the IMF in the imposition of Neoliberalism. Others, such as Nora Lustig, at the time, the director of the bank's report that I have just cited in these pages, acknowledges the shortcomings of the Washington Consensus, as it becomes evident in this report. In an interview, Lustig expressed that she does not believe that Neoliberalism is directly responsible for a rise in inequality. She explained that in economies in transition there are always winners and losers; and that what they have learned is that the processes of liberalization must be conducted in an adequate form. Using Mexico as an example, she expressed that the reforms to the financial system failed, and the deficiencies in regulation and prudent supervision by authorities generated a crisis for which society had to pay dearly.[54] This posture at least indicates some departure from the dogmatic view that the market always knows best. We still need to see, nonetheless, how the bank begins to not only advise in favour of wealth redistribution, but to condition their so-called development financing to the implementation of policies that promote income and asset distribution and the construction of human capital among the dispossessed. This would provide a fair balance between free market transition policies and social responsibility policies aimed at achieving social justice. This would be the true measure of change in views and action in an institution that has been one key instrument of the Washington Consensus.

Unfortunately, we cannot be very optimistic. For, as historian Lorenzo Meyer explains, "the World Bank recommends fighting poverty without changing the nucleus of a system where the top executives of U.S. corporations used to earn on the average a salary 42 times greater than that of a blue-collar worker in 1980, and in 1999 it had jumped to 419 times, according to the New York Times".[55]

In the World Development Report 2000/2001 the World Bank devotes extensive space to outlining specific actions necessary to reduce poverty, some of which are based on wealth redistribution. But, again, the true measure of change will be to see the Bank use much of its leverage to implement permanent policies that condition lending to the implementation of these actions. Frankly, I am totally sceptic. In the meantime, the bottom line remains the same: The poor are getting poorer while the rich are getting richer, and the clock keeps ticking.

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