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THE WORLD BANK, GLOBAL ACCUMULATION
AND THE ANTINOMIES OF CAPITALIST DEVELOPMENT

Thesis submitted for the degree of PhD
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TABLE OF CONTENTS	i
LIST OF TABLES AND FIGURES	iv
ACKNOWLEDGEMENTS	v
ABSTRACT	vi
INTRODUCTION:	1
SECTION I: CAPITALIST DEVELOPMENT	
<u>Chapter 1: Capitalism, Development and the Radical Subjectivity of Labour</u>	
1. The World Bank and the Metaphysics of Development	10
2. Capitalist Development and the Social Re-Constitution of Labour	17
3. Liberalism, Production and Development	23
4. Alienated Labour as the Social Substance of Capitalist Development	30
<u>Chapter 2: Capitalist Development and the Global Relations of Social Reproduction</u>	
1. Capital, Class and Exploitation	40
2. Competition and the Reproduction of Capital	47
3. Primitive Accumulation and the International Division of Labour	56
4. Global Capital and the Reproduction of the Worldwide Working Class	63
5. Social Reproduction and the State	69

SECTION II: THE WORLD BANK

Chapter 3: Positioning the World Bank as a Global Development Organisation

1. States and International Institutions	74
2. Neo-Gramscianism and the Politics and Ideology of Neoliberalism	89
3. The World Bank and the Contradictions of Global Capitalism	101

Chapter 4: The World Bank and the Trajectory of Global Capitalist Development

1. The Changing World Bank: From Bretton Woods to Debt Crisis	109
2. The Debt Crisis, Restructuring and the Dynamics of Capitalist Development	127
3. Neoliberal Restructuring and the Question of Development	135

Chapter 5: The World Bank and the Restructuring of Social Reproduction

1. Flexibilisation and the Recomposition of the Capital Relation	140
2. The Reformulation of Social Policy	156
3. Privatisation, Focalisation and Decentralisation	159

SECTION III: CHILE

Chapter 6: Accumulation, Crisis and the Recomposition of Capital in Chile, 1973-1988

1. State, Class Struggle, and Post-War Development	172
2. Crisis, Authoritarianism and Social Restructuring	181
3. The Debt Crisis and the Decomposition of the Working Class	194
4. The Second Wave of Adjustment	199

Chapter 7: Democratic Transition and Public Policy in the Concertación Era

1. The Collapse of the Dictatorship and the Limits of the Post-Authoritarian State	212
2. State and Labour Reform in the 1990s	226
3. Growth with Equity and the 'Model' Reformulation of Social Policy	235
4. The Concertación and Social Policy	239

Chapter 8: Capital Accumulation and Class Struggle in the Post-Dictatorship

Period

1. State, Capital Accumulation and “Growth with Equity”	256
2. Employment, Wages and the Changing Composition of Capital	263
3. The Asian Crisis and the Spectre of Overproduction, 1997-2001	273
4. Social Struggle, Political Turbulence and the New Labour Reforms	277
5. The Social Geography of Growth With Equity	283
6. The ‘Chilean Model’ and the Future of Capitalist Development in Chile	288

SECTION IV: CONCLUSION

Chapter 9: The Crisis of Restructuring and the Emergence of ‘Comprehensive

Development’

1. The Rise of ‘Comprehensive Development’	292
2. Comprehensive Development within the Poverty Reduction Strategy Papers	298
3. Empowerment and Country Ownership: Conditionality Reformed?	300
4. Freeing the Global Market	306
5. Good Governance and Empowerment	313
6. Comprehensive Development and the Future of Restructuring?	319

CONSOLIDATED BIBLIOGRAPHY:	323
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LIST OF TABLES AND FIGURES

Table 6:1 - Urban Unionisation in Chile, 1932-73	175
Table 6:2 - Unemployment, 1970-1982	187
Table 6:3 - Distribution of payments to capital by main sectors	189
Table 6:4 - Concentration in the Export Sector	190
Table 6:5 - Unemployment, 1981-1991	196
Table 7:1- Evolution of Unionisation, 1988-1996	234
Table 7:2 - Index of Social Expenditure 1974-2000	241
Table 7:3 - Public Social Expenditure by Sector, 1989-2000	242
Table 7:4 - Educational Coverage by Income Quintile, 1996	244
Table 7:5 - Success in State Mathematics Tests	244
Table 8:1 - Chilean GDP growth, 1990-1999	264
Table 8:2 - Index of real wages	268
Table 8:3 - Annual GDP increase	275
Table 8:4 - Distribution of income by decile, 1990-2000	286
Figure 7:1 - Public Social Spending per Capita 1989-2000	237
Figure 8:1 - External Financing / Net Direct Investment	258
Figure 8:2 - National Unemployment Rate	265
Figure 8:3 - Private External Debt	269
Figure 8:4 - Evolution of Poverty and Indigence, 1990-2000	284
Figure 8:5 - Autonomous and 'Total' Income by Quintile, 1998	286

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ABSTRACT:

This thesis presents an investigation into the changing institutional form and policy content of the World Bank over the last two decades. It does this by relating the former to the contradictory trajectory of capitalist development at a global level. It is suggested that the noted transitions in the World Bank at the close of the millennium represent a series of reactive mediations to the unanticipated results of neoliberal-style reform. The latter are manifest in uneven development on a global scale, recurrent crises across the global South, and the expansion of local and global struggles that target the limits of development in its capitalist form. To build this argument the thesis examines the contradictory essence of capitalist development; the position of the World Bank as an international organisation within the context of global capitalist social relations; and the nature of Bank policy prescription in the 1980s and 1990s. Additionally, the thesis concretises this analysis through a case study of the Chilean experience of neoliberal-style reforms that closely mirror the World Bank's prescription of "best practice".

INTRODUCTION: THE WORLD BANK AND NEOLIBERAL RESTRUCTURING - PAST, PRESENT AND FUTURE

“Poor people are not liabilities, but assets. We have to invest in them, and empower them. Development must not be done to them, but by them”

– James Wolfensohn, World Bank President, 2001.¹

At the turn of millennium the world’s leading international organisation of capitalist development – the World Bank – was undergoing a period of upheaval and transition. Whilst its sister organisation, the International Monetary Fund (IMF), remained resolute in its defence of the structural reforms that it had propagated globally since the debt crisis of the early 1980s, the World Bank embraced relatively substantial changes to its policy prescriptions and modes of interaction with client countries. In a series of speeches and publications the Bank began to outline a new development philosophy that, in contrast to the previously monolithic focus on freeing markets to achieve rapid and sustained economic growth, posits a “holistic approach” that balances macroeconomic with structural and human needs.² These changes in the Bank’s discourse of development are considered to be part of what Joe Stiglitz has christened a ‘post-Washington consensus’, or what World Bank President James Wolfensohn labels ‘Comprehensive Development’.³ Contrary to what Stiglitz criticised as the ‘simplistic’ nature of the original Washington Consensus, the World Bank’s new framework constitutes a dual sided approach that combines sound economic policy with social and institutional reform and, in so doing, professes that there is more to fostering

¹ Wolfensohn 2001: 4.

² Wolfensohn 1999: 3.

³ Stiglitz 2000; Wolfensohn 1999 contains the initial proposal for the Comprehensive Development Framework. The World Development Reports of 1999/2000, 2000/2001 and 2002 (World Bank 2000a, 2001a, 2002) elaborate in greater detail the substantive content of development practises that are to occur within this framework.

sustainable development and reducing poverty than asserting the unbridled play of market forces.

Importantly, however, the ongoing changes have not been limited to the content of World Bank development prescription alone. More fundamentally, the Bank now stipulates that profound changes to the way development is practiced are essential for success. In this respect, the World Bank now professes a mandate to *empower* poor people in order that they are able to achieve development and lift themselves out of poverty.⁴ In the words of James Wolfensohn cited above, development is no longer to be done to poor people but by them. This constitutes a furthering of the Bank's medium-term engagement with the concept of 'participatory development' which stipulated that the design and implementation of World Bank sponsored development programmes needed to involve the active participation of those involved.⁵ Empowerment is now presented as a central axis in the World Bank's development practices and has been integrated into the prescription for a range of institutional reforms.

In response to these changes, this thesis asks why the World Bank has shifted from the relatively narrow confines of the "Washington Consensus" prescription in the early 1980s to a position of advocating the empowerment of the poor as an integral aspect of development strategy at the start of the new millennium? To be able to develop a response to this question, the thesis suggests that it is necessary to examine the World Bank's trajectory through the lens of an analytical enquiry into the contradictory nature of capitalist development. As elaborated in section one, development in capitalist form

⁴ World Bank 2001a.

⁵ cf. Cooke and Kothari 2001.

constitutes the extension of the productive forces through the incessant yet haphazard movement of value. This entails the subordination of social reproduction to the self-expansion of capital, a process that necessarily produces contradictory tendencies that repeatedly threaten to undermine the social basis of capitalist development. In this manner, whilst capitalism indeed develops the productive forces at unprecedented rates (the material basis of capitalist development), the social form of capitalist relations assures that the growth of social wealth is accompanied by uneven development, unremitting social struggle, recurrent crises, inequality and poverty. This conflictual duality of capitalist development is the antinomy to which the title of the thesis refers. As part two elaborates, the World Bank is constituted as part of these global social relations. On the one hand, it is driven continuously to consolidate the conditions for the accumulation of capital at a global level as this drives the process of material development in capitalist form. On the other, it has become increasingly involved in mediating the unseemly dynamics of this process in the global South, including escalating inequality, trenchant poverty, recurrent crisis and new forms of social struggle.

Building from this analytical basis, the thesis builds an argument that relates the trajectory of reform in the Bank to the struggle-driven and crisis-laden trajectory of global capitalist development in the 1980s and 1990s. It is suggested that the transitions in the World Bank at the close of the millennium represent a series of reactive mediations to the unanticipated results of capitalist development within the context of neoliberal-style structural adjustment. Such contradictions are manifested in the increasingly uneven character of capitalist development on a global scale, recurrent crises across the global South, and the expansion of local and global struggles that

target the social limits of development in its capitalist form, i.e. the subordination of social reproduction to the expanded reproduction of capital.

The tendency of capitalist development to continuously drive social struggle is central to the understanding of neoliberal-style reform presented in the thesis. It is argued that the essence of structural adjustment was an attempt to impose more fully the abstract social domination inherent to capitalist social relations as a form of social discipline that could impose limits upon the historical trajectory of social struggles in the South. Furthermore, the latest development discourse of ‘comprehensive development and ‘empowerment’, the thesis argues, represents a contradictory attempt to further this project of social discipline by actively harnessing the agency of subordinate groups to remove all non-market constraints upon their actions, and therefore embed themselves more fully in the abstract disciplines of capitalist development. In this respect empowerment represents a change in the means, rather than the ends, of contemporary World Bank development prescription.

To construct this argument the thesis is broken into three sections that present three levels of analysis – analytical, national and global – through which a critical understanding of the nature and trajectory of capitalist development in the period of neoliberal reforms can be attained. These three sections examine respectively: a) the social foundations of capitalist development, b) the constitution and historical functioning of the World Bank as an institution of global capitalist development, and c) the course of capitalist development and neoliberal restructuring in Chile, 1973-2000.

In the first of these sections, chapters one and two present a critical enquiry into the social constitution of capitalist development. By critiquing liberal notions of

development the thesis begins to interrogate the specificity of development in its capitalist form.⁶ The chapter argues that the social substance of development within capitalist social relations is the radical subjectivity of labour. A focus on these concerns leads to a close engagement with the social theory of Karl Marx and, specifically, the elaboration of his critical method in the *Grundrisse* and the subsequent analysis of the social relations of capitalist production in *Capital*. Marx's work is particularly apposite for the purposes of analysing capitalist development as it provides a basis on which to conceptualise the determinate social relations that give rise to the social forms constitutive of capitalist society.

By analysing the specific dual character of labour in capitalist social relations, it is possible to chart the contradictory basis of capitalist development. Within capitalist social relations labour assumes the form of a contradictory unity between the concrete labour necessary to produce material goods for social reproduction, and abstract labour aimed at the production of value. Chapters one and two develop this theory and demonstrate how the subordination of the former to the latter gives rise to specific modes of abstract social domination that impose themselves objectively onto the socially-constituted subjects of capitalist society. These chapters indicate that this abstract form of social domination lies behind both the productive drive of capitalist social relations, but also the inherent tendencies towards antagonistic class relations, uneven development and crisis on a global level. It is on this basis, moreover, that the institutional form and the activities of the World Bank must be understood.

⁶ The critique of liberalism is ongoing throughout this thesis, specifically of the liberal conceptualisation of the market as a realm of freedom (chapter two), its conceptualisation of international organisations (chapter three), neoliberal structural adjustment (chapter four), labour flexibility and social policy reform (chapter five) and the idea of empowerment through markets (chapter nine). Chapters six through eight likewise offer an historical critique of Chile's experience as "the success story" for neoliberal development practice.

In this respect, chapter three begins to formulate a materialist perspective on the World Bank. It is suggested that the Bank must be understood as an organisation suffused within the contradictory dynamics of capitalist development on a global scale, which impact upon it through various mediated forms including its position within the interstate system, its relationship with client countries, and its prominence as an object of global social movements. In this manner it is possible to comprehend the tensions within the World Bank institution and within its policy prescription, as well as to highlight the opportunities for local and global struggles to impact upon the character of the Bank.

On this basis, chapter four attempts to historicize this approach to the World Bank by situating the Bank as an international financial institution within the major tendencies of post-War global capitalist expansion and the subsequent crises of the 1970s and 1980s. The chapter broaches the character of the restructuring that swept across the global South in response to profound social crisis, and the World Bank's role within this conflict-driven process. It is suggested that the essential core of neoliberal restructuring was an attempt to impose more fully the abstract social dominations intrinsic to capitalist social relations upon states and societies in the South. This was to occur through a struggle-driven process of reconstituting the institutional forms by which the state and other social institutions mediated the relations of capitalist development. Withdrawing the state from historically developed roles and reinserting the primacy of the market not only seemed to offer a possible solution to the economic manifestation of crisis – i.e. the reassertion of the conditions for the expanded reproduction of capital – but concurrently presented a mechanism for societal depoliticisation by obliterating the circumstances in which politics had become a means for attaining social and economic ends.

Structural adjustment, therefore, is conceptualised as a series of institutional reforms aimed to assert the discipline of the capitalist social forms upon state and society through the disciplinary logic of money and other forms of abstract social domination. Guided by its neoclassical conceptualisation of money as a tool to facilitate mutually beneficial market exchanges, however, the World Bank does not recognise the exploitative essence of market relations sanctified by the impersonal power of money. It therefore did not fully anticipate, on the one hand, the pervasiveness of human resistance to processes of commodification, exploitation and the subordination of social need to profit and, on the other, the continual crisis tendencies of social relations that stubbornly refuse to conform to general equilibrium models. As such, the World Bank has been repeatedly faced with the contradictory essence of its project, and it is on the basis of these dynamics that the thesis proposes to understand the ongoing attempts to reinvent the socio-economic restructuring of the South.

The third section of the thesis moves to a national-level examination of the contradictory trajectory of capitalist development in the era of neoliberal reform. Chile provides a valuable case study through which to address many of the above themes owing to three principal factors. First, Chile has often been viewed as a trendsetter in introducing fundamental and far-reaching neoliberal reforms. This reputation has been earned through the comparatively early initiation of neoliberal restructuring in Chile and the relatively greater depth and scope of the reforms vis-à-vis other Latin American countries. Second, in many respects, Chilean reforms, ranging from macroeconomic to social and labour policies, have gained a paradigmatic influence and have been embraced repeatedly by the World Bank in its “best-practise” prescriptions and propagated globally. Third, with Chile posting the highest GDP growth rates in Latin

America between the late-1980s and mid-1990s, the Chilean example has been heralded as proof of the success to be gained from commitment to a neoliberal policy prescription as prescribed by the Bank.

Chile has received all the more accolades because its success, as stated in a recent International Monetary Fund (IMF) working paper, can be accredited to “good policies” and “improved political situation”.⁷ As such, the IMF attributes the post-1990 Chilean success precisely to the ability of the post-authoritarian governments to give full reign to the freedom of the market yet to combine this with forms of “neoliberalism with a human face” (“Growth With Equity”). In short, Chile is suggested to demonstrate the success of a particular form of neoliberalism in promoting capitalist development. However, by providing a critical analysis, this section highlights how the contradictions within the “Growth With Equity” paradigm reveal manifold limits to capitalist development within the modified paradigm now embraced by the Bank.

Finally, the thesis ends by returning to the World Bank at the end of the crisis-stricken decade of the 1990s and examining how it has responded to the contradictions of uneven development on a global scale. In this respect, chapter nine concludes the thesis through an examination of the World Bank’s new strategy of ‘Comprehensive Development’, including the notion of ‘empowerment’. To close, it is suggested that this new World Bank strategy should not be understood merely as an instrumentally-designed realignment to co-opt struggle, but rather a reflection of the crisis-stricken trajectory of capitalist development in the global South and the constant pressure upon the Bank to restructure its own forms of intervention within the context of local and global struggles. In this respect, the form and content of the World Bank’s

⁷ Jadresic and Zahler 2000: 12.

'empowerment' is not necessarily constrained within the limits prescribed by the institution. In contrast, the realisation of 'empowerment' will be established by the contours of struggles. To this end, the category of empowerment presents a new object for struggle in the global South.

CHAPTER 1: CAPITALISM, DEVELOPMENT AND THE RADICAL SUBJECTIVITY OF LABOUR

This chapter attempts to penetrate analytically the notion of “development” by demonstrating how the social substance of capitalist development is related to the specific dual character of labour within capitalist social relations. On this basis, the chapter is able to identify how this contradictory basis of capitalist development manifests itself in the form of abstract social disciplines that appear as natural forces without social subjects. Subsequently, chapter two demonstrates how this abstract domination underscores both the unparalleled productive drive of capitalism but also the inherent tendencies towards uneven development, crisis, and the dispossession and impoverishment of a growing worldwide working class. To start, however, the chapter opens by examining the concept of development held by the World Bank as this provides a useful foundation for the ensuing discussion.

1. The World Bank and the Metaphysics of Development

A noticeable and ostensibly surprising feature of the World Bank’s profuse research output is the pervasive vagueness that shrouds the Bank’s analytical approach to the concept of development. Given that the Bank presents itself as a multilateral organisation whose internationally anointed function is the global propagation of ‘development’, the manner in which it comprehends and represents this key concept is of paramount functional and ideological importance. Nonetheless, an examination of over two decades of the Bank’s flagship annual publication, the World Development Report, rapidly establishes that, whilst Bank literature constantly alludes to an ongoing ‘process of development’, there is no systematic elucidation of what this process is or,

more precisely, how it is socially constituted. At various moments the reader is informed of diverse facets of development including, for example, that development is a “process guided by the development of markets”, that there are “many elements necessary for successful development”, that it pursues a “range of outcomes”, and that “social and environmental strains may derail it”.¹ Similarly, the Bank states that:

*Understanding the process of development requires acknowledging both its complexity and the context in which it operates.*²

However, whilst this statement could presage the undertaking of a rigorous analytical deconstruction of ‘the process of development’ in order to reveal its determinate social substance, instead the Bank ‘understands’ development simply by acknowledging, on the one hand, the complexity of the social phenomena it gives rise to and, on the other, the importance of the social and political context in which it exists. By virtue of analytical occlusion, what the Bank terms the ‘process of development’ remains as an invisible and ethereal force that the Bank does not analytically penetrate in order to reveal its earthly core. In short, as employed by the World Bank, ‘development’ is to be conceived of in a neutral, self-evident manner as a common sense notion.³

This disinclination towards a rigorous analysis of the social constitution of development is not for lack of a normative schematic of development (i.e. what the ‘development process’ achieves), nor for want of advice on how to get there. On the

¹ World Bank 1995: 16; World Bank 2000a: 17, 23; World Bank 2003a: 4.

² World Bank 2000a: 31.

³ The notion of development as an irresistible force that, in the right conditions, imposes itself on humankind mirrors the Bank’s presentation of ‘globalization’, cf. World Bank 2000c (also IMF 2000a).

one hand, the Bank contends that the ends of the development process are both recognisable and measurable. These are conceived within a strictly modernist paradigm, with the end of development being in essence the replication of the socio-economic conditions of the 'developed' liberal capitalist West; or, more specifically, a mass consumption economy with high levels of productivity, negligible levels of absolute poverty and, ultimately, the establishment of a liberal democratic political system.⁴ More recently, the Bank has integrated a 'human development' approach that complements the macro-focus with a micro-level focus on the ability of people to realise their innate capabilities and the substantive freedoms as judged against the model of a liberal-capitalist society.⁵

The explicit normative drive of the Bank's conceptualisation of the 'development process' is substantively imbued with a social-evolutionism that became predominant at the end of the nineteenth century and was recast in the form of modernisation theory in the 1950s and 1960s.⁶ It is predicated upon a conceptualisation of development as a process through which the dichotomy between developed and developing countries is bridged. The latter are understood to be presently in a state of underdevelopment yet, subsumed under the development process, are on a trajectory towards the developed pole. On this basis, therefore, the relative achievement of development in the Bank's schematic can be measured in several manners, primarily by reducing complex social phenomena to quantitative indicators. The latter include statistical measurement of gross domestic product, basic economic and social indicators such as per capita income

⁴ cf. Roxborough 1979. These characterisations of development reflect the taxonomy of development created by modernisation theory, which remains at the heart of the Bank's philosophy of development, and systematically elaborated by Walt Rostow (1960) in his "The Stages of Economic Growth". The paradigm is broached again in chapter four.

⁵ The latter conceptualisation of development is a recent addition to the Bank lexicon and is drawn from the work of Amartya Sen, although this new orientation has not proceeded beyond the level of rhetoric; cf. Sen 2000; World Bank 2001a: 35.

⁶ On late nineteenth century social evolutionism, cf. Rist 1997: 40-5.

and life-expectancy, or changing trends in the number of people living on fewer than one or two dollars a day. Since the 1970s the Bank has regularly employed all three.⁷

Similarly, the Bank also suggests that, to the extent that development as a process can be consciously influenced, this mediation resides primarily in the policy choices of national governments. The process of development, it argues, can be greatly facilitated by the implementation of correct policies and equally stunted by the failure to adopt these appropriate measures. Consistent with its conceptualisation of development as an ethereal process, the Bank suggests that such policies do not in themselves create development but, rather, affect the speed and volume at which it manifests itself. Substantial confusion arises, however, over what the “correct” policies are. As the Bank itself has recently acknowledged:

Development thinking has followed a circuitous path over the last 50 years. At various times it has emphasized market failures and market successes, governments as active interventionists or passive enablers, openness to trade, saving and investment, education, financial stability, the spread of knowledge, macroeconomic stability, and more.⁸

In spite of these major transformations in the Bank’s prescription of sound development policy, the purpose of the latter is precisely to spur on a process that is conceived as already immanent. From this perspective, even in the era in which development theory promoted sustained and active state intervention, the state was seen as merely a

⁷ cf. World Bank 2001a for their elaboration of the various manners of measuring poverty, the eradication of which they present as the foremost aim of contemporary development practise.

⁸ World Bank 2000a: 30.

substantial influence upon, not an author of, a wider and more abstract process of social change.

Fundamentally, therefore, development appears in World Bank literature as a metaphysical concept: a process without a subject and with undetermined social substance. It is definable only by the ends it brings or by the particular style of policies that seek to influence its trajectory. Notwithstanding the identification of external influences and ends of development, the actual social basis of this process is rendered invisible and it therefore appears as a natural and objective phenomenon that is only facilitated or hampered, but not created, by human agency. Development is constituted as a universal process of social change that, aided by the prompting of humankind, naturally tends towards a normative vision of modernity as exemplified by the capitalist countries of the core. As will be developed below, this 'common sense' notion of development draws a superficial plausibility owing to the fact that capitalist social processes often do appear as objective phenomena without a subject. Even so, the seeming paradox of a social process without social subject raises the necessity of deconstructing the category of development through analysis that can reveal the social relations and historical processes that underlie the surface forms of societal phenomena.

In this respect, beneath its metaphysics and persistent ambiguities, there nonetheless resides a more tangible understanding of development within Bank literature owing to an implicit correlation made between development and capitalism. This is most visible in the ends of development that are specified by the Bank for all the bank's criteria for development – such as industrialisation, high productivity, mass consumption, and higher ratios of foreign trade – closely relate to specific conditions associated with the historical emergence and subsequent trajectory of capitalist social relations. Based on

this normative concept of development, capitalism is posited implicitly as the cause of development, even though the Bank does not explicitly draw this connection. As Geoffrey Kay argues, in the literature of development economics:

*Capitalism is indeed the source of development according to every accepted definition of that term.*⁹

The World Bank and orthodox development theorists were, of course, perfectly aware that during the twentieth century there existed alternative models of development that professed these same modernist aims yet were based upon fundamentally different social relations, as exemplified in the form of the socialist economies of the Soviet Union, China, Cuba and others.¹⁰ The influence of these countries was wide, particularly as central planning often became intertwined with aspects of national developmentalism in the developing world, with India as perhaps the foremost example of rigid state control of key economic sectors within the wider environment of a capitalist private sector. Inside the orthodoxy of Western development theory, however, such experiences were designated as perverse experiments. This designation was not primarily based on an inability to realise modernist aims, although failures in this respect were widely emphasised, but owing to their allegedly authoritarian character and their restriction of the ‘essential freedoms’ of capitalist society.¹¹

⁹ Kay 1975: 7.

¹⁰ cf. Munck 2000.

¹¹ Walt Rostow’s “Non-Communist Manifesto” (1960) is a case in point. Moreover, the collapse of the Soviet Union and the socialist states of Eastern Europe at the turn of the 1990s, added to the rapidly growing capitalist private sector in China, has seemingly reconfirmed the essential association between capitalism and development.

In this respect, the association of the ends of development with specifically capitalist social phenomena applies equally to the newer micro-foundations of ‘human development’ that privilege the individual as the unit of development. The ‘cutting edge’ of Bank research has been an attempt to broaden its approach to development and poverty so as to embrace a focus on the micro-level of individual empowerment.¹² The basic purpose of development within this is to expand what Amartya Sen terms “the real freedoms that humans enjoy”.¹³ The United Nations Development Programme, which compared to the Bank was an earlier proponent of this line of development analysis, neatly summarises how this can be conceptualised as the expansion of choice:

*These choices should include access to income and employment opportunities, education and health, and a clean safe physical environment. Each individual should also have the opportunity to participate fully in community decisions and to enjoy the human, economic and political freedoms.*¹⁴

Such freedoms, however, are predicated upon inherently capitalist social relations of societal reproduction that constitute humans as individuals dependent upon finding waged labour and underscores the division of social relations into seemingly autonomous spheres of life (the political, economic, civil society) in which individuals can then participate. Moreover, as elaborated more fully below, the formal freedoms of capitalist society are constituted within a pervasive social complex of abstract disciplines that give rise to a contradictory intermeshing of formal freedom with substantive domination. Temporarily setting aside this critique, however, what is clear

¹² World Bank 2001a.

¹³ cf. Sen 2000: 3.

¹⁴ UNDP 1990: 1.

is that the unspoken social basis for development, even in the Bank's transhistorical elaboration of the concept, is the emergence of specifically capitalist social relations.

In pondering the uncertainness of 'official' post-war development theory to tackle the relationship between development and capitalism, Colin Leys has suggested that the reduction of development to a transhistorical process represents a political unwillingness to engage with the work of Marx and Hegel within the Cold War politico-academic environment of the United States.¹⁵ However, at a more abstract level, the reason that the Bank's association between capitalism and development remains implicit is not derived from any desire to obfuscate a relation between the two, but rather is inherited from the weak theoretical basis of neoclassical economics which, owing to its peculiar ontological foundations, is unable to provide a satisfactory basis upon which to distinguish capitalism from other forms of social relations. The latter weakness, moreover, is rooted in neoclassicism's ahistorical conceptualisation of production as a universal and asocial relationship between humankind and nature undertaken in conditions of material scarcity.¹⁶ The inability of liberalism to account for the specific trajectory or recurrent features of capitalist development, it is suggested, stems from this theoretical basis. Before broadening the critique of the World Bank's conceptualisation of development by deconstructing its theoretical roots in neoclassical economics and liberal social theory, it is pertinent to examine the social transformations upon which these latter attempts at theorising development were constructed.

2. Capitalist Development and the Social Re-Constitution of Labour

¹⁵ Leys 1996: 7.

¹⁶ Clarke 1991a: 182-206.

As outlined in the above sections, concurrent to the idea of modernity itself, the notion of development is intrinsically related to the global expansion of capitalism as a specific form of social relations. This transformation was reflected in the work of the classical political economists. Grappling with the creative destruction unleashed by capitalist social transformation in eighteenth century Britain and Europe, the classical political economists and their critics probed the specific character and consequences of emergent capitalist social relations and the pressing political questions that they raised.¹⁷ In this respect, the emergence of “modern” society and its specific characteristics was the central concern of Locke, Smith, Ricardo and other classical political economists who, faced with the imminent processes of the rise of industrial capitalism in Western Europe, offered what can be considered the first theories of capitalist development.

Fundamental to the classical political economists’ analysis of capitalist development as a social transformation into a qualitatively new modern era was the recognition that, with the advent of capitalism, labour was being reconstituted in a new and distinct form. For Adam Smith this reconstitution of labour into a modern form was effected through the specialisation of work within an increasingly complex division of labour.¹⁸ Specialisation was facilitated by the growth of the market, leading to a virtuous circle wherein specialisation induced greater productivity, higher national income and, therein, the further enlargement of the market. What Smith highlighted, therefore, was that the rise of capitalism was correlated with a tendency towards dramatic increases in the productivity of human labour. The importance of this trend cannot be understated, as it constitutes the material basis of the notion of development as a social process.

¹⁷ cf. Sayer 1991; Clarke 1991a; Cowen and Shelton 1999.

¹⁸ Smith 1991.

Through productive revolution, growing numbers of socially useful items (use-values) could be produced and, in so doing, capitalist development offered a potential solution to material scarcity. Furthermore, the process of removing humankind from unending toil of subsistence theoretically offered the basis for personal and social development by increasing the amount of time available to augment human potentials. Material advancement could therefore be seen as paving the way for social, cultural and political progress.¹⁹

The productive potentiality that seemed innate in the new social relations, however, was mitigated by the readily observable immiseration of the rapidly expanding working class. Freed from former relations of overt feudal domination and separated from alternative means of social reproduction, this growing mass of human beings was constituted as a great accumulation of potential labour, reliant on the provision of capitalist work to be able to reproduce itself. It became rapidly clear, however, that the dynamics inherent to capitalist social reproduction entailed that the provision of capitalist work was tenuous and marginalized significant parts of the population. On the one hand, the old, disabled, ill, and those with redundant skills, were systematically excluded from capitalist work and their social reproduction was strictly jeopardised. On the other, the development of modern industry seemed to contain within it a motion to continually reduce the need for labour within certain branches of production owing to technological advancement, thereby expelling labour from the productive process.²⁰ Whilst other branches of production might subsequently harness this relative surplus population, the overall tendency was for the maintenance of a fluctuating reserve army of labour that served to suppress the general level of wages and which faced an

¹⁹ This formulation remains the basis for modern theories of development, cf. Weisband 1989: 16; Escobar 1997: 85.

²⁰ Marx 1976: chapter 25.

uncertain ability to secure its social reproduction.²¹ At the same time, the outbreak of periodic crises accentuated the former trend by precipitating the mass ejection of labour from the production process and swelling the ranks of the reserve army.

What these phenomena underscored, therefore, was that the newly emergent relationship between capitalist labour and wealth creation was a complex one. Although labour was widely recognised as the source of social wealth – as explored in the theories of value developed by Smith, Ricardo and others²² – the latter assumed a peculiarly dual form that greatly challenged the conceptual apparatus of classical political economy.²³ On the one hand, the wealth creating properties of labour were represented in the expanded quantity of use-values in all their idiosyncratic concrete forms. On the other, however, social wealth was represented in the abstract form of a quantitative value ascribed to these commodities and made tangible in the form of money. The tendencies associated with fluctuations in value, moreover, appeared as complex laws that were divorced from the direct control of humankind. In sum, the abstract developmental potential of capitalism, concretely manifested in rising productivity, was accompanied by the experience of profoundly asymmetrical class relationships, material deprivation, social conflict and repeated crises that routinely jeopardised the sustained reproduction of the working class.

That the social relations of capitalism were inherently conflictual and unstable was marked by the emergence of new forms of class struggle, both within the industrial realm and at the level of politics, which reached heightened levels of intensity during

²¹ As discussed in chapter two, to the extent that the reserve army dwindles, increased wage costs pressures capital to replace living labour with machines, hence replenishing the surplus population.

²² cf. Kay and Mott 1982: 46-50.

²³ cf. Marx 1973: 103-6.

crisis periods. These struggles imparted a formidable dynamic upon the existing forms of political organisation and propelled the materialization and subsequent development of the modern state. Continually pressured through insidious social struggles to intervene in the relations of social reproduction, the emerging modern state was forced repeatedly to:

[C]ompensate for the negative propensities of capitalism through the reconstruction of social order ... to ameliorate the social misery which arose out of the immanent process of capitalist growth.²⁴

In short, the capitalist state was propelled into systematic intervention in the relations of social reproduction and on this basis began to implement certain limits to exploitation within the capitalist enterprise (such as regulating the length of the working day) and, later, the staggered implementation of forms of social security that could guarantee the material reproduction of labourers when, for sickness, old age or lack of opportunity, they were unable to sell their labour-power.²⁵

Building from the work of the classical political economists, contemporary social theory assumed an important function of analysing and providing theoretically grounded foundations for the emerging forms of state intervention.²⁶ The importance of this task was accentuated by the tendency for intervention to become institutionalised within an expanding state apparatus. Propelled by political exigencies, therefore, the mid- and late nineteenth century social theorists produced conflicting

²⁴ Cowen and Shenton 1996: 116.

²⁵ Müller and Neusüss 1975: 60-72; Ginsburg 1979.

²⁶ Clarke 1991a: 174; Dinerstein and Neary 2002.

visions of the possibilities for, desirability of, and limits to, social reform. Concurrently in the latter half of the nineteenth century, the emerging discipline of social administration began to evaluate the effects and efficiency of such interventions with new categories of scientific method.²⁷ Fused together, these two fields of knowledge led to the creation of what can be called “development doctrines”: a programme of scientifically appraised social intervention, to be undertaken primarily by the agency of the national state, coupled to the systematic elaboration of a justifying ideology grounded in contemporary social theory.

Nonetheless, the legacy of classical political economy proved a political liability for this task. Rooted in an attempt to explain the development of social wealth in capitalist society as the product of labour, classical political economy was drawn towards a labour theory of value. The latter, however, imposed a correlate theory of class relations that, despite being represented as a natural and beneficial state, necessarily invoked a concept of exploitation. The potential ideological benefits of a new, depoliticised, basis to understand social relationships encouraged the generalised adoption of a ‘value-free’ approach that, through a retreat into formalism, could exorcise analytically the spectre of exploitation and class struggle. As such, the decades before the turn of the century witnessed the rise and increasing predominance of modern bourgeois economics. This so-called ‘marginalist revolution’ in economics has since been hailed as the theoretical movement that “freed political economy from extraneous political considerations, and so founded modern ‘scientific’ economics”.²⁸

²⁷ Mishra 1977.

²⁸ Clarke 1991a: 182. For a rigorous critique of neoclassical economics, cf. Weeks 1989.

The original questions that had underlain classical political economy's interrogation of capitalist development – the revolution in the form of labour, the complex appearance and determinations of value, and the causes of the conflictual relationship between classes – were entombed within the petrified categories of bourgeois economics that saw no need to go beyond surface appearances to examine the relations constitutive of social phenomena. Within the parameters of neoclassical economics, the question of the radical social subjectivity of labour within capitalism disappears, to be replaced by a theory of the factors of production in which land, capital and labour are placed alongside each other as equal inputs into the production process and which derive specific sources of income. Concurrently, within the burgeoning paradigm of the social sciences, labour was assimilated as an object for sociological enquiry that belied its earlier conceptualisations as the “form giving fire” of modern society.²⁹ In this way, the question of the historical specificity and essential character of capitalist development in the countries of the initial transition was rapidly dissipated under the reified and ahistorical categories of modern economics and the increasingly technocratic realm of social administration.

3. Liberalism, Production and Development

Modern liberal economics, like classical political economy, derives its fundamental categories from specifically capitalist social relations. As described above, the destruction of former overt social bonds, such as those that characterised the relationship between feudal lord and serf, was innate to the emergence of capitalist social relations. Once labour is constituted as a commodity its owner is freed from all

²⁹ cf. Dinerstein and Neary 2002: 15-16. According to Nichols (1992, cited in Dinerstein and Neary 2002: 16), within the narrow confines of the sociology of labour and the correlated discipline of labour studies, labour became “nothing other than an intellectually pretentious way of saying work”.

specific relations of personal domination. In contrast to explicit extra-economic coercion, within capitalism human beings are constituted as free individuals in the sense that they are able to select with whom to exchange their personal commodities, including their capacity to labour. In place of subsumption within a politically articulated whole, therefore, an 'economic' realm of society emerges as a separate and separated domain of human activity in which the free labourer appears as a private individual who can freely choose with whom to conduct exchanges in the ambit of the market. As Marx put it, in capitalist society:

*The various forms of social connectedness confront the individual as a mere means towards his private purposes, as external necessity.*³⁰

Neoclassicism then proceeds to use this abstraction in order to create models of a social universe composed of freely exchanging individuals whose private activities are coordinated by a market mechanism that arises spontaneously from the freedom and rationality of the actors involved. From this model, the modern individual is conceptualised as a private owner of property who is able freely to trade his/her commodities under conditions of equality, reciprocity and freedom in order to improve his/her subjectively ascribed utility. Not only are private exchanges viewed as the natural quality of humanity, they are also seen to provide a mechanism to serve the common good. As Milton Friedman articulates, the basis of neoclassicism is the "elementary proposition that both parties to an economic transaction benefit from it, provided the transaction is bilaterally voluntary and informed".³¹ The immediate aspect

³⁰ Marx 1973: 84.

³¹ Friedman 1962: 55.

of exchange, therefore, is a rational encounter between two individuals seeking to maximise the utility of the possessions they hold in relation to their personal material needs and desires. Moreover, given that the endless nature of human needs and desires must be reconciled with the finite provision of material goods (the condition of scarcity), the institution of private property that provides the legal basis for appropriation of scarce resources by the private individual is derived as the rational manifestation of a need to restrict potential conflict and anarchy.³²

The emphasis on exchange as the fundamental relationship of rational society is reflected in the neoclassical representation of production. The latter is comprehended as a technical exercise of combining the necessary factors of production (capital, land, labour) in order to create final products with greater marginal utility. The production process, moreover, rewards the individual possessors of each factor of production according to the relative value of their contribution and the overall utility of the final product. In effect, this excludes the possibility of a direct relationship between profits, wages and rent – and therein between the classes of capitalists, workers and landowners – as each is derived from the natural laws governing the value of commodities.³³ The value of the wage, for example, reflects the relative marginal productivity of labour in a particular task as a portion of the final utility of the good produced. The latter, in turn, merely reflects the aggregation of individual evaluations of the marginal utility of a particular item.

The fundamental theoretical postulates of modern economics, therefore, are that market relations (exchange) are the expression of inherently rational individuals expressing

³² Clarke 1991a: 197; also cf. Kay and Mott 1982.

³³ Kay 1975: 4.

their desire to maximise personal utility in conditions of scarcity, and that production is a natural extension of these principles to the creation of more complex goods. Upon this theoretical framework, these principles can be employed to understand economic relations without consideration of the particular social institutions in which they occur. Whilst restrictions upon individual utility maximisation can be imposed by specific institutional arrangements (slavery, feudalism, communism, etc.), the latter are conceived as artificial and illegitimate impediments upon a state in which individual rationality and freedom is maximised to the benefit of the common good. From this perspective, development constitutes precisely a process of the formal liberation of the individual from society, of stripping away the institutional aberrations that have withheld the highest state of individual rationality and utility maximisation. Intrinsic to this process is the free circulation of the factors of production in order to permit optimal resource utilisation and, as such, the commodification of labour-power through the separation of the labourer from the means of production is merely a further step towards the development of optimal rationality. Capitalism, therefore, represents the end of a long, historic process of the self-realisation of the individual.

On these foundations, the notion of development can be stripped of any historically specific character. Development becomes 'just development', a universal, timeless and asocial process of overcoming scarcity and associated human deprivations through the realisation of the rationality of modern individuals. This leads to a profoundly ahistorical conceptualisation that involves the collapsing of the distinct social forms of capitalism into transhistorical phenomena. A recent World Bank publication provides an excellent example. In opening the World Development Report 2002 with the concerns of eleventh century Maghribi peoples to expand trade in conditions of

imperfect information, the World Bank suggests that they have found the ideal anecdote to represent the development quandaries of the current age. As they see it:

*Today, a millennium later, people everywhere face similar problems in striving to improve their well-being through market activity.*³⁴

By elevating the question of development to a transhistorical struggle to realise conditions unique to capitalist society, contemporary concerns unique to capitalism can then be read back onto the history of previous social formations. A fundamental consequence of this methodological stance is the implicit but pervasive teleology that discounts all alternative social formations to liberal capitalism as temporary, institutionally imposed, aberrations. In this conceptualisation of development as a transhistorical process that raises the same basic questions across the ages, the Bank renders development to a general human law of progress that has been latent throughout human history.³⁵

The fundamental weakness of liberal theory in both its economic and sociological guises, however, is that modern society is not a social grouping of private individuals but is composed of socially constituted individuals within the context of an historically specific form of social relations. In this way, the modern individual is not a transhistorical social figure but rather, a determinate product of capitalism. It is only when capitalist social relations have dissolved the former ties of personal dependence and overtly social manners of mediating social reproduction that the independent

³⁴ World Bank 2002: 4.

³⁵ In this sense, the Bank is following a trend well established since the classical political economists, cf. Marx 1973: 85-7.

individual of liberal theory emerges. However, whereas the genesis of capitalist social relations does indeed break up the former *overtly* social coordination of production that characterised pre-capitalist relations, this does not entail that social mediation comes to an end to leave a society of freely interacting individuals. On the contrary, within capitalism social mediation is reconstituted as an *abstract* social relation. The developed social forms of this abstract mediation, moreover, create a society of socially determined individuals, a determination that contradicts in a fundamental manner the liberal ideal of society being the agglomeration of the activities of natural, independent, rational, self-maximising individuals.³⁶

At heart lies the question of the dual form of capitalist development, one that the World Bank does not formally acknowledge. As is elaborated above (and in more detail in chapter two), capitalist development is predicated on the expanded reproduction of the material basis of society through the development of the forces of production and the creation of ever increasing quantities of useful things (use-values). This appears as the formal and rational provision for human needs and is based on a simple circuit starting with production according to needs, distribution of revenues allocated to factors of production, exchange to circulate goods to match human desires, and consumption. However, whilst the notion of development rests on the concrete manifestation of an ever-growing number of use-values, its capitalist social form is the expansion of value through the drive to accumulate capital. The subordination of use-value production and distribution to the contradictory dynamics of value, as elaborated below and in chapter two, is the essence of the manifest substantive irrationalities of capitalism as manifested in class struggle, uneven development, un- and under-employment, poverty and recurrent crises. Owing to its theoretical presupposition of the essential rationality of

³⁶ Marx 1973: 83-87.

production and exchange, however, liberal theory has no adequate manner by which to account for the latter except by labelling them as contingent irrationalities that arise from either the failure of capitalist social relations to be adequately established or from the inadequacies of the institutional forms governing capitalist social relations.

As the following sections will attempt to demonstrate, such contradictions are not the result of contingencies of institutional forms but are inherent to capitalist social relations owing to the specific and contradictory character of the latter. The major implications of the Bank's ambiguous conceptualisation of development, therefore, do not reside within the realm of theory. On the contrary, the inability to provide a satisfactory basis on which to analyse the trajectory of and tendencies within capitalist development at a world scale gives rise to a substantial disjuncture between the Bank's projections for the course of development and the experiences of the vast majority of humankind residing in the global South.³⁷ The latter divergence in turn engenders strong material and ideological tensions that react back upon the Bank in the form of institutional conflicts and contradictory policy prescriptions, as examined in the following chapters. A stronger conceptualisation of capitalist development, one that can go beyond the Bank's formalism and ahistoricism to reveal the social constitution and dynamics of capitalist development's phenomenological manifestations, can provide a significantly enhanced basis on which to examine the historical tendencies of capitalist expansion in the South. Hence, in contrast to the Bank's unwillingness to engage in analytical enquiry into the historical, social and material basis of development, the remainder of this chapter attempts to chart precisely this terrain through the prism of Marx's social theory.

³⁷ cf. (for example) Leys 1996; Chossudovsky 1996; Green 1995; Sutcliffe 2001; and even the more self-critical moments in World Bank 2001a.

4. Alienated Labour as the Social Substance of Capitalist Development

The marginalist revolution provided the basis on which the constitution of economic categories within the specific form of capitalist social relations could be removed from theoretical consideration and constrained within its own asocial discipline of 'economics'. This did not blunt the intention to provide an analysis of society as a whole, but rather delegated this task to complementary disciplines within other branches of scientific enquiry that could examine the specific institutional dimensions of particular societies. Upon this theoretical basis, modern liberal social science emerged within the separate and detached disciplines of economics, politics and sociology, with each carving out a specific area of social enquiry. In this manner, mainstream social science attempts to provide an explanatory framework that can conceptually link the splintered character of social life by taking the surface forms of capitalist society as given and subsequently proceeding to integrate them through a series of external relations.³⁸ Taking the fetishised forms of appearance of capitalist society as a starting point, however, obscures their essential unity as distinct yet internally related forms of capitalist social relations.³⁹ Hence, an appropriate task for a truly social theory is not only to recognise the specific socio-historical constitution of the fractured nature of modern society, but also understand both the relations through which this separation is reproduced and the limits to this reproduction. An attempt to generate such a social theory was offered by Karl Marx.

³⁸ cf. Bonefeld 1993: 8-15.

³⁹ As Simon Clarke highlights, the worker, consumer and citizen are not three separate people, but one and the same person whose existence is fragmented into seemingly separated social spheres within and through capitalist social relations; Clarke 1991c.

The radical divergence of Marx's thought from its classical political economy predecessors and the subsequent neoclassical counter-revolution is to be found primarily in his conceptualisation of the historically specific and socially mediating nature of labour in capitalism. In this way, production – rooted in the expenditure of human labour-power to create useful things – is not an ontologically defined, transhistorical relationship of humankind to nature. If, as in mainstream social science, labour is conceived in this universal manner, then it can be seen to vary only in terms of the degree of technological sophistication and in the particular character of superimposed distribution relations. Marx's approach was fundamentally different. As he notes at the beginning of the Grundrisse:

*All production is the appropriation of nature on the part of an individual within and through a specific form of society.*⁴⁰

In capitalist society, Marx's argument proceeded, the specific and peculiar social organisation of labour brings into being abstract modes of social mediation that, in turn, create and structure the forms of everyday social practise. This leads to the first defining point of the theoretical framework that guides this thesis: production in global capitalist society is indivisibly material and social in that it is both the production of material goods and of social relations.⁴¹

Labour in capitalist society is specifically aimed at the production of commodities for exchange within the relations of a generalised and seemingly accidental division of labour. Within this division, the total social labour undertaken to make the material

⁴⁰ Marx 1973: 87.

⁴¹ Clarke 1980a: 18.

goods necessary for social reproduction is performed through the atomised activities of individual commodity producing units. The distinctive character of capitalist society, therefore, is that social labour exists only in the form of its opposite, private labour, and each producer is dependent upon exchanges with others in order to obtain the privately created goods necessary for the satisfaction of her/his material needs. Concurrent to the fragmentation of social production, social wealth assumes the form of a great mass of privately owned commodities whose circulation rests on individual exchanges that, in their totality, comprise “the market”.

In contrast to the atomised nature of immediate production relations, however, the sociality of capitalist production assumes a more definite form through the process of exchange in the forum of the market. Owing to the division of productive functions into private activities, individuals find themselves subjected to an objective imposition to engage in continual exchange relationships in order to obtain the commodities needed to satisfy human needs. Through this series of market relations, producers bring the products of private labour into relation with each other. However, whilst individual producers remain bound up in particularistic and accidental exchange relations with only a contingent social character, the commodities they bring to market appear as inherently social things. This social nature of commodities manifests itself in the form of their universal exchangeability, regardless of their qualitative idiosyncrasies. In the ambit of the market, each commodity enjoys the ability to enter into a determinate quantitative relation with all other commodities. In short, all commodities are endowed with value, and it is precisely the generality of this value-form, therefore, that allows commodities to relate as intrinsically exchangeable things.

Although it appears to be a quality inherent in the material substance of commodities, value is only explainable as a social substance, the result of the historically specific social relations of capitalism in which atomistic private labours assume an abstract social character through unplanned market exchanges. This relates to the dual nature of labour in its capitalist form. On the one hand, all labour has a concrete character, a qualitatively specific type of labour to produce a qualitatively specific use-value. However, as indicated above, the social relationship of value abstracts from the qualitative specificities of the use-value at hand, and places commodities in a homogeneous, quantitative relationship. Concurrently, the labour that stands behind the value of a specific commodity is socially constituted in an abstract and homogeneous form, devoid of its particular technical, physiological and intellectual characteristics. Socially abstracted labour, therefore, is specific to the relations of production in capitalism and constitutes the social substance of value. As Diane Elson clarifies, Marx's conceptualisation is not that of a universal 'labour theory of value', but rather a 'value theory of labour in capitalism', therein specifying the unique character of labour in capitalism as abstract value producing labour.⁴²

In exchange, value assumes the concrete form of an exchange-value that is expressed quantitatively in the form of money. This quantitative determination of value is ascribed to the commodity as the recognition of the socially necessary labour-time expended for the production of a particular commodity. Through a process of social averaging undertaken via the mediation of exchange relationships, the constitution of value tends towards the social labour time required to produce an article under the normal conditions of production and with the average degree of skill and intensity

⁴² Elson 1979.

prevalent at the time.⁴³ Importantly, the conceptualisation of socially necessary labour as the substance of value differs fundamentally from the Ricardian conceptualisation of value as the specific time expended by the private producer for the creation of the commodity at hand (embodied labour). Socially necessary labour time, in contrast to the Ricardian conception, is not a pre-given quantity but is constituted socially and revealed through the process of commodity exchange on the market.

Socially necessary labour, therefore, is disclosed to the producer *post-factum* through the forum of the market in the form of a monetary amount that appears as an element inherent to the commodity itself. Simultaneously, it manifests itself as an abstract imposition upon individual producers to conform their private production to the determinants of the social average in order to secure their self-reproduction. In the words of Moishe Postone, time becomes necessity, and this transformation of social temporality prefigures the increasing domination of society by abstract capitalist time measured in seconds, minutes and hours, with fundamental implications for the character of capitalist development.⁴⁴ As is developed further in the following chapter, the imposition of abstract social domination that forces producers to constantly conform to socially averaged labour times measured in abstract capitalist time necessitates constant revolutions in the forces of production that engender the incredible productivity associated with capitalist social relations.

The abstract character of capitalist labour has direct and essential implications for the form and content of social relations. Whilst the relations between individuals are sporadic and accidental, the relationship between commodities is constant and

⁴³ Marx 1976: 129.

⁴⁴ Postone 1993: 190. Relating to historical struggles over the imposition of abstract time see Thompson 1967; and for a further development of the theory of capitalist social time see Neary and Rikowski 2002.

determinate. This is commodity fetishism, where the social relations between human beings become mediated through the products of their labour. The result is that the relationship of producer to producer appears not as a social relation between human beings but as a social relationship between material things. The apparent absurdity of capitalist social relations, however, is not a product of the self-delusion of those involved but reflects the real processes of social abstraction inherent to capitalist society. As stated by Norman Geras:

*It is the absurdity not of an illusion, but of reality itself,
and to this extent it is an absurdity which is true.*⁴⁵

Human relations do indeed take the fetishised form of relations between commodities, exchanged in the forum of the market, and all of which communicate through the common parlance of value expressed in quantitative sums of money. The concrete form that commodity fetishism assumes is the subordination of the productive powers of humankind to the movement of value. The latter is fetishised in liberal theory as the “invisible hand”, an inherent equilibrating quality of the market as a “device” or “mechanism” for coordinating the plans of many individuals.⁴⁶ The formal independence of freely contracting individuals, however, masks the objective interdependence of society manifested through the impersonal movement of value that imposes itself upon actors as an objective and alienated social force.

Socially abstracted labour is therefore the social form assumed by labour in capitalism and is the social substance of capitalist development. Marx referred to this as

⁴⁵ Geras 1971: 76.

⁴⁶ Hayek 1978; for critique see De Angelis 2002.

“alienated labour” in his early works, although this title has given rise to confusion. The alienation involved in alienated labour is not the separation of the labourer from the product, which is common to all forms of production that involve a social division of labour. Rather, it is the manner by which abstract labour becomes an alienated social force that reacts back onto humankind as an objective form of social domination. As Marx stated in the German Ideology: “The productive forces appear as a world for themselves, quite independent of and divorced from the individuals ... whose forces they are”.⁴⁷ Resultantly:

*Individuals are subsumed under social production, which exists, like a fate, outside of them; but social production is not subsumed under the individuals and is not managed by them as their common power or wealth.*⁴⁸

This abstract domination is the social fabric of capitalist society upon which is inscribed increasingly complex forms of social relations. It is the abstract basis upon which the more concrete and immanent forms of exploitation and domination rest and its necessary development is towards a particular relationship between classes at a global level.⁴⁹ The most immediate expression, however, is in the social power of money.

⁴⁷ Marx and Engels 1970: 86.

⁴⁸ Marx 1973: 164.

⁴⁹ An analysis of abstract labour, commodity fetishism and the movement of value provide the basis for a theory of social power in global capitalist society. In contrast to the overt political domination that characterised feudal and other pre-capitalist modes of production, domination in capitalist society is expressed in the alienated form of the ascendancy of things over people, where “*social action takes the form of the action of objects which rule the producers instead of being ruled by them*” (Marx 1976: 75). In this respect, the domination of capital and the perpetuation of capitalist social relations do not firstly rest upon the political supremacy of the capitalist class but through the impersonal power that appears inherent in things, crystallised in the social power of money, and which is armoured by the rule of law; cf. Blanke, Jürgens and Kastendiek 1976; Clarke 1988.

In a world where social labour takes the form of atomised private labour, the movement of value is the alienated form assumed by the inherent yet alienated sociality of capitalist relations. Money, the universal equivalent, becomes the medium through which this alienated sociality is concretely manifested. In Marx's formulation, therefore:

*Money is labour time in the form of a general object, or the objectification of general labour time, labour time as a general commodity.*⁵⁰

However, examined in a phenomenal sense, money indeed seems to possess the rational function of being simply a means of exchange, a remedy for the inconveniences of barter. On this basis, the classical political economists rightly critiqued the mercantilist fable that money was the intrinsic source of value by arguing that it was simply one more commodity that, owing to specific historical and phenomenological reasons, had come to serve as a universal equivalent. Nevertheless, in considering money as merely one commodity amongst others that, in conversion to the universal equivalent, facilitated man's transhistorical need to "truck, barter and exchange" as Adam Smith put it, the classical political economists failed to grapple with money as the fetishised form of value and a means to harness the social power generated through the abstract social domination of things over people.

Through its ability to endow social power upon its holder, money does indeed possess the fabulous qualities assigned to it by mercantilist theory, a factor underscored by

⁵⁰ Marx 1973: 168 (emphasis in original).

money's status as being the end rather than the means of capitalist social relations. These qualities embedded in money, however, do not emanate from an inherent metaphysical quality, as the mercantilists speculated, but derive from its social function within capitalist society in which money, as an incarnate form of value, becomes the primary mediator between individual and society. Put simply, possession of money defines an individual's ability to command a portion of abstract social labour, either dead labour in terms of commodities or living labour in terms of labour power. It is therefore as a developed form of value that, within capitalist society, money constitutes a social power far removed from the benign means-of-exchange posited by orthodox economics in spite of its appearance as a rational and neutral instrument that merely mediates between commodities. Money, as the universal equivalent and therein the most abstract form of alienated labour, is the foremost expression of the fetishised world in which things dominate people. It is in this way that money emerges as the "*nexus rerum* of capitalist society, the supreme encapsulation of capitalist social relations that revolve around value".⁵¹

Alongside the transformation of labour capacity into a commodity to be bought and sold on the market (as examined in the following chapter), the emergence of money as an abstract claim on social wealth paves the way for new forms of accumulation and, specifically, the transformation of the relations of production under the auspices of capital. Together, these conditions provide for the emergence of capital as a social relation predicated on the self-expansion of value. Within this relationship, the abstract domination of capitalist social relations reacts back upon the former as a coercive yet revolutionary form of social imposition that underscores the historically unprecedented dynamism of capitalist production. However, the implications of alienated labour, the

⁵¹ Fine and Lapavitsas 2000: 367.

value-form, and abstract domination for understanding the global relations of capitalist development only become fully explicit when the analysis moves up a level of concreteness in order to consider the class basis of global capitalist society, its historical genesis, the global circuits of capital and the tendencies inherent in global social reproduction. This is the task of the next chapter.

CHAPTER 2: GLOBAL CAPITAL AND THE SOCIAL REPRODUCTION OF THE WORLDWIDE WORKING CLASS

The idealised society of commodity producers that appears as the abstract construction for Marx's initial theorisations is not to be understood as an historical stage but rather as a logical abstraction that needs to be theoretically and historically concretised. In this respect, three aspects are emphasised in this chapter. First, each of the categories employed by Marx presupposes the others,¹ and it is therefore necessary to map analytically the more complex forms assumed by capitalist social relations. As elaborated, this is to suggest how abstract social domination takes the form of a specific class relationship between capital and labour and competition between individual units of capital. These derivations can then be employed to analyse the relationship between capitalism and development by highlighting both the inherent productive drive of capitalist social relations alongside the contradictory tendencies inherent to them. Second, the dynamics of capital accumulation give rise to the tendency towards uneven expansion on a global scale. Historically this expansion has taken different forms, including the internationalisation of commodity, productive and finance capital respectively. On this basis, it is therefore necessary to chart the historically specific development of global capitalist society in order to be able to recognise the character of and some of the tendencies inherent to these relations. Third, the global expansion of capital has created what I term the worldwide working class, creating a situation in which global social reproduction is increasingly wedded to the expanded reproduction of capital. The contradictory nature of capital accumulation, however, creates extreme tensions within this relationship. The nature of these tensions and the role of the state –

¹ Postone 1993: 128.

both national and international forms – are therefore analysed in the final two sections of the chapter.

1. Capital, Class and Exploitation

As highlighted in the previous chapter, Marx characterised societies owing to the distinct nature of their production relations. In this respect, production in capitalist society is characterised through the fundamental class relationship between capitalists, who monopolise control over the means of production and subsistence, and wage-labourers, who possess solely the capacity to labour owing to their separation from the former. To posit the centrality of the division between capital and labour is not to suggest that all relationships in capitalist society fall neatly into this dichotomy. In contrast, as argued below, forms of employment that do not conform to this relationship are an inevitable feature of uneven capitalist development on a global scale. Rather, it is to suggest that this relationship is the primary and defining relationship of capitalist society.² As Marx stressed, capitalism is characterised by a situation in which:

The owner of money must find the free worker available on the commodity-market; and this worker must be free in the double sense that as a free individual he can dispose of his labour-power as his own commodity, and that, on the other hand, he has no other commodity for sale, i.e. he is free of all the objects needed for the realisation of his labour-power.³

² cf. Fine 1998: 175-6.

³ Marx 1976: 272.

Historically, this specific class relationship first emerged in Western Europe through a process of ‘primitive accumulation’ that, by way of enclosure and mass dispossession, divorced the peasantry and many petty producers from the means of production in order to create a labouring class. Abetted by the power of the state, this historical movement created the basis for the capitalist mode of production by destroying non-capitalist forms of social relations and turning the ability to labour into a commodity to be sold and bought on the market.⁴ Within this process the social means of production – and therefore the means to social reproduction – are turned into capital and become the property of a capitalist class. Hence, in contrast to the basic notion of liberal theory that society is composed of freely contracting individuals who meet in the marketplace with diverse commodities to trade, capitalist society is composed of specific social relations, the primary relationship of which is a class relation between capitalist, owner of means of production, and worker, possessing only the capacity to labour. In short:

*[T]he bourgeois theory of the market is a theory of a social institution which quite simply does not exist.*⁵

Once separated from the productive apparatus and thereby lacking the autonomous means for self-reproduction, the newly “free” labouring class has few options but to continually enter into a relation with capitalists in order to socially reproduce itself, therein creating the class relation intrinsic to capitalist society. It is important to make clear the precise nature of the class relation that this historical process created. If class is understood sociologically in terms of social stratification, then we are faced not only

⁴ cf. Brenner (1977), Wood (1999) and Perelman (2000) for distinct interpretations.

⁵ Clarke 1990a: 452.

with the three great classes of modern society according to sources of revenue (capitalists, workers and landowners), but these in turn can be broken down in infinite regress according to incomes derived from specific locations within the branches of production. Moreover, as the post-modern critique would assert, there is no need to privilege sources of income revenue when delineating social groupings. In contrast, if the sociality of individuals is built upwards according to voluntarist principals of individual self-association, there is a multiplicity of divergent identities that the individual can assume based upon stratification according to ethnicity, gender, income, consumption patterns, etc. From this basis, as emphasised by 'post-Marxist' critics such as Laclau and Mouffe, there is no limit to the plethora of social groups that can be formed from these identities and no grounds on which to prioritise the importance of different social groupings vis-à-vis an emancipatory ideal.⁶ In this way, the reality of social stratification appears to impose a terminal challenge to Marx's insistence on the primacy of the capital-labour dichotomy and the importance of the struggle between capital and labour.⁷

However, this critique represents a fundamental misinterpretation of the level of analysis that Marx was using. Viewed from the perspective of the historically specific dynamics of social reproduction within capitalist social relations, the primary relation unique to capitalist society is that of the owners of production vis-à-vis those that own solely labour-power, and the fundamental dynamic that underscores this relationship is the appropriation of surplus value within the production process, as examined below. In this respect, from a materialist perspective, class is to be understood as a constitutive form of capitalist social relations derived from the value-form and predicated upon a

⁶ This is the basic proposition of Laclau and Mouffe's (1985) critique of Marxism.

⁷ Marx's final chapter of *Capital* Vol. 3 (1981: 1025-6) anticipates this manner of critique, but the manuscript terminates before a reply is articulated.

relationship of exploitation at the level of social capital and social labour. Like other forms of capitalist social relations, moreover, class necessarily assumes complex forms at higher levels of concreteness. In this respect, as developed in section five below, the concrete manifestation of the ‘working class’ is that of disarticulated social fractions stratified according to locations within different branches of production, levels of skill, productive and unproductive labour, and a plethora of other differences. However, by understanding class as a necessary development of the value-relation inherent to the alienated form of social labour, it is possible to chart the internal constitution of what appears as externally differentiated social stratification.⁸

The dynamic properties of this historically specific “capital relation” become evident on examination of the circuit of industrial capital, a movement that expresses the unity of production and circulation in capitalist social relations as differentiated moments of total social reproduction:⁹

$$M - C (LP + MP) \dots P \dots C' - M'$$

Starting from the basic relation of capitalist and worker established above, the capitalist exchanges money for labour-power and the means of production.¹⁰ Subsequently, in the production process, the labourer is set to work, using the means of production to

⁸ Allman et al. (2000) provide a similar account of the fundamental class dynamic but do not emphasise how social stratification that, in appearance, belies this relationship is the necessary form of appearance of class relations.

⁹ M = money; C = commodities; LP = labour-power; MP = means of production; P = process of production.

¹⁰ Labour-power is sold like any other commodity at a price that revolves around a socially composed value. The latter is historically constituted through struggle at a level that generally oscillates between the value of the commodities necessary for subsistence and the limits of the profitability of the capitalist enterprise. If the price of labour-power is forced below the level of subsistence, the social reproduction of the working class is jeopardised, and hence the basis of capitalist production. On the other hand, if the price of labour-power increases the capitalist enterprise comes under pressure to replace living labour with machines.

produce commodities whose value exceeds that of the original capital. These use-values – as the depository of value – are then placed on the market where their sale realises their value and completes the social circuit of capital with a greater sum of money than originally advanced. Whilst value is generated in production, it is only realised in the act of commodity exchange through circulation. The excess value created in the production process and realised through circulation constitutes the capitalist's surplus value.

Within this process labour-power is the dynamic commodity as it is only the application of labour-power that has the ability to create value.¹¹ The creation of surplus value from the labour-power commodity rests in the ability of its purchaser to compel the labourer to work above and beyond the time necessary to produce the value expended in the wage, and this can be accomplished in two primary manners. On the one hand, *absolute surplus value* refers to increasing the amount of time laboured beyond that necessary to produce an amount equivalent to the value of labour-power. This is achieved through lengthening the working day, or an increase in the intensity of work. The absolute limit to this form of surplus extraction is the physiological exhaustion of the worker, although the contingent limits are set by the course of class struggle that aims to institutionalise limits to the length of the working day and the conditions of work.¹² On the other hand, *relative surplus value* is produced through diminishing the value of the goods needed for the reproduction of the labourer, thereby reducing the value of labour-power. This occurs when productivity increases result in the cheapening of consumer goods that are used for subsistence. The latter is a process

¹¹ Marx 1976: 270-280.

¹² cf. Marx 1976: 389; Müller and Neusüss 1975.

that does not take place within the circuit of an individual capital, but rests upon a generalised increase in labour productivity in the consumption goods sector.

Surplus-value creation constitutes the fundamental driving force of capitalist production, although the valorisation process as the unity of surplus-value creation and realisation stretches beyond production.¹³ The capitalist production process must create more value than that invested in the purchase of labour-power and means of production and this value in turn must be encapsulated through the production of socially accepted use-values. Finally, the product must be exchanged for money to complete the circuit. Assuming that commodities exchange at their values, the ability of the capitalist to create more value, and therein make a profit, depends on the production of surplus value in the labour process and this adds a critical dimension to the movement of value outlined in the previous section. First, the subsumption of the production process under capital entails the subordination of use-value production to the expansion of value as represented in its money form. Capitalist production is not aimed at creating use-values for consumption, for this is only the material embodiment of production and not its social form. Within capitalist social relations, production is aimed at the creation of use-values as the material bearers of value and, specifically, the surplus value that underlies profit. Second, the facilitation of the self-expansion of value necessitates an exploitative vertical relationship between the owners of capital and the owners of labour-power. The purchase of labour-power as a commodity entails that the working class receives only a portion of the value that it has produced through labour. Subsequently, all value embedded in the products of labour, including the surplus value, is realised through the circulation and purchase of the commodities and, thus,

¹³ Fine 1975; Clarke 1980b.

appropriated by the capitalist. This results in the generalised process of what can be termed *permanent primitive accumulation* through which:

*On the one hand, the production process incessantly converts material wealth into capital, into the capitalist's means of enjoyment and means of valorisation. On the other hand, the labourer, on quitting the process, is what he was on entering it, a source of wealth, but devoid of all means of making that wealth his own.*¹⁴

In this manner, once analysis moves away from the neoclassical fixation upon circulation and free-exchange to examine capitalist social relations in their totality as the relations between classes, then not only does the extraction of surplus value through the expansion of value beyond that necessary to reproduce labour-power become evident, but concurrently it is appreciable that the motion of capitalist social relations serves to reproduce the original nature of the class divide. As such, the social relations of capitalist production involve not only the production and consumption of material goods but also the production and reproduction of definite social relations.¹⁵

2. Competition and the Reproduction of Capital

Whilst the production of value involves a direct, exploitative and conflictive relationship of capital and labour, the process of valorisation as the unity of production

¹⁴ Marx 1976: 716.

¹⁵ Clarke 1980a: 18.

and realisation of value necessarily invokes a process of competition between capitals, as social capital exists not collectively but in a fractured unity of many individual parts. These increasingly complex dynamics of capitalist social reproduction represent a more concretely developed expression of the alienated form of social labour under capitalism. The objective social imposition inherent to the value-form is represented in the pressures upon individual capitals to produce and sell at a profit. Inefficient capitals that are producing at above the social average production cost (i.e. above the socially necessary labour time) will be faced with cheaper products cutting into their market share and, consequently, the erosion of profits. A capitalist that fails to produce a necessary degree of profit, whether through technological backwardness or inability to compel sufficiently long or intense labour from the workforce, will jeopardise survival as a capitalist. As such, the necessity of the expanded reproduction of capital through the valorisation process is imposed objectively on the individual capitalist as the precondition for his or her own existence; and the medium through which these abstract pressures are imposed is competition. In short, competition represents the conduit by which the movement of value imposes itself on individual capitals and it does so in a manner that impels individual capitals to become more productive under threat of social extinction.

At this point it is important to stress that, in contrast to the assumption that commodities exchange at their values, prices deviate systematically from their values and this disjuncture is, moreover, a necessary implication of capitalist social relations – a further development of the fetishism of capitalist social forms. As Moishe Postone suggests:

*The level of social reality expressed by prices represents ... a form of appearance of value which veils the underlying essence. The category of value is neither a rough, first approximation of capitalist reality nor a category valid for pre-capitalist societies; rather it expresses the 'inner nexus of connections' of the capitalist social formation.*¹⁶

Although surplus value is the social substance from which all forms of capitalist revenue are derived (i.e. profits, interest and rent), this derivation takes a mediated form through the determinations of the social form of capitalist production wherein social capital is constituted as a multiplicity of competing capitals. In this respect, whilst the extraction of surplus value from the working class by the capitalist class as a whole is the social substance of profit, the dynamics of inter-capitalist competition entail that profits do not correspond directly to the amount of labour-power marshalled by the individual capital but rather tend towards an average rate of profit upon the specific mass of capital advanced.¹⁷

This process must be examined at two levels – first, within a specific branch of production and, second, between branches of production. As indicated in the discussion of value in the previous chapter, abstract imposition in the form of competition forges a socially constituted value (market price) for a particular commodity based on the socially necessary labour time for production at average conditions. This market price represents not the value of the specific commodities produced by an individual capitalist according to their particular composition of capital

¹⁶ Postone 1993: 134.

¹⁷ Marx 1981: 273-4.

but the social average for the branch of production. Based on this market price, capitalists orientate their productive activities around *cost prices of production*, which refer to the sum of capital advanced for constant capital (means of production) and variable capital (labour-power) combined. The rate of profit, therefore, is calculated on the sum of capital advanced, and increased profit appears to correspond not to the exploitation of labour but to the mass of capital advanced and the relative productivity of the production process.¹⁸ Competition therein renders invisible the class relation of which it is a moment.¹⁹ At a social level, it is only through an understanding of the movement of value that it is possible to understand the connection between the vertical class relations between capital and labour, and the horizontal relations between individual units of capital.

Secondly, at the level of different branches of production, acting on the basis of the rate of profit upon the cost price of production (i.e. the sum of capital advanced for production irrespective of whether it purchased constant or variable capital), capital tends to migrate between different branches of production in order to exploit those with above average rates of profit. The movement of capital between branches of production leads tendentially to a general equalisation of profit rates.²⁰ It is a process, moreover, facilitated greatly by the development of credit systems, sophisticated financial architectures, and the removal of political barriers to the movement of capital between branches of production. Moreover, as detailed in chapter five, the ability of capital to switch investments can also depend on the degree of flexibility of its relationship with the workforce, including the ability to dispose of labour-power in a manner relatively unhindered by institutionalised forms of regulation.

¹⁸ Marx 1981: 118.

¹⁹ Bonefeld 1999: 18.

²⁰ Marx 1981: 297.

To indicate that there exists a tendency for capital to conform to social averages within a branch of production or to move to alternative branches in order to receive an adequate share of social surplus value in the form of profit, however, is not to suggest that Marx created an equilibrium theory of capitalist competition in the manner of neoclassical theory. On the contrary, the reactions of capital in response to the pressures of competition repeatedly exacerbate the uneven development of capital. In spite of a common market price, within a given branch of production different capitals function with markedly different production techniques and operate at different rates of profit. Competition compels producers to conform their production efficiency towards the social norm on pain of extinction. However, as elaborated below, this is an uneven process that tends toward overproduction, disjunctures between surplus value production and its realisation, disproportionality between branches of production creating means of production and consumption goods, and (potentially) generalised crisis.²¹

The potential responses of individual capitals to competition as abstract social imposition are manifold, impacting upon both the distribution of profit within the capitalist class, also upon the extraction of surplus value at a social level and also the incredible productive drive of capitalism that underscores the association of capitalism and development. Aside from a range of lesser strategies that serve to distribute a greater share of surplus to the more enterprising capitalists – such as economisation in the use of constant capital, increasing the turnover time of capital circuits, and creating an exaggerated demand through sales promotion – three primary responses can be

²¹ cf. Clarke 1990a, 1994; Bonefeld 1999; Weeks 2001; Fine et al. 1999.

identified that have manifest implications for the contradictory dynamics of capitalist social relations and the uneven character of capitalist development.

First, expanding the market – either to augment the quantity of consumers, incorporate cheaper inputs or by creating new social needs – can mitigate the pressures of abstract social imposition. Increasing the spatial coverage of the circuits of capital to include new areas and populations is the primary manner by which markets have been expanded and these dynamics have given capital a dramatic spatial expansionary momentum. As Marx suggested:

*A precondition of production based on capital is therefore the production of a constantly widening sphere of circulation ... the tendency to create the world market is directly given in the concept of capital itself.*²²

The ability for capitals to access new markets on an international scale, however, commonly involves breaking down potential political barriers to the entry of products into specific national state forms – a dynamic that lies at the heart of inter-imperialist competition and the relationship between North and South which is examined in the following chapter. With respect to the present discussion, whilst the expansion of the market can provide temporary relief to the pressures of abstract social imposition, the limits to this expansion are met both through political limits, i.e. the failure to remove political enforced barriers such as tariffs, or social limits in the exhaustion of the new capitalisation of areas of social reproduction.²³ These are not natural limits but ones

²² Marx 1973: 407-8.

²³ See chapters three and five respectively.

constituted through processes of struggle, of both an inter-imperialist and class nature. The limits to potential market expansion, therefore, entail that capitals are repeatedly thrown back onto the class basis of their existence and, in order to secure social reproduction under the pressures of abstract social imposition, must seek a new relationship with labour in the production process in an attempt to compress the component of necessary labour.

Second, therefore, capitals can seek to engineer a greater degree of exploitation of the labour force through the imposition of longer or more intense work, or a suppression of wages below the average for the branch of production. At the level of an individual capital, accomplishing these aims can increase profit at the expense of competitors by lowering the cost of production. At the level of social capital, moreover, the potential generalisation of such trends through the establishment of new social averages expands the mass of surplus value available to capital-in-general. Nonetheless, this strategy inevitably involves direct conflict with the working class. Whilst the development of the working class movement has been able to enforce limits to the extension of the working day and other social provisions, struggles over absolute surplus value extraction are ongoing. First, the tendency to relocate productive capital in order to take advantage of more exploitable workforces has been a predominant trend of the last four decades.²⁴ As such, incorporating Southern labour-power with its lower reproduction costs and potentially subject to a higher intensity of work can serve to both increase a capital's competitiveness and, concurrently, redefine the process of global social averaging. Second, the gains of working class movements can be subject to assault. In many national social formations recent struggles under the banner of "labour flexibilisation" have targeted these institutionalised forms of state regulation in

²⁴ cf. Lieten 2001.

order to achieve greater freedom for capital, including a greater potential for absolute surplus value extraction.²⁵

Third, competitive pressures elicit the response of productivity increases that have the effect of driving forward the productive capacity of humankind. Enhanced productivity can be engineered through improved work coordination using scientific management processes or, commonly, through the deployment of superior technology within the labour process that boosts worker productivity. By increasing the mass of commodities produced by a given labour-power within a specific time, productivity increase serves to redefine the distribution of surplus value within the capitalist class by allowing the technologically advanced capital to undercut competitors. Such development of the productive forces forges a new social standard for necessary labour time, thereby impressing the demands of a new social average upon individual capitals and increasing the pressure upon technologically less advanced capitals. Far from resolving the abstract pressures of competition, therefore, productivity enhancement merely serves to impose an incessant dynamic upon the competitive process.

Whilst increasing the productivity of labour appears as a necessary social imposition upon an individual capitalist involved in competitive struggle, at a social level it hastens the encroaching limits of the market within a particular branch of production. This creates recurring tension between the production of surplus value and its realisation in the realm of circulation. However, rather than individual capitals responding to barriers to profitability by downscaling production – as neoclassical equilibrium theory would predict – individual capitals view the limits of profitability as barriers to be overcome in order to avoid social extinction. As Simon Clarke details,

²⁵ This is discussed at length in chapter five; also see Weeks 1999.

this leads to a situation wherein production is expanded without regard for the limit of the market – therein exacerbating (rather than assuaging) the competitive struggle.²⁶ This situation can persist (and escalate) until generalised crisis imposes a destructive re-composition of capital in line with the dictates of profitability (at the level of the individual capital) and surplus value extraction (at the level of social capital).²⁷ Crisis can therefore temporarily enforce a move towards a more equilibrium status in the deployment of capital, but only at the cost of the destruction of capital – and normally its increased centralisation within surviving enterprises – with manifold implications for the social reproduction of the working class. At one and the same time, therefore, abstract social imposition is the source of the dynamic productive drive of capitalism, and the cause of uneven development and crisis. The latter tendencies, moreover, are immanent within the very dynamics of the reproduction of capital. As Marx suggests:

*Conceptually, competition is nothing other than the inner nature of capital, its essential character, appearing in and realized as the reciprocal interaction of many capitals with one another, the inner tendency as external necessity.*²⁸

In this fashion, the pressures of competition expressed in the constant drive to revolutionise the means of production, to increase relative surplus value, and to suppress the absolute value of labour-power through driving down wages and the extension or intensification of the working day, are all manifestations of the “inner nature of capital” rooted in the dual character of labour within capitalist social relations

²⁶ Clarke 1990a: 456.

²⁷ The role of credit, both as a means of postponing the effects of social imposition, but also potentially socialising crisis tendencies is an essential dynamic within this process; cf. Clarke 1994; Bonefeld and Holloway 1995; Fine et al. 1999.

²⁸ Marx 1973: 414 (emphasis added).

and the contradictory dialectic between development of the productive forces (use-value) and the social relations of production (value). The following sections begin to examine the implications of this inner nature of capitalist development for the worldwide working class. First, the next section examines the constitution of the latter by examining the expansionary tendencies of capital accumulation in its commodity, financial and productive moments. Second, the chapter proceeds to analyse the immanent tensions between the global reproduction of capital and the social reproduction of the worldwide working class. Finally, the chapter closes by charting the implications of the latter tensions for the development of the institutional forms and functions of the state, including the emergence of international organisations with state-like qualities, such as the World Bank.

3. Primitive Accumulation and the International Division of Labour

It was highlighted above that, with the subsumption of commodity production under the ambit of capital, a new drive to expand markets was created. By intensifying existing trade linkages between Europe and Southern territories – often through direct colonial control and the reorganisation of local populations to meet colonial trading needs – the expansion of merchant capital had an uneven effect on the transformation of social relations in the non-core world. On the one hand, it often served to disintegrate indigenous artisanal forms of production. As in the case of India, for example, the heavy hand of colonialism was commonly employed to ensure the dissolution of competitors to industrial products. These processes of breaking down non-capitalist production relations prompted Marx and Engels to herald the ‘progressive’ nature of the internationalisation of commodity capital:

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production ... In one word, it creates a world after its own image.²⁹

However, debates in the 1970s – partly as a reaction to the ‘neo-Smithian’ assumptions of dependency and World Systems theory – noted how the incorporation of new territories and peoples into the global circuits of commodity capital entailed diverse and sometimes contrary effects, including the entrenchment of non-capitalist production relations.³⁰ Reacting to incorporation within the global circuits of commodity capital, non-capitalist forms of surplus extraction could operate through the intensification of exploitation without necessarily reconstituting the social relations of production.³¹ For example, the extraction of precious metals in the Andean region in colonial Latin America often revolved around extending pre-capitalist forms of forced labour (the *mita*), whereas hacienda production for national and world markets commonly involved intensified debt-peonage rather than waged labour.³² In this manner, far from resulting in a universal transformation of social relations, together with the uniform imposition of abstract forms of capitalist social imposition and the sustained development of the

²⁹ Marx and Engels 1992: 36.

³⁰ Kay 1975; Brenner 1977; Weeks 1985.

³¹ Brenner 1976: 43.

³² cf., for example, Galeano 1973.

forces of production, the global expansion of the circuits of merchant capital resulted in an uneven global social transformation that entrenched certain non-capitalist production methods, reconstituting them under the ambit of global commodity capital, whilst liquidating others.³³

Similarly, the export of money capital on a large scale in the second half of the nineteenth century was suggested by many authors, including V.I. Lenin in his treatise on imperialism, to have wrought greater qualitative changes in global social relations. Once again, however, the impact of financial capital circuits proved uneven. On the one hand, as Lenin highlighted, the export of capital – particularly in the North American context – gave a significant boost to processes of capitalist development, including the financing of infrastructural projects that facilitated industrial developments. Moreover, the penetration of British finance-capital into, for example, Latin America led to the control and expansion of raw material production and the growth of a comprador bourgeoisie.³⁴ However, on the other hand, lending to governments in the South often served to reinforce the control of oligarchic factions, particularly landed elites, whose production for local, national and world markets rested heavily on the utilisation of non-free labour.³⁵

Also notable, however, are the limitations placed on the social reproduction of non-capitalist production relations. Once subsumed under the global expansion of capital, non-capitalist production forms can survive the competition of products produced under capitalist conditions only by increasing the level of exploitation. This involves constantly intensifying labour, extending the working day and forcing down living

³³ Kay 1975: 104-5.

³⁴ Berberoglu 1987: 61.

³⁵ Weeks 2001: 431.

standards. The limits to such techniques are encountered in the social obliteration of the workforce and, of course, potentially violent resistance to such an occurrence. Outside of areas whereby unique local circumstances provide an ability to remain competitive, primitive production forms are gradually destroyed as the conditions of their reproduction are eroded. Moreover, as in Europe two centuries previously, there exists a long and bloody historical record of the state forcibly displacing non-capitalist production relations and inducing the separation of human beings from the means of their reproduction.³⁶ Whilst the specific dynamics of this process are heavily determined by the course of world market developments and specific global, national and local struggles, the overall trend is for the displacement of non-capitalist production forms.

In this respect, in the early decades of the twentieth century, production in many parts of Latin America and East Asia that was subsumed under the expanded reproduction of global capital yet utilised non-free labour became increasingly tenuous. By the 1930s many Latin American countries experienced a notable growth in industrial production and, by cutting off imports of industrial products, the effects of the Great Depression and World War II provided further impetus for indigenous industrial development. Land enclosure, the capitalisation of agriculture, and the rapid dispossession of peasant communities were all increasingly predominant tendencies in Mexico, for example, during the *Porfiriato* decades of the late nineteenth and early twentieth century.³⁷ As such, these processes are complex and have occurred at different historical junctures and within the context of specific historical and social contexts and varying strategies of resistance or accommodation.

³⁶ cf. (e.g.) Cooper et al. 1993.

³⁷ Hart 1997.

Responding to changing social dynamics and shifting balances of class power, moreover, Southern states began increasingly to nurture domestic industrial production through subsidies to the industrial sector, manipulation of exchange rates to cheapen machinery and technological imports, and imposing high tariffs on foreign consumer goods. This form of “import substitution industrialisation” (ISI), as discussed in chapters four and six, became a common strategy in many countries in the immediate post-War periods, although its emergence in such countries as Mexico, Brazil, Chile, Iran, Turkey and Korea dates to the 1930s.³⁸ Under state tutelage and within precipitous world market conditions, industrialisation in the global South proceeded at a substantial rate, particularly in specific Latin American and East Asian countries in the 1950s, 1960s and 1970s, leading to the suggested “end of the Third World” owing to growing differentiation through uneven capitalist development.³⁹ Whilst many authors attributed this process to the internationalisation of productive capital from core to periphery (the “New International Division of Labour” or “Global Fordism” theses),⁴⁰ these interpretations tended to underestimate the longstanding dynamics of social change in the global South and the processes of indigenous industrialisation that had been ongoing for several decades.⁴¹ Indeed, successful processes of industrialisation in the South were as much the cause of productive relocation from the core as the consequence.

³⁸ Its early success was largely dependent on hospitable world market conditions for primary goods owing to sustained industrial expansion in the capitalist core. Falling commodity prices in the late 1960s and 1970s, however, exposed many of the fault lines within import substitution development.

³⁹ Harris 1986.

⁴⁰ e.g. Fröbel, Heinrichs and Kreye 1980; Lipietz 1982.

⁴¹ Jenkins 1984: 42.

In this respect, the growing role of the state in encouraging the conditions for industrial development through both selective economic interventions and reconstituting social relations by encouraging primitive accumulation was essentially important.⁴² For example, agrarian reform in post-War Taiwan and Korea led to the dissolution of feudal agrarian relations and subsequently encouraged a re-consolidation of land tenure, the capitalisation of agriculture, and a constant yet controlled stream of out-migration from rural areas into the cities. This in turn has been suggested as a major factor in this region's relative success in industrial development.⁴³ Concurrently, in Latin America – related to the absence of successful land reforms – between 1950 and 1975 the urban population grew massively, from sixty-nine million to one hundred and ninety-seven million, transforming the continent into a heavily urbanised region in comparison to Asia and Africa.⁴⁴

Global primitive accumulation and the subsumption of an ever-greater percentage of the global population under capital reached new levels in the 1980s and 1990s with, on the one hand, the dissolution of the Soviet Union and, on the other, the growing incorporation of the vast Chinese populace into global capital circuits.⁴⁵ Moreover, the global trend towards liberalisation of the political barriers to the movement of capital gave renewed impetus to the internationalisation of capital circuits and has fashioned a new global – albeit enormously asymmetrical – division of labour.⁴⁶ Structural adjustment and liberalisation, as discussed in chapter four, have served to incorporate more directly Southern populations in to the dynamics of global accumulation and the

⁴² cf. Bina and Yaghmaian 1991.

⁴³ Kay 2002. Burkett and Hart-Landsberg (2000), however, rightly indicate the importance of hyper-disciplinary regimes of labour control and high levels of surplus extraction.

⁴⁴ United Nations Population Division 2000: 5.

⁴⁵ Clarke 2003; Holmstrom and Smith 2000.

⁴⁶ Munck 2002: 106-11; Mittelman 1995.

abstract imposition of global social averaging, leading to trends such as the capitalisation of agriculture, the further dissolution of the peasantry and the ongoing process of primitive accumulation in the rural areas of Asia, Africa and Latin America.⁴⁷ As the UNEP notes, virtually all population growth between 2000 and 2030 will be in urban areas.⁴⁸ Moreover, as a further United Nations report elaborates, close to one-third of all urban households in the global South exist in conditions of absolute poverty, meaning that the combined household income is insufficient to meet all basic needs.⁴⁹ Global urban pauperisation, therefore, is a major phenomenon of contemporary world development and, with the movement towards accelerated urbanization, is likely to deepen.

The overall trend of capitalist expansion at a global level has been the creation of a worldwide working class that is dependent on the relation of capitalist work in order to secure its social reproduction, resulting in the creation of a single yet heavily differentiated global division of labour. In 1995 the World Bank triumphantly proclaimed that, by 2000, ninety percent of the global labour force would be integrated into the dynamics of the world market.⁵⁰ As Michael Neary and Ana Dinerstein suggest, the dependence of global society on capitalist work is the unavoidable reality of the modern world.⁵¹ This certainly does not entail that all labour in the global South is undertaken under capitalist industrial processes, but rather that the majority of populations in the South have been removed, through the ‘invisible hand’ of the market or the visible coercion of the state, from previous forms of social relations and are now constituted as modern individuals reliant primarily on wage labour for their social

⁴⁷ Amin 2003.

⁴⁸ United Nations Population Division 2000: 1.

⁴⁹ United Nations Habitat 2001: 2.

⁵⁰ World Bank 1995: 50.

⁵¹ Dinerstein and Neary 2002: 1.

reproduction and subject to the abstract and seemingly objective compulsions of global capitalist social relations. Essentially, with the spatial expansion of primitive accumulation at a world level, the dynamic of global social reproduction, and with it the fate of the global working class, has become contingent on the reproduction of capital. As indicated by the escalating numbers of urban absolute poor, however, global capital appears unable to secure the sustained reproduction of the worldwide working class.

4. Global Capital and the Reproduction of the Worldwide Working Class

As examined above, the abstract imposition inherent in global capitalist social relations – expressed in the form of competition – underscores the considerable productive drive of capitalism. However, whilst capitalism has indeed historically developed the productive forces at unprecedented rates, the social form of capitalist relations assures that this has been a contradictory process. Objectified in the movement of value, domination in its most fundamental capitalist form finds expression through the subordination of individuals and society to the expanded reproduction of capital as the self-expansion of value. The latter imposes itself in the form of objective and impersonal compulsion that ties the material reproduction of individuals and society to the expanded reproduction of capital.

If we examine the reflection of these forces in the movements of the mass of exploitable labour, i.e. the worldwide working class, it is possible to identify some of the underlying reasons why the expansion of social wealth has been accompanied by uneven development, inequality and poverty at a global level. Such dynamics have

been analysed within, for example, the Latin American debates over the ‘marginal mass’ and also wider examinations of informality in the global South, although the latter often considered the former solely on a national level.⁵² Previously, Marx highlighted many of these tendencies under what he termed the ‘absolute general law of capitalist accumulation’, which can be adequately re-titled and re-thought as the ‘absolute global dynamic of capitalist accumulation’.⁵³ Several aspects of the ‘absolute global dynamic’ can be highlighted that relate the existence of mass unemployment, underemployment and wage poverty on a global scale to the dynamics of global capital accumulation and the tendency of capitalist social relations to perpetually jeopardise the social reproduction of the working class.

First, with the expansion of capitalist work, those individuals that for reasons of age, disability or illness are unsuited to the capitalist labour process are systematically excluded from capitalist work and their social reproduction is strictly jeopardised. This also applies to those who were once incorporated yet owing to exhaustion, redundant skills or injury, are no longer appropriate for the needs of capitalist production. The tendency of the expansion of capital to undermine communal forms of social organisation and extended kinship structures, moreover, without the ability to secure a means of subsistence within the capitalist labour market this sector of the population is reliant on either familial, community, or state support to avoid total immiseration.

Second, despite the existence of free labour across the globe, the spatial establishment of global productive capital is heavily concentrated. For example, close to eighty percent of global direct investment remains concentrated in the advanced capitalist core

⁵² Kay 1989: 88-124; Wilson 1998; Nun 2000.

⁵³ Marx 1976: chapter 25.

where productivity is higher, value extraction greater and, concurrently, investment more profitable. Of the remaining twenty percent that goes to the global South, eighty percent of this total is concentrated in approximately ten key emerging markets that offer not just a cheap workforce, but one that is relatively skilled, disciplined, and where a satisfactory physical infrastructure and political environment exists.⁵⁴ As such, uneven development on a global scale continues to augment the vast disparities between different national social formations and the labour located within them.⁵⁵ Whereas in the capitalist core over-production is the systematic tendency of global accumulation wherein growing amounts of use-values cannot be reconciled to the successful realisation of value, large parts of the global South remain characterised by under-production. In spite of the explanation provided by neoclassical economists and institutions such as the World Bank and IMF, this is not necessarily for lack of structural reforms to dissolve remaining non-capitalist production relations and encourage investment.⁵⁶ On the contrary, it is a result of the surplus-nature of these populations for the creation and realisation of value within global capital. As Geoffrey Kay presciently surmised:

If we square up to it, we have to face the unpalatable fact that capitalism has created underdevelopment not simply because it has exploited the underdeveloped countries, but because it has not exploited them enough.⁵⁷

⁵⁴ Lieten 2001. World Bank 2001b.

⁵⁵ cf. Weeks 2001.

⁵⁶ Many sub-Saharan African countries implemented avid structural adjustment policies, yet have been fundamentally excluded from a substantial role within the creation and appropriation of global surplus; cf. Sender 2002, Milanovic 2003.

⁵⁷ Kay 1975: 55.

The latter phenomenon highlights that, whilst the expansion of capitalist social relations creates a growing working class dependent on capital for its social reproduction,⁵⁸ the ability of capital to provide adequate waged labour is in no way commensurate to global needs. The ‘absolute global dynamic’ involves the recognition, therefore, that the majority of labour in the South is not performed under strictly capitalist conditions of production, but rather is subject to capitalist conditions of social reproduction, including the subordination of consumption of use-values to the production of the value form of social wealth. In short, setting the worker ‘free’ through primitive accumulation in no way guarantees the provision of capitalist work, despite removing other forms of social reproduction. As was evident to the early political economists, the capitalist work was a tenuous affair subject to extreme fluctuations, and this tendency towards precarious social reproduction characterises the relation of capitalist work for large segments of the worldwide working class. The ILO, for example, warns that:

If economic and productivity growth rates up to 2010 remain similar to those of the 1990s, a depressingly clear employment picture emerges: the working poor will grow in number, in a more populous world. At least 160 million people are outright unemployed, over 300 million people are in jobs but looking for more work and more than one billion are living on less than one dollar per day.⁵⁹

⁵⁸ This growing working class is not just the consequence of the incorporation of existing human beings through spatial expansion, but also the consequence of the demographic explosion in the South as families sought to guarantee their social reproduction under capital through having numerous children who could contribute.

⁵⁹ ILO 2001.

This worldwide reserve labour army constitutes a constant feature of global capitalist society, although it is variable in its composition and size according to the trajectory of global accumulation including, on the one hand, the tendency to reduce the need for labour within certain branches of production owing to technological advancement driven by competition and, on the other, the course of primitive accumulation to create new potential labourers.⁶⁰ Marginalized from capitalist work, the global reserve labour army is dependent on the precarious existence offered through various forms of underemployment. On the one hand, many workers exist as a “disguised” proletariat that subsists through self-employment, informal sector tasks or partial subsistence agriculture, all of which may offer tenuous means to obtain the use-values necessary for social reproduction in societies dominated by capital yet in which underemployment is endemic. On the other hand, the need to secure social reproduction has seen the growing incorporation of women into the workforce in order to gain another subsistence wage, predominantly in the informal sector.⁶¹

Third, the above tendencies are exacerbated by the dynamics of capital accumulation wherein abstract social domination forces capital to attempt constantly to suppress the portion of labour devoted to the reproduction of the labourer in order to produce surplus value in the form of profit. As highlighted above, this imposition includes the intensification of labour, the lengthening of the working day, and forcing down wages alongside introduction of advanced methods of production that can make labour redundant within the production process. Moreover, crisis – which, as examined above, is inherent to the dynamics of global accumulation – is the form in which social imposition most brutally imposes itself. The results of generalised crisis are the

⁶⁰ Marx 1976: 762.

⁶¹ Munck 2002: 117; Bagchi 2000: 81.

destruction of existing capital, the ejection of labour from unprofitable industries, the suppression of wages, and the centralisation of capital all of which can serve to reduce the conditions of social reproduction of the working class and to expand the reserve labour army. Crisis, therefore, is the most dramatic manner through which global labour can be disciplined in line with the profitability dictates of capital accumulation and this is examined with specific focus on Chile in chapters six through eight.

As such, whilst increases in the absolute mass of global capital through expanded reproduction indeed implies a growing mass of labourers on a world scale, uneven development within sectors implies a constant instability of employment as various branches of production undergo fluctuations and technological change. This contributes to a stratification of the working class and aids in the reproduction of the reserve labour army at national and global levels that serves to suppress the general level of wages and which faces an uncertain ability to secure its social reproduction owing to its being superfluous to the needs of capital.

In sum, therefore, whilst the global expansion of capital carries forward primitive accumulation by undermining all alternative forms of social reproduction, the uneven dynamic of the reproduction of capital is unable to guarantee the stable reproduction of the growing worldwide working class. In contrast, under the global expansion of capital, the latter has necessarily been constituted in the form of pronounced stratification on a global scale, including unemployment, underemployment and poverty. Significant portions of the worldwide working class can find no employment through a direct relationship with capital and are forced into extremely tenuous forms of social reproduction on the margins of capital circuits. Moreover, the tendencies within accumulation for capital to intensify work, forcibly lower wages, and eject

labour from production – particularly in times of crisis – has repeatedly underscored the tenuous nature of social reproduction under capital. Whereas Marx indicated that he believed capitalism would thus produce the agent of its own demise in the form of the immiserated working class, the course of class struggle has not (yet?) manifested this tendency. In part, this is owing to the specific intervention of capitalist states and other institutionalised forms of social mediation, such as the World Bank, that operate at an international level.

5. Social Reproduction and the State

When approaching the question of the form and functions of the modern state from a materialist perspective, as a theoretical starting point it is important to emphasise that the state in capitalist society is necessarily a capitalist state with an inherent predisposition towards securing the expanded reproduction of social capital.⁶² This capitalist essence does not result from the predominance of capitalist class interests within the state but from the dependence of the material reproduction of capitalist society – the state included – on the accumulation of capital. The capitalist state is therefore a regulative institutional corpus resting upon and operating within the context established by the various social forms of capitalist relations and the abstract forms of domination inherent to them. In this manner, by enforcing the rule of law and the social power of money – the two primary functions that the capitalist state has historically performed – the state plays an essential role in reinforcing capitalist social relations.⁶³ It does this by providing the political and legal infrastructure for the

⁶² Holloway and Picciotto 1977; Clarke 1991c.

⁶³ Clarke 1988: 130.

abstract domination of things over people and the particular form of class relations that the latter upholds.⁶⁴

Conversely, however, the constitution of the capitalist state within capitalist social relations as an apparently neutral political realm in separation from the economy (the realm of free-exchanges) situates it as the primary institutional locus of political struggles. The repeated tendencies of capital accumulation to jeopardise the social reproduction of the working class has repeatedly led to the historical agency of various social movements to levy demands upon the national-state for the mediation of the accumulation process. As such, capitalist development contains within itself the social dynamics that lead the capitalist state continually to attempt to mediate the tensions between expanded accumulation and the inherent conflicts therein engendered.⁶⁵ Politicised struggles emerge at many levels, from struggles over the nature of labour relations, conflicts within the institutionalised political process, and in diverse social movements that challenge the quotidian forms of state intervention into social reproduction. Driven by these pressures, the state must intervene perpetually in civil society – in both the spheres of production and circulation – in order to mediate specific struggles and also to alleviate some of capital's (self)-destructive tendencies. These interventions commonly find expression in the changing institutional form of the state, an historical movement that is clearly identifiable in various manifestations of social policy, labour policy and other expressions of institutionalised state-society relations that aim at the containment of the immediate contradictions of accumulation.

⁶⁴ cf. Kay and Mott 1982.

⁶⁵ cf. Ginsburg 1979.

Propelled by these multifarious instances of political and social conflict, the state experiences changes in its institutional form and specific functions. As Bob Fine indicates:

*From one period to the next it may become more or less alienated from the people, more or less subject to democratic control, more or less bureaucratic, more or less bound by the rules of law, more or less permissive of working-class organisations, etc.*⁶⁶

This is the basis on which the contradictory essence of capitalism becomes embedded in the institutional form of the state. Ultimately, however, the limits to the interventionist character of the state are located in its capitalist form imposed by its historical subsumption within the relations of capitalist social reproduction. If, propelled by the pressures of particular struggles, the state intervenes to an extent whereby it threatens the social foundations of capital accumulation then this will be at the cost of precipitating further and deeper crisis tendencies.⁶⁷ The historical consequences of such a trend are the sharpening of struggles between those who strive to return the state to within the perceived limits of its capitalist form and those who pursue more fundamental social change.⁶⁸

As such, the changing nature of the form and functions of the modern state cannot be derived logically from the nature of capitalist society but represent the outcomes of a process driven by historical struggles constituted within the contradictory dynamics of

⁶⁶ Fine 1984.

⁶⁷ Müller and Neusüss 1975.

⁶⁸ An explicit historical manifestation of this trend is the socialist government of Salvador Allende in Chile, 1970-3, as discussed in chapter six.

capitalist social relations.⁶⁹ Specific historical and contingent factors include the balance of social forces at a particular historical juncture, with the latter conditioned by the results of previous struggles and the institutionalised forms these may have taken, and also the specific relationship between the reproduction of capital within the national state and the course of global accumulation.⁷⁰ Given the inherent fluidity of capital in its money and commodity forms, the general tendencies of capital accumulation apply not to individual national capitalisms but to capitalism as a whole, as a global social relation. Such tendencies do not operate within a “national” framework, because the relationships, processes and structures that commonly have been comprehended as a ‘national economy’ are better conceptualised as zones of relatively deeper economic integration within a single, highly differentiated, world economy.⁷¹ However, the globality of capital is nonetheless mediated through its existence within a fragmented unity of national-state formations.⁷² As examined in the following chapter, national states repeatedly seek to alter the nature of the relationship between nationally located capital and global social capital through political regulation in order to aid the expanded reproduction of the former, yet this serves to widen the range of struggles that impinge upon the state. A more complete elaboration of the changing relation between state and social reproduction, therefore, must take the form of an historical case study and, in this respect, chapters six through eight provide such an analysis in respect to the turbulent trajectory of capitalist development in Chile.

⁶⁹ This attempt to logically derive the state from the categories of capital was the major problem of the German state derivation debate (English translations in Holloway and Picciotto 1978; critique in Clarke 1991b).

⁷⁰ Müller and Neussüs 1975; Clarke 1991c.

⁷¹ Radice 1984; 1999.

⁷² Holloway 1995b.

The regulation of capitalist social relations, however, has not become institutionalised merely at the level of the national or sub-national state apparatus. Tensions between the global character of accumulation and the fragmentation of social capital within national state forms has historically led to repeated attempts to create international regulatory forms that can mediate the global character of capitalist social reproduction.⁷³ Concurrent to the national state form, however, the internationalisation of state functions equally carry the contradictory essence of capitalist social relations. To develop this argument, the following two chapters examine theoretically and historically the constitution of the World Bank as a moment of global capitalist relations.

⁷³ cf. Picciotto 1991.

CHAPTER 3 – POSITIONING THE WORLD BANK AS A GLOBAL DEVELOPMENT ORGANISATION

This third chapter performs two tasks that enable the formulation of a materialist perspective on the World Bank as an international organisation that mediates the trajectory of global capitalist development. The first section presents a critical examination of the major theoretical approaches (realism, liberalism, neo-Gramscianism) that attempt to explicate the power relations that permeate and condition the institutional form of the Bank, its production of development knowledge, and the nature of its relationships with client countries. Second, although the chapter suggests that various insights of these perspectives offer pertinent vantage points, through critiquing these perspectives it begins to elaborate an alternative approach that, it is proposed, can better explain the form and content of Bank agency by locating the organisation within the context of the contradictory movement of global capitalist social relations. It is argued, therefore, that a theoretical analysis of the World Bank must examine the various mediated forms by which the organisation is integrated into global capitalist relations and the complex manners by which these varied forms of integration affect both the institutional form and substantive content of World Bank practices. This entails synthesising aspects concerning capitalist development and social power raised in chapters one and two with the critical examination of theories of the World Bank in the first two sections of the current chapter.

1. States and International Institutions – Realism, Liberalism and Materialist Critique

This section is concerned with elucidating the determinants of both the institutional form of the World Bank, i.e. its organisational structure and how this conditions its relations with member countries, alongside the content of its practices, namely the aims and objectives of the policy prescriptions that it promulgates in the developing world. Given that much academic literature on international institutions emanates from debates framed within the paradigm of international relations (IR), the most predominant concern has been to theorize the relationship between the World Bank and the international state system. The dominant paradigms of international relations, realist and liberal approaches, bring particular epistemological and ontological perspectives to bear on the historical constitution and the subsequent role of international organisations within the inter-state system. On the one hand, realism, with its ontology of inherent antagonism between sovereign nation states and its preference for examining the latter as the foremost actors on the global stage, is predisposed to understanding international relations and their institutional forms as constituted within and limited by the conflictual power relations between nation states.¹ In essence, therefore, international organisations, as an embodiment of international regimes, will tend to be manipulated by states engaged in conflictual relations over economic hierarchy and issues of security. On the other hand, liberal institutionalism, whilst not challenging the characterisation of international anarchy as a natural condition nor of states as key actors, offers a contrary perspective that emphasises the absolute gains to be made from the cooperative dimensions of international orders and global cosmopolitanism. Building from this normative stance, versions of neoliberal institutionalism stress the mutually beneficial potential of organisations geared to providing rational solutions to a range of global problems. International organisations can therefore be understood as

¹ e.g. Mearsheimer 1994.

offering global public goods, such as technical expertise, as part of reciprocally advantageous cooperative regimes.

These debates play themselves out in relation to the determinants of the institutional form and the policy practices of the World Bank. Given the realist preoccupation with the structural and relational power of states, the question of the direct and mediated forms by which particular states influence the World Bank has been a major problematic. In this respect, to explain World Bank policy orientation many analysts emphasise the dominance exerted upon the institution by the United States government, a concern also shared by many on the political left.² This emphasis is not without historical basis given that the Bank was formed as one aspect of the US-dominated Bretton Woods order. Moreover, since its inception the principal external body influencing the World Bank's policy direction has been the US state or, more specifically, the US State Department and Treasury, with the latter responsible for providing the financial pledges that form the largest portion of the Bank's state-granted finances.³

As established at the Bretton Woods conference of 1944, various modes of exercising US executive power within the Bank were written into its constitutional framework. The Bank's constitution, like that of the IMF, linked the voting rights of individual states on the Board of Governors at the Bank to the amount of financing each participant country outlays. Rather than one member one vote, as is the norm in other United Nations organisations, the World Bank operates on a "one dollar one vote" principal. In this respect, the US began with command over thirty-five percent of

² e.g. Caufield 1996; Wade 2002.

³ Kapur 2002: 63.

voting rights, a block that reflected the relative size of its financial contribution to the Bank's base capital. Although the original voting power of the US facilitated its total dominance of Board decision-making, its current position of holding seventeen percent still allows it to wield a veto over constitutional amendments. Over the last half century the US has used such direct forms of influence to shape Bank policy, placing considerable pressure on the Bank to make loans that are particularly beneficial to strategically important countries and to US businesses who are a major recipient of development contracts. This power was displayed in, for example, the disproportionate amount of World Bank assistance granted to key US allies during the Cold War period, such as Nicaragua, Indonesia, and Iran.⁴ Concurrently, US pressure has also worked to veto loans which either threaten US interests by fortifying competition to US industries or that undermine US strategic and political goals.⁵

Although the degree of US influence in the Bank might have been expected to fall concurrent with its declining relative share of financial contributions, and therein voting power, the US nonetheless supplements the control offered by its shareholding with constant monitoring of Bank activity and daily meetings between top Bank directors and US Treasury officials. Moreover, the US still chooses the Bank's director and is the only country with a unilateral veto over constitutional amendments. As Ravi Kanbur, a former Bank economist and original project leader of the World Development Report 2000/2001, has stated with respect to the pressures on current World Bank president James Wolfensohn:

⁴ Woods 2000: 146.

⁵ Caufield 1996: 197-205.

*To save the Bank, and his own reputation, it is essential that the Bank's policies and public pronouncements do not err too far from its main shareholder and political protector, the US Treasury.*⁶

Nonetheless, despite the considerable “hard power” enjoyed by the US executive branch, the World Bank is not a simple tool of the Treasury Department and its interventions, pronouncements and decisions do not always unerringly tally with the designs of the latter. Over the years many Bank decisions have met with stiff resistance from the US Treasury and governmental bodies. For example, Caufield lists several occasions on which the Bank has openly defied US governmental pressure and Robert Wade describes how the form of the World Development Report 2000/1 was bitterly opposed by the US Treasury, which would have preferred to see a document that reiterated a far more orthodox neoliberal approach.⁷

To explain these disjunctures in lending practices and development policy, some authors, commonly arguing from a neoliberal institutionalist perspective, have emphasised the Bank's institutional autonomy.⁸ Many of these defences of the Bank's independent status come from analysts who are employed at the Bank or closely involved with Bank activities.⁹ The theoretical basis of neoliberal institutionalism is rooted in neoclassical economics and rests on a universal ontology of the mutually beneficial nature of free economic exchange. The theoretical postulate of shared absolute gains through economic liberalism provides the material basis on which a

⁶ Kanbur cited in Braathen 2001: 5.

⁷ Caufield 1996: 199; Wade 2001, 2002.

⁸ e.g. Woods 2003; Kapur 2002; Gilbert and Vines 2000.

⁹ e.g. Ray 1997.

cosmopolitan global order can be fashioned. Liberal internationalism, thereby, promises to extend globally the general good of economic competition through international cooperation within rational institutional structures, or regimes. An accepted international regime, therefore, provides the basis for international organisations that would promote public goods and the latter would aim to solve internationally determined technical problems of global scope.¹⁰ In order to perform this function adequately, however, an international organisation would need to be seen to operate in an impartial, rule-bound manner. If an organisation were perceived as overly influenced by a particular state interest, then this would undermine the political basis of its existence. In short, liberal institutionalism grounds the principal of the autonomy of the World Bank in its functional needs: to function adequately the World Bank requires autonomy.¹¹

For many institutionalists, once an international organisation has been constituted within a regime, questions of power can largely be eschewed. The Bank has a founding constitution (the *Articles of Agreement*) that defines its goals, rules of procedure constraining the modes of behaviour, and a large bureaucracy with technical expertise to undertake decision-making in an impartial manner based on the technical considerations established in its mandate. Under these conditions, a proper understanding of the World Bank is to be achieved by categorizing its major functions: namely, the Bank as a multilateral lending institution, as a producer and distributor of

¹⁰ An excellent critique of this liberal interpretation of the World Bank is to be found in the work of Arturo Escobar who charts how the Bank has been at the forefront of classifying “abnormalities” to the liberal vision of seamless global capitalist development (such as poverty, underemployment, landless farmers, illiteracy, etc.) to which the application of the development economist’s privileged scientific knowledge could be applied (cf. Escobar 1997: 88). However, Escobar’s approach suffers from remaining at the level of a cultural-theory critique. By not adequately analysing the real social relations and material processes that underscore these phenomena, his critique remains one of the constitution of development discourse and not the social basis of uneven development on a global scale.

¹¹ This is the position adopted by both Woods 2003 and Wade 2002 despite their methodological and political differences.

development knowledge, and as a development agency.¹² Building from the functionalist emphasis on forging cooperative technical solutions to common problems, liberal accounts stress that the leading force of change within the Bank is the increasing rationalisation and perfection of development knowledge, and a major problematic becomes the relative lag, caused by various forms of institutional inertia, between the onward march of good science, the practices of the Bank, and the relative willingness and ability of governments to implement the requisite measures.¹³ Specifically, in relation to the latter, the liberal perspective employs a pluralist sociology to elaborate how the particular interests of powerful stakeholder groups, such as corrupt governments or obtuse trades unions, block the optimal policy actions that stem from World Bank advice. Hence, through conditionality agreements, the World Bank can “oblige a government to adopt reforms which are in the best interests of its population, but run against the narrow interests of the government or its clients”.¹⁴

Given the common theoretical concerns of both realist and liberal institutionalist approaches, there is significant room for convergence. In so doing, a perspective arises that, whilst recognising several concrete mechanisms by which states can attempt to influence the Bank, nonetheless emphasises the relative autonomy of the World Bank owing to its institutional form and its functional needs, and thereby grants it powers of action independent from the particular interests of its most dominant shareholders. As Ngaire Woods elaborates, although particular state interests indeed seek expression through the World Bank, the direct pressures of influential shareholders do not inscribe content into a *tabula rasa*. On the contrary, the Bank has a “relatively autonomous” position vis-à-vis its most dominant member, the United States, and other leading states

¹² Gilbert, Powell and Vines 2000: 44.

¹³ e.g. Kanbur and Vines 2000; Krueger 1997.

¹⁴ Gilbert and Vines 2000: 25.

owing to two primary institutional factors. Firstly, it enjoys financial autonomy from shareholders as its day-to-day financial needs are not dependent on member subscriptions but are met by drawing credit from international financial markets.¹⁵ The importance of this factor for granting a certain leeway from direct political influence was noted back in the 1950s by then Bank President John McCloy who stated that “the necessity of going to private investors for funds, in addition to keeping the Bank’s management in touch with financial markets also ensures that its operations will be free of political influence”.¹⁶

Secondly, the Bank’s position as the largest research institution for development issues allows it to confer legitimacy upon its own projected solutions to issues, permitting a degree of buffer room from direct influences regarding policy implementation.¹⁷ In 1997 the Bank spent a total of over one hundred million dollars on research activities, including both on-the-ground research in each of the 150 member countries, and comparative and theoretical work, with over two hundred permanent researchers based at its Washington address.¹⁸ This makes it the largest development research institution in the world, dwarfing any comparable academic centre, and has led to a trend within the Bank and sympathetic observers to constitute its primary function as the dissemination of global public knowledge in the form of codes of best development practice.¹⁹

¹⁵ This is the case with the IBRD, but less so with the IDA as the latter depends heavily on direct state funds. Refer to the discussion in chapter four.

¹⁶ Cited in Kapur, Lewis and Webb 1997: 1112.

¹⁷ Woods 2000; 2003.

¹⁸ Stern 1997: 524; Squire 2000: 113.

¹⁹ World Bank 1999; Gilbert, Powell and Vines 1999.

At this point, however, the limits of the realist and liberal approaches begin increasingly to be manifested. The nature of their shared ontological assumptions leads to a narrow range of concerns that exclude many of the factors necessary for an adequate understanding of international organisations. As indicated above, most analytical flexibility can be gained by blending the two perspectives to form a theory of the relative autonomy of the World Bank. This is to argue that the Bank is institutionally autonomous from the US and other leading shareholders on a day-to-day functioning basis. It is therefore able to develop and legitimate its own projected solutions to development quandaries and has a large degree of manoeuvre in its lending practices. Relative autonomy of this nature, however, is circumscribed within the parameters of the degree to which national state institutions, such as the US Treasury, attempt to exercise influence. Such parameters are not fixed but are formed in conflictual relationships over particular issues between Bank and state, as well as between internal Bank factions, and historical evidence suggests that confrontations normally lead to some form of accommodation and compromise.²⁰ However, what this perspective does not address is the global social context in which the Bank operates and that conditions and constrains its form and the content of its actions, both through and beyond the remit of national states.

A major part of the problem is that the realist-liberal analysis has dubious theoretical underpinnings that are embedded in its basic ontology. This is because both approaches share a similar conceptualisation of the naturalness and permanence of the interstate system, and of the predominance of inter-state relations in the explanation of global power relations. Both take the existence of an inter-state system for granted and, therefore, neglect to conceptualise the modern inter-state system as socially and

²⁰ cf. Wade 2000; 2002.

historically constituted in-and-through global capitalist relations. The latter are relations, moreover, that transcend the political division of the globe into spatially delimited territorial units. In contrast to realist and liberal assumptions about the timeless character of state entities, the very constitution of the inter-state system in the modern period was decisively shaped by the development and global expansion of capitalism as a mode of social reproduction. It was within the dynamics of escalating simple accumulation, impelled by the expansion of foreign trade, that the modern nation-state form and the modern inter-state system began to emerge from the absolutist structures of the feudal state in Western Europe.²¹

From its origins, therefore, the modern national state form has arisen at the nexus between the global circulation of goods and money and the appropriation of labour-power by capital within a politically delimited spatiality. At this early stage, capitalism was not a national phenomenon that developed global dimensions only in its subsequent unfolding. Rather, the world market was, in the words of Marx, “the very basis and living atmosphere of the capitalist mode of production”.²² This is not to suggest that capitalism, as a form of global social relations, spontaneously emerged as a fully constituted and homogeneous phenomenon across the entire global space. As indicated in the previous chapter, the spatial expansion of capitalist social relations has been an historical, ongoing and profoundly uneven process, much of which was forged through conquest and colonialism that served to forcibly harness non-capitalist forms of production into a subservient relation to global capital. In contrast, it is to argue that the social relations of capitalist production that underpin the formation of the modern

²¹ Corrigan and Sayer 1985.

²² Marx 1982: 205.

state developed within and in relation to the crucible of a pre-existing world market for commodities and the global circulation of credit money.²³

Within a society in which social relations assume the form of relations between commodities that are circulated through exchange, a new relationship between social relations and space is constituted. Capitalist social relations, manifested in the alienated form of the circulation of commodities and money, are not bound in their essence by considerations of local or personal attachments. Commodity exchange in its fundamental characteristics, as noted by Tilla Siegel, “does not bear the shackles of nationality, ethnicity, religion, or direct dependency”.²⁴ Although the instance of production must indeed be conducted within a specific spatial location, and therefore within a specific national social-formation, the immediate process of production is simply itself an “evanescent moment”, one moment in an ongoing circuit that continually passes from production into circulation only to return to production and begin again.²⁵ The moment of production, therefore, is simply one necessary nodal point in a continual circuit of value creation and realisation. Whilst the labour process facilitates capital valorisation, the value contained within a commodity is realised only in the sphere of circulation via sale on the market and the realisation of value does not terminate the circuit but merely mark one further point in a perpetual process. On returning to the money form, the expansion of value requires that money must be employed in the form of productive investment.²⁶ In sum, owing to the predication of capitalism on commodity production, i.e. through the anonymous exchange of goods on

²³ cf. von Braunmühl 1978; Picciotto 1991.

²⁴ Siegel 1984: 3.

²⁵ Marx 1981: 134.

²⁶ Marx 1978: 180-199.

the market, its essence is global.²⁷ Nonetheless, the inherent globality of capital is indeed heavily mediated by the existence of national-state formations that alter the nature of the relationship between domestic accumulation and global capital through various forms of political regulation.

Constituted within global capitalist social relations, the modern state has found itself under constant pressure to attempt to secure the expanded reproduction of capital within the national territory as the basis for social reproduction.²⁸ This has historically involved a constant process of reorganising the relationship between capital and labour in various manners both within and, if possible, beyond national boundaries. The national state, therefore, is both heavily conditioned by, but also seeks to condition, global social relations in order to safeguard accumulation within the national territory. As a constant process of manoeuvring within the relations of global capitalism, various state activities seek to alter the manner of their integration into the world economy in respect to the three differentiated moments of capital circuits – i.e. the circulation of money and commodities and the instance of production. As expressed in the previous paragraph, the circuits of capital are not inherently constrained to a national territory but are global in essence. States, therein, have constantly been confronted with the task of formulating strategies that modify the relationship between the domestic accumulation process and the global circulation of capital in both money and commodity forms. Imperialism, in its most general and abstract moment, is an expression of the globality of capital and the immobility of the state form. The basis of imperialism is the activities of the state, in the concrete forms of diplomatic pressure, military compulsion, etc., designed to aid the expanded reproduction of capital

²⁷ cf. Holloway 1995b; Burnham 2001.

²⁸ cf. Müller and Neussüs 1975; Holloway and Picciotto 1977; Clarke 1988, 1991c; Holloway 1995b.

accumulation through ensuring and abetting circuits of capital which stretch beyond the limits of national territorial jurisdiction.

Composed within these dynamics, the form of international regulatory organisations have been the object of struggle between states as the latter seek to manipulate the terms by which international trade, money flows, and other forms of regulating global capital relations, should proceed. This is particularly pertinent given that the current era has witnessed the rapid growth of such organisations, paralleling the renewed internationalising course of contemporary capitalism during the post-War period. As this suggests, there is constant conflict and compromise between states over the institutions and forms of intervention that govern the relations between capitals, and between capital and labour, at a global level. Moreover, it is important to recognise that even the executive branches of national states do not necessarily have a unified voice, owing to the stratification of interests that they may wish to placate. As Devesh Kapur highlights with respect to the paramount influence of the United States, the latter represents a “complex amalgam of diverse economic, financial, security and ideological interests”.²⁹ This applies equally to borrowing countries, and such diversity of pressures serves to create disjunctures within the Bank itself. Moreover, given the disjunctures within various state institutions, different parts of the state apparatus can put contending pressures on the Bank. This is most evident in the oft-conflictual relationship between the US executive and legislative branches vis-à-vis financial commitments to the Bank and the policy framework that these should go towards.³⁰

²⁹ Kapur 2002: 59.

³⁰ cf. Pincus and Winters 2002; Rich 2002; Kapur 2002.

This leads us to readdress the concerns of realist and liberal theories of international relations. The first important aspect to stress is that the tendencies towards inter-state anarchy or cooperation cannot be derived from some metaphysical nature of states – either Hobbesian antagonism or Kantian cosmopolitanism – but is driven by the uneven dynamic of capital accumulation at a global level. Political regulation of the movements of money and commodities, imposed by states, can appear to capitals as barriers to capital accumulation and therefore societal reproduction at a national level. In periods of global expansion of capital, cooperative actions between states to aid the global expansion of production and the circulation of money and commodities may indeed offer mutual benefits to capitals through the opening of new markets, sources of investment and credit, and opportunities for productive investment. However, the inherent tendencies toward repeated overaccumulation and crisis impose a different and more contradictory dynamic. In periods of escalating overaccumulation, market expansion remains a potential solution to overproduction. However, furthering the universal internationalisation of capital simultaneously appears as a barrier to profitability owing to the threat of increased international competition. Under such conditions, unilateral protectionism within an atmosphere of multilateral openness appears as a preferable manner by which to attempt to safeguard the reproduction of domestic productive capital.³¹ In such periods, conflict between states over the rules and institutions that govern the relations between capitals and between capital and labour at a transnational level are generally heightened.

³¹ cf. Clarke 2001: 80-81. N.B. The reproduction of domestic productive capital does not necessarily involve the protection of capitals of domestic nationality, but owing to the global nature of capital circuits, can involve protecting capitals of foreign ownership located within the domestic ambit. cf. Harris 2003 and, for an older theoretisation, Poulantzas 1974.

That the Bank is strongly conditioned by the trajectory of accumulation at a global level necessarily means that it is constituted as a moment of interstate relations. To re-emphasise, this is the basis (and the limit) of both realist and liberal theories of international institutions, with the differences between the two perspectives founded on superficial propensities towards viewing the international realm as ontologically predisposed towards conflict or stability respectively. Returning to the theoretical content of the first two chapters, it was argued that although the social relations of capital are global in scope, the latter is spatially fragmented into diverse national state forms. At issue in reconstructing a Marxist approach to the World Bank, therefore, are the conflictual tendencies that are impressed upon the Bank owing to the tensions between capital's global nature and its spatial fragmentation. On the one hand, the global nature of capital underlies a significant compulsion to create forms of international regulation that can sustain the global conditions for the expanded reproduction of capital, in which all states necessarily have a vested interest as it underlies the material basis of their own material reproduction. However, in spite of structural inclinations towards cooperative internationalism, the contradictory tendencies raised by the trajectory of accumulation also ensure that the relationships between national states within global capital are inherently instable. As examined above, the dynamics of cooperation and conflict are underscored by global cycles of crisis. The latter serve to sharpen the pressures upon national states to act in a self-interested and potentially destructive fashion.

Global asymmetries within the highly differentiated spatial composition of capital add a further level of analysis. The uneven development of capitalism on a global scale creates vast contrasts in the respective ability of states to enhance the conditions of accumulation, with respect to both the global and domestic ambits. Uneven

development has historically placed the majority of capital in the Northern core thereby giving these states far greater power to shape the contours of global accumulation by mediating the conditions under which credit circulates internationally. What could be called the contemporary “international division of money” in which the majority of investment funds resides in the hands of capitals located in northern financial centres, therefore, gives these states far greater power to shape the contours of global accumulation. The World Bank, as an international organisation that provides credit for capitalist development activities in the South, reflects this unequal development of capital and the power relations involved. This occurs both explicitly – in the political influence derived from provision of a majority of Bank standing capital and loans to the International Development Agency (IDA) – but also abstractly through the subordination of the Bank to the global relations of capitalist development in which Southern countries are heavily reliant on private capital movements from the North.

2. Neo-Gramscianism and the Politics and Ideology of Neoliberalism

The immediate thrust of the critique of realism and liberal institutionalism, therefore, is that to understand the many determinants of World Bank form and content, it is necessary to examine a much broader range of relationships than those immediately posited at the level of the inter-state system. In this respect, approaches that could be loosely defined as ‘Neo-Gramscian’ offer a perspective that, owing to its critical-theory basis and its social forces-centred paradigm, might offer a significantly better lens through which to view the varied determinants of World Bank form and content.³² In contrast to the neo-realist assumption of sovereign states acting in the international arena to protect natural and objective national interests, neo-Gramscians emphasise the

³² Lee 1995.

construction of hegemonic interests by specific social forces. These social forces, which are particular interest groups defined primarily in relation to particular income sources derived from respective positions within the social relations of production, attempt to formulate a hegemonic project around a particular conjuncture of ideas. In the initial, genre-defining formulations of Robert Cox, hegemonic strategy occurs first and foremost at the level of the national state. Once a particular underlying configuration of social forces has reached a national hegemonic position and has become ingrained in the state form, however, it can begin to propagate this particular ideology at a global level, often using international organisations as a means to this end. The making of a relatively cohesive ‘world order’, therefore, involves projecting globally from the national state a structure of values and understandings about the nature of order that “permeates a whole system of states and non-state entities”.³³

The advantages of this formulation as compared to the realist and neoliberal institutionalist perspectives are immediately apparent. Rather than relying on naturalistic conceptions of a general interest, at either a national (realist) or cosmopolitan (neoliberal) level, Cox problematises the construction of state interests and roots these in the conflictual relations between social groups stemming primarily from different locations in the social relations of production. An immediate issue of contention, however, was the conceptualisation of the construction of an historical bloc as a national phenomenon, based on the hegemonic position of a social class within a particular national state.³⁴ To accommodate the increasing internationalisation of production and the challenges that this posed to analyses of hegemony in terms of national strategies, subsequent writings from a neo-Gramscian paradigm have tended to

³³ Cox 1996 [1992]: 151.

³⁴ Cox 1996 [1983]: 135.

highlight the agency of transnationalised bourgeois class fractions in the propagation of neoliberal ideology at state and international institution levels. From this perspective, the rise of a transnational bourgeoisie since the 1960s is the product of an increasingly internationalised mode of production that involves firms whose component organisations are located in different territorial jurisdictions. Owing to the strong reliance of these multi-national corporations upon forging comparative advantages through differential location of the various nodes in their production and finance networks, they form the bulwark of support and propagation of the neoliberal model which became the hegemonic world order following the crisis of the 1970s. The hegemonic strategies of ideology propagation pursued by the dominant internationalised class fractions, particularly global finance, serve to entrench the neoliberal ethos in “the modes of thought of key individuals in government and of groups and institutions in various civil societies in strong as well as less powerful nations”.³⁵ Their ability to promote this hegemonic ideology rests upon structural power resulting from growing resources and mobility.

In this manner, by using these strategies and supported by the bulwark of economic supremacy, transnational capitalists have been able to form a hegemonic block at the international level that exercises authority over states and multilateral institutions by asserting the universal norms, institutions and mechanisms to which all actors must abide.³⁶ Consequently, from this perspective the World Bank is constituted as a thoroughly neoliberal capitalist institution owing to the hegemonic position, mediated through the structures of leading states, of a transnationalised bourgeoisie rooted in

³⁵ Gill 1991: 49.

³⁶ Gill 1991.

global production and finance networks.³⁷ To support this argument, neo-Gramscians could point to several conduits of neoliberal ideology into the World Bank. At the site of intellectual production, a neo-Gramscian approach could highlight the hiring practices of the World Bank that, whilst more heterogeneous than the IMF in terms of nationalities, remain characterised by a heavy preponderance of recruits from the economics departments of top U.S. universities where the neoliberal ethos is strongest. Therein, the hegemony of neoclassicism that is preponderant within the US academy becomes transposed into the Bank through recruitment practices.³⁸

Secondly, neo-Gramscian authors could also point to the tight links between World Bank staff and Wall Street, the epicentre of global finance. The managing director of the Bank is commonly a former banker, or someone with close ties to Wall Street, and the Bank is in constant contact with international financial managers with whom it must negotiate its major sources of loan credit. Aside from personal linkages, the interests of finance capital are imposed on the World Bank via the constraints of its structural position as an institution reliant on the support of, on the one hand, principally western countries for its political and financial sponsorship and, on the other, private financial markets for raising the bulk of its capital. The Bank relies on its AAA credit rating allowing it to access financial markets at preferential rates in order to fund projects. This coveted rating rests upon the perceived soundness of World Bank lending and also upon the continued support of its major (Western) shareholders. Both these constituencies have a clear idea of what they will tolerate from the World Bank in terms of macro-development policy, but also expect the Bank to act in a manner that reinforces and stabilizes the major tenets of the global capitalist system.

³⁷ cf. van der Pijl 1998: 47; Cox 1993: 62-4.

³⁸ Kapur 2002.

Given the form of the World Bank as one aspect of a transnational hegemonic bloc, its function is then derived as an integral institution for imposing a form of disciplinary neo-liberalism. As Robert Cox elaborates, international institutions such as the World Bank play a key ideological role in constructing a form of hegemony as they help to “*define policy guidelines for states and to legitimate certain institutions and practices at the national level*”, a conceptualisation that has significant resonance with the World Bank’s self-presentation as a “knowledge bank” dedicated to promoting “best-development practice”.³⁹ As Gilbert, Powell and Vines, the most avid promoters of the World Bank as a “knowledge bank”, suggest:

*The Bank is like an Oxbridge college or a private university. It is involved in the education business and uses an endowment income – obtained from its subscribed capital and accumulated reserves – to subsidise its provision of knowledge and of public goods.*⁴⁰

In this respect, more nuanced Gramscian-influenced perspectives emphasise that the act of creating agendas and norms – for example, approaches to understanding and dealing with global poverty – does not revolve merely around the active pursuit of gaining ‘consent’, but rather constitutes an attempt to define the very parameters of a debate. Continued hegemony of the neoliberal project, as expressed by William Roseberry, is therefore sought by attempting to ingrain its central assumptions into the “*words, images, symbols, forms, organisations, institutions, and movements used by subordinate populations*” so that the very ways in which resistance forms and

³⁹ Cox 1993: 63. For a presentation of the World Bank as a knowledge bank, cf. Gilbert, Powell and Vines 2000.

⁴⁰ Gilbert, Powell and Vines 1999: 612.

articulates remains within the contours of the former.⁴¹ In this manner, the Bank aims to use its position and money to exert influence over the entire ‘development community’ of smaller regional development banks, other public and private aid agencies, NGOs, academics and national governments and hence keep the development agenda and practice constrained within the parameters of a neoliberal model. Moreover, the Bank actively seeks to convince the recipients of World Bank development ‘products’ of the soundness of the Washington doctrine and to assuage the doubts of public opinion in the West.

As the leading global producer of development doctrine, it enjoys substantial influence over not only client states but also the global terms of debate over development issues. This influence could be termed the “soft power” of the Bank, in contrast to the “hard power” of direct conditionality lending, and is one aspect of a larger process, highlighted by Arturo Escobar, whereby the production and reproduction of development knowledge attempts to create a discursive space in which “only certain things can be said or even imagined”.⁴² One manifestation of the discursive power of World Bank vetting is manifested in the need for national and sub-national governments, communities and NGOs to couch projects requiring public or private funding in the concepts and terminology propagated by the Bank. Justifying projects within the context of World Bank discourse is seen as a method of validating their soundness by emphasising their basis in a scientific and internationally verified body of development knowledge, and is often a prerequisite for attaining funding from public or private lending agencies. Such influence, however, has made the Bank the direct target of critique from across the political spectrum.

⁴¹ Roseberry 1994.

⁴² Escobar 1997: 85.

Indeed, given these roles, it is easily recognisable, moreover, why the World Bank should be constituted as an object of political struggle at a global level, as the Bank plays a key role in the global politics of capitalist development that transcends its immediate role as a source of credit. The recognition that national states are by no means the only actors on the global stage is highlighted as one of the key facets of the ‘new’ international political economy and, although such a perspective can be justly criticised for extreme short sightedness that tends to ignore the long historical role of internationally orientated social movements, it is nonetheless related to the observable phenomenon of a variety of internationally organised and orientated movements targeting multilateral institutions as a central locus of struggle.⁴³ The last decade, however, has seen the emergence of strong internationally organised social movements that have directly contested the World Bank’s historical legacy and contemporary policy prescriptions. The centrality of the World Bank in the global conflict over international development policy in the late 1990s and its effects on Bank rhetoric and prescription are examined in the conclusion, where it is emphasised that the major effect of this current internationalisation of struggle has been a legitimacy crisis within the institution.

Whilst not contradicting the World Bank’s role in the global propagation of neoliberal forms of restructuring and the struggles this gives rise to, it is nonetheless necessary to critique the neo-Gramscians for an overemphasis of the role of ideology in the determination of global power relations. Within the neo-Gramscian framework, ideology is merely the set of ideas that a particular social force – preponderantly

⁴³ O’Brien et al. 2000; for a historical sociological interpretation of the role of social movements in international politics since the advent of capitalist modernity, cf. Colás 2001.

fractions of capital – seeks to establish as the ruling ideas in order to directly affirm their material interests. It is on these grounds that the neo-Gramscian approach has been attacked as a form of “Weberian pluralism”.⁴⁴ Like other fractionalist perspectives that champion the subjective imposition of modes of domination by particular interest groups, neo-Gramscian analysis tends toward a mechanistic theory of production, class, ideology and subjectivity.⁴⁵ In contrast to a conceptualisation of class as a dynamic and contradictory relationship constituted at a level that belies immediate forms of appearance, the neo-Gramscian theory of class is a theory of “social forces” that are constituted in the realm of circulation owing to divergent revenue sources (e.g. wages, profits and rents), and which are drawn into a common political project cemented at the level of ideology.

Such a perspective operates on a static “pie-division” conceptualisation of production, which finds its theoretical basis in neo-Ricardian theory. Within the Ricardian framework, production is viewed as a rigid technical exercise of joining the three principal factors of production (capital, labour and land) in order to produce use-values (useful things). By simplifying production into a technical process of use-value creation, the world of distribution and circulation, in which atomised consumers utilize their wages or profits to purchase commodities with a view to consumption (either personal or productive), appears to reside in an entirely separated sphere of social relations. Struggle is reduced to social conflict over the social relations of distribution or, more specifically, the distribution of a fixed amount of use-values materializing from the static production process. This leads to a rather mechanical and unmediated association of the material interests of social forces with political projects aimed at

⁴⁴ Burnham 1991.

⁴⁵ For more expansive critiques of fractionalist analysis, cf. Clarke 1978; 1979.

furthering those interests. Accordingly, the state is generally theorised in a sociological manner as playing a pivotal and relatively unhindered role in the reconciliation of divergent interests and its content is defined by which interest group is best able to advance its own interests by promoting them as universal.

Production, however, is not merely a technical process of adding units of labour to raw materials, but rather constitutes a set of contradictory relationships between the owners of capital and workers. At the most abstract level, by employing what is essentially a technical understanding of the relations of production and deriving a concept of class from the former, neo-Gramscianism does not examine the contradictory essence of capitalist social relations expressed in the inherent tension between the development of productive forces and the social form assumed by the relations of production in capitalism. In so doing, there is no concept of the specific social form of capitalist production in which the subjective activity of labour is constituted as an objective and dominating social force. In contrast to neo-Gramscianism, a theory of power as a social relation predicated upon the fetishised forms of alienated labour allows for a richer understanding of global social domination as it not only establishes the social foundations upon which different subjective forces can attempt to impose their interests but also provides a basis on which to comprehend the social limits to these strategies.

The tensions inherent in the value form of labour problematise the question of subjectivity by showing how the fetishised appearances of capitalist social relations create alienated and inherently contradictory subjectivities. This allows for significant disjunctures between the intentions and outcomes of social agency, including, for example, breaches between the immediate necessities of individual capitals and those of the sustained reproduction of capital in general. The neo-Gramscian approach,

centred only on the antagonism between different social groups in the sphere of circulation, has no substantive manner to investigate how these contradictions work themselves out at the level of individual capitals, social capital and the state. Clearly capitals located in different sectors of production or, pertinently, different moments of the circulation of capital (finance, industrial, merchant) will have contingently diverse interests and may indeed organise politically to pursue these aims, as neo-Gramscianism assumes that they do.⁴⁶ However, there are limits to this conceptualisation. On the one hand, despite different functional moments in the circulation of capital, all capitalists are dependent upon the extraction of surplus value by capital-in-general from global labour. To understand the complex interaction of vertical inter-class relations with horizontal intra-class relations requires a more sophisticated theory of the creation and distribution of value.

Secondly, it is important to re-emphasise that the conflict between classes does not exist solely as a question of distribution but, in contrast, a vital and conflictual relationship between classes exists within the sphere of production even before the issue of distribution is broached. As indicated in the previous chapter, a defining aspect of capitalist social relations is the worker's sale of labour-power – the capacity to labour – to the capitalist.⁴⁷ Production relationships, therefore, involve a range of struggles over numerous aspects of the conditions under which this labour-power is expended, including the length of the working day, the organisation and intensity of

⁴⁶ It should be noted that the primary manner by which neo-Gramscianism justifies the ascendancy of a particular fraction of capital is through the outcome of state (or international institution) policies and the particular interests these are viewed to serve. This involves a tautological form of reasoning, whereby hegemony is read backwards through the policies of the state. For a more systematic presentation of class fractions as subjectivities based on the individual forms capital assumes within the circuit of capital, see Fine 1975.

⁴⁷ This relates to the fundamental differentiation made by Marx between labour and labour-power, with the latter denoting the capacity to labour, the precise realisation of which is constituted as a conflictual relationship between capitalist and worker. Ricardianism, however, makes no such distinction.

work, and the deployment of automated machinery, as well as over the wage. At their most basic level, these struggles relate to the necessity for capital to make workers labour beyond the socially necessary labour time equivalent to that represented in the value of the wage. The relations of production, therefore, are not analytically limited to the isolated realm of “industrial relations”, for the nature of their resolution exercises a determinate effect upon the movement of value in the circuit of capital. The latter ties together production and distribution, not as isolated acts, but as a continual process of value creation and realisation that underscores the dynamics of social reproduction and such considerations constitute the necessary basis on which to understand the form, functions and limits of the modern state.⁴⁸

Finally, to the limited extent that neo-Gramscianism presents contradictions within the social relations of production, these are understood as political contradictions: namely, the distributional struggle between social forces located within different moments of the distribution process. The trajectory of economic development, state form and world orders, therefore, is primarily determined through political struggles over the distribution of incomes. Without a theory that can explain the dynamics of capitalist accumulation as social processes that appear in objective forms, the trajectory of capital accumulation becomes a phenomenon contingent on political struggle at the level of appearances. For example, in the case of Cox’s discussion of the world economic crisis in the 1970s, he is forced to understand the crisis as essentially a political one: an organic crisis of hegemony within the national state unleashed by the profit squeeze of manufacturers owing to labour demands and the competition of foreign products.⁴⁹ Understood in this way, crises can potentially be solved at a political level by re-

⁴⁸ cf. Müller and Neusüss 1975.

⁴⁹ Cox 1987: 273-308. This is a restatement of the ‘profit squeeze’ theory of crisis, as propounded by Glyn and Sutcliffe (1971) and critiqued by Fine and Harris 1979: 76.

establishing hegemony through a dominant social class finding the right “fit” of power, ideas and institutions. Neo-Gramscianism tends towards this over-politicisation of the dynamics of global capitalism owing to the lack of a theoretical basis on which to examine the contradictory social form of capitalist relations and the inherent crisis tendencies they engender.⁵⁰

For the purpose of analysing the World Bank, the work of Cox and others in this genre is to be welcomed for re-asserting the importance of production and social struggle in the analysis of global power relations and the institutional forms they assume. However, the analysis provided is partial. Neo-Gramscian analysis is able to conceive how capitalist social relations give rise to political struggles between both capital and labour, and between capital fractions over distributional issues, and how these struggles can become articulated at an international level. However, it can provide no theoretical basis through which to understand how the contradictory social form of capitalism also conditions such struggles and places limits to the possibilities of their resolution. At the heart of the problem is that, despite assertions to the contrary, the levels of analysis initially put forward by Cox, and that subsequent neo-Gramscianism has accepted, are not dialectical in a Marxist sense.⁵¹ Analysis does not move between different levels of abstraction in order to locate determinations of social forms in the social relations and concrete practice of human beings. Rather, it is a systemic analysis, in which different levels of analysis – social forces, state forms and world orders – are understood as different yet interrelated structures within a system. Confined to analysing capitalist social relations at the level of appearances, neo-Gramscian analysis is unable to provide a firm conceptualisation of the fetishised nature of social practice, which stems from

⁵⁰ Holloway 1995b; Clarke 1988, 1994; Fine, Lapavitsas and Milonakis 1999.

⁵¹ These levels of analysis are outlined in Cox 1996 [1981]: 101 and Bieler and Morton 2003.

the social form of capitalist global relations, operates through the struggle-driven movement of value, and manifests itself not just in political conflict but in the form of the global movement of money, commodities and the quantitative determination of economic magnitudes.

The implications of this critique for understanding the World Bank within global capital are profound. Rather than limiting our conceptualising of the World Bank as the transmission belt for the ideology of hegemonic capitalist fractions, an historical materialist approach seeks to problematise the form and content of the World Bank through an examination of its position within historically changing and contradictory global capitalist social relations. This permits an examination of the World Bank that can go beyond the determination of its form and content by the subjective machinations of either a hegemonic class and/or dominant state, and is only achievable through a broader examination of the different modes of integration of the World Bank into global capitalist social relations. The latter task necessarily involves an analysis elaborated at different levels of abstraction appropriate to particular relations under scrutiny. Many of these modes of integration have been highlighted in the above discussion of realist, neoliberal institutionalist and neo-Gramscian perspectives yet, situated within those theoretical frameworks, were not imbued with the substantive content of being capitalist relations.

3. The Bank and the Contradictions of Global Capitalism

Through its quotidian activities as an implementer of development programmes in the South, as a key player in the international production of development knowledge, as subject to the turbulent dynamics of the inter-state system, and as a target of struggles

by global social forces, the Bank is fundamentally integrated within the relations and trajectory of capitalist development at a global level. The subsumption of the Bank to these social relations decisively conditions the nature of its activities in the South as well as the dynamic quality of its relationships with dominant states, client states, and various social groups that seek to influence (or undermine) it. In contrast to other recent conceptualisations of the Bank from within a materialist perspective,⁵² the approach currently elaborated emphasises that the Bank's constitution within global capitalist social relations imparts an inherently contradictory character upon the institution that manifests itself in both its policy prescription, substantive actions and the inter-state struggles over the institutional form and policy content of the Bank.

The theoretically elaborated proposition that the dynamics of global capitalist development are inherently conflictual and driven by struggle, and that these contradictions are crystallized within the various political, economic and ideological social forms, was advanced in the opening two chapters of this thesis. Here, and in the following chapters, it is emphasised that the substantive irrationality of the World Bank's practices must be comprehended on this basis. In this respect, the Bank's often contradictory goals, its tendency towards repeated bouts of expansion beyond its capacities, and most fundamentally, its failure to make any serious impact on poverty in over fifty years, are not in essence the result of its sub-standard research, weak lending philosophies, personal failings of its management, or its subjugation to the designs of northern states or narrow capitalist interests; even if all of the latter have indeed been common features of the Bank's history. More fundamentally, the contradictions within the Bank are determined at the first level of analysis by the irrationality of capitalist development on a global scale, to which the Bank is conjoined. It is only within the

⁵² Cammack 2001, 2003.

dynamics of the latter that the former contingent irrationalities can be adequately comprehended.

In this respect, the first section of this chapter examined how the crisis-prone course of global accumulation fundamentally conditions the dynamics of the Bank's relationship to the international system of states. Likewise, by critically drawing on the insights of neo-Gramscian theory, the second section showed how the Bank's institutional position opens it to the specific influences of conflictual social forces that are involved in propagating specific forms of capitalist global governance. Both these factors are important mediating forms through which a specific capitalist character is imposed upon the Bank. However, to view the particular constitution of the World Bank as imparted solely through the dominant state or social forces, even if these are placed within the dynamics of global accumulation, is to succumb to an instrumentalism that overlooks the wider context of the Bank's activities.

As set forward in liberal accounts of the Bank, the latter is an organisation created to address the internationally determined problem of underdevelopment in the South. However, it was argued in section one that liberal accounts of this role prove inadequate to explain the Bank's character owing to their inability to grasp the fundamental relations and contradictory essence of global capitalist development. A more precise formulation, therefore, is that the World Bank was created as an organisation in an international regulatory system intended to ensure the sustained accumulation of capital at a global level through selective interventions in global capitalist social relations. These interventions, moreover, have been aimed at promoting trends associated with capitalist development in the North through facilitating dramatic social transformation in the South. Primarily, they involved

promoting the spread of capitalist social relations (modernisation), often with foreign investment seen as a primary motor of this process. As discussed in the following chapter, the modernisation task was initially conceived in terms of providing the physical infrastructure necessary for incipient capitalist industrialisation, but has since expanded to include refining the human infrastructure by directly reconstituting the social and political structures of Southern populations in order to provide the social conditions for capitalist development. As such, the Bank has been deeply integrated into the dynamics of expanding capitalist social relations in the South. Moreover, Bank policy has from its initiation been aimed towards supporting private, particularly foreign, investment as the primary means to spur capitalist development and this has entailed that the Bank has consistently relied upon global capital circuits and the prevailing modes of the internationalisation of capital.⁵³

The institutional subordination of the Bank to the project of fostering capitalist social relations and the global expansion of capital circuits, however, imparts a complex and contradictory character upon the Bank. To restate the principal argument of chapters one and two, development in capitalist form constitutes the extension of the productive forces through the incessant yet haphazard movement of value. This entails the subordination of human needs and desires to the self-expansion of capital, a process that necessarily produces contradictory tendencies that repeatedly serve to undermine the social reproduction of the labour force. Therefore, whilst capitalism indeed

⁵³ This necessity reflects back upon the Bank's position within interstate relations. The actions of the Bank have typically rested on the projection of a convergence of interests between borrowers and creditors. To the former, the Bank presents itself not only as undertaking an ethical good of improving the plight of the vast majority of the world's population, but also as acting as a global accumulation caretaker, a role that necessarily involves fostering the conditions for profitable investment. To the latter, the Bank is presented as an aid in fostering the conditions for the expanded accumulation of capital within the national state form by promoting the conditions for foreign investment. Moreover, it is notable that both these functions were and continue to be justified as promoting Western security, originally preventing the spread of communism and lately from the emergence of rogue states.

develops the productive forces at unprecedented rates (the material basis of capitalist development), the social form of capitalist relations assures that the growth of actual social wealth is accompanied by unremitting social struggle, uneven development, recurrent crises, inequality and poverty. On this basis, at a global level, the World Bank is best understood as integrally involved in a contradictory project of fostering capitalist development in the global South whilst concurrently attempting to assuage the contradictions inherent in the latter.

As such, and in spite of the early optimism that capitalist modernisation of the South would be a relatively quick and harmonious process, capitalist development has given rise to a multiplicity of new problems and struggles.⁵⁴ Concurrent to the expansion of capitalist social relations and social contradictions in the South, the Bank has responded by its own process of expansion, therein augmenting its involvement in the contradictory dynamics of capitalist development in the South. In this respect, the primary form of Bank activity has become increasingly that of reactive mediation to the contradictions of global capitalist development and the specific character of the Bank is heavily determined by its direct role as an institution that both promulgates and attempts to mediate the tensions inherent to capitalist development in the South. The Bank is under considerable pressure to make its forms of intervention into specific social relations in developing countries practically pertinent to the emerging contradictions of social restructuring in the South through which the social conflicts over capitalist development and restructuring are passed through to the Bank. This interpretation contrasts with more instrumentalist accounts that emphasise that the

⁵⁴ This trajectory is examined at a global level in the following chapter, and with respect to the Chilean experience in chapters six through eight.

content of Bank interventions are formed merely at a politico-ideological level according to the contemporary conjuncture of state and social power at a global level.⁵⁵

Understanding the Bank as a reactive mediator of contradictory global capitalist social relations also permits a different understanding of its role in ideological propagation as compared to that advanced by neo-Gramscian accounts.⁵⁶ The latter tend to present the Bank as instrumentally elaborating a cohesive delineation of neoliberal policy to be subsequently transferred to the global South and set into policy practice. One problem with this understanding of the Bank, however, is the widespread recognition that World Bank research is far from cutting edge. On the one hand, Bank research is often characterised by manifold weaknesses that undermine its ability to decisively influence ongoing policy debates and belie its image as the avatar of neoliberalism. For example, Knut Nustad suggests that, in terms of its theoretical and analytical coherence, the World Development Report 2000/1, which the Bank regards as its definitive statement on poverty reduction, would not have passed as a Master's thesis.⁵⁷ On the other hand, it is suggested that Bank theorisation and prescription commonly lags several years – and sometimes as much as a decade – behind significant issues thrown up by restructuring processes in the South.⁵⁸ This sentiment is reinforced by the nature of Bank knowledge production, which is commonly constituted by selecting prototype programmes from amongst those that have already been instigated by governments in the South, removing their social, geographic and historical specificities, and linking them to the more general principals of rational development policy as recognised by the

⁵⁵ e.g. Wade 2002.

⁵⁶ This includes the work of Paul Cammack; cf. Cammack 2001, 2003.

⁵⁷ Nustad 2002: 3. Likewise, Ben Fine (2001a: 80) suggests that Bank research is marked by its: "Poor quality, poor engagement with alternatives (Americanisation), excessive dissemination at the expense of independent research capacity building, poor coherence and integration, ... and over-generalisation".

⁵⁸ cf. Pincus and Winters 2002; Kapur 2002.

Bank. Importantly, the Chilean experience has been a constant source of models for World Bank prescription, as examined in chapters six through eight.

In this manner, a materialist account of the Bank's role in international knowledge production must emphasise its function as a reactive mediator that seeks to give coherence to restructuring processes that are often already taking shape or well established. As Peter Burnham provocatively argues: "Capital does not wait for the articulation of the ideology of monetarism before restructuring".⁵⁹ In this respect, the ideological propagation of the Bank is best conceived as a rationalisation of processes that are often well developed in many countries; as an attempt to give ideological coherence to forms of restructuring by tying them to a wider body of 'scientific knowledge' that, importantly, is backed up by the power of capital. Certainly through its research and propagation activities the Bank attempts to give extra priority to particular forms of restructuring and institutional regulation as definitive solutions to development quandaries and can often attempt to facilitate their adoption in countries that, often through domestic political opposition, have failed to embrace restructuring trends.⁶⁰

Given its constitution as a reactive mediator of capitalist development in the South and its dependence upon the wider structure of private capital flows from North to South, it is unsurprising that major changes in World Bank actions and policy prescription have come at pivotal moments in the trajectory of global accumulation. This is not solely because such conjunctures heighten the political pressures upon the Bank, although

⁵⁹ Burnham 1991: 83.

⁶⁰ Given that its programme content has remained heavily dependent upon the theoretical underpinnings of development economics (firstly in Keynesian then in neoclassical guise) that is unable to provide an analysis of the specific social relations that underscore capitalist development, this task has proved inordinately hard.

coercion of this nature can certainly be an important influence, but because the social dynamics underscoring the accumulation of capital at a global level change. Specifically, as elaborated in the following chapter, the Bank can be viewed to have most significantly reformulated its self-projected role, policy prescription, lending philosophy and forms of mediating the policies of developing countries in reaction to the escalating crisis of national developmentalism in the early and mid 1970s, the debt crisis of the early 1980s, and the series of financial crises in the mid to late 1990s.⁶¹ All these pivotal moments in post-War accumulation greatly accelerated processes of change within the institution. In this respect, the following chapter aims to historicize the approach to the World Bank outlined in this chapter and provide an account of the Bank's reactive mediations to the trajectory of uneven development in the South in the post-War period.

⁶¹ Specifically, the Mexican Peso Crisis of 1994-5, followed by the Asian Debacle of 1997-8 and the subsequent meltdowns in Russia and Brazil. The Argentinean crisis of 2001 has had more repercussions within the IMF than the Bank, particularly in relation to debate over new rules for sovereign debt restructuring; cf. Soederberg 2003a.

CHAPTER 4 – THE WORLD BANK AND THE TRAJECTORY OF GLOBAL CAPITALIST DEVELOPMENT

This chapter has two main functions. Firstly, the chapter attempts to historicize the approach to the World Bank elaborated in the previous chapter by situating the Bank as an international financial institution within the major tendencies of post-War global capitalist expansion and the subsequent crises of the 1970s and 1980s. To achieve this goal, the chapter examines the shifting structure and activities of the Bank in the period from its establishment in the immediate post-War era, through the tumultuous changes that wracked the global South following the emergence of international economic crisis in the 1970s, and on to its transformation in the 1980s and 1990s. The chapter does not offer a comprehensive history of the World Bank, but rather consolidates a materialist interpretation of the Bank by identifying the main trends of Bank evolution within the contours of the post-War global political economy.¹ Secondly, the chapter broaches the character of the restructuring that swept across the global South in response to crisis in the late 1970s. It is suggested that the essential core of neoliberal restructuring was an attempt to impose the discipline of capital on states and societies in the South through a struggle-driven process of retrenchment and reconstitution of the institutional forms by which the state mediated the social relations of capitalist development. As such, the discussion paves the way for both a more detailed examination of neoliberal restructuring of labour relations and social policy in the following chapter and the detailed examination of societal restructuring in Chile (chapters six through eight).

1. The Changing World Bank: From Bretton Woods to Debt Crisis

¹ Kapur, Lewis and Webb (1997) provide the most comprehensive history of the World Bank. For a more critical appraisal, cf. George and Sabelli 1994.

Alongside its partner institution, the International Monetary Fund (IMF), the World Bank was established in concept in 1944 under the auspices of the US and British governments at the Bretton Woods conference. It would take another two years, however, before it assumed a concrete institutional form as the International Bank for Reconstruction and Development (IBRD), and a further year before it made its first loan. Although more emphasis had been placed on the establishment and role of the IMF, the Bank nonetheless formed an important pillar of the emerging institutional forms of the post-War “Pax Americana” and the reconstruction of global capitalist relations after the destruction of the war years. Anticipating the ending of the Second World War, the US government, supported by its British counterpart, sought to establish an international trade and financial infrastructure for a new and stable period of capitalist accumulation. Guiding the conference discussions were the principals of liberal internationalism that gave voice to the necessity of expanding global trade to create new markets for industrial products and secure international access to natural resources.

Rationalised on this intellectual current, the basis of this new world order was an international monetary system based on fixed exchange rates that was intended to deter the beggar-thy-neighbour policies of aggressive devaluations and economic autarky that characterised the period of the depression.² The corner stone of this arrangement was universal dollar convertibility, with the greenback pegged to gold in order to act as a stable currency unit for global trade, and the functions of the IMF as an international creditor of last resort for those countries that were experiencing severe balance of payments difficulties and therefore could not maintain existing exchange rate agreements. In providing a framework for stable international payments, the Bretton

² Pauly 1994: 205-6.

Woods architects aimed to sustain an environment for the recuperation and expansion of the world market in conjunction with the further internationalisation of capital through expanded commodity circuits and foreign direct investment.³ As a moment of liberal internationalism, the establishment of the World Bank was a fundamental recognition that a stable and regulated expansion of the world market was a necessary dimension of sustained accumulation in the core. Not only did the South provide a source of raw materials necessary for the production of industrial goods, the latent expansion of Southern markets offered a potentially important outlet for industrial consumer goods and technological innovations. Indeed, the imperative to secure the conditions for the internationalisation of capital would become ever more pressing as the conditions that spurred the post-War boom led to a progressive overaccumulation of capital in the industrialised countries of the North.

The role of the International Bank of Reconstruction and Development within this framework was posited initially as that of providing credit to aid war-ravaged Europe and ‘underdeveloped’ countries to promote long-term economic growth. Nevertheless, in the wake of the Marshall Plan, by which the US financed Europe’s reconstruction on a relatively unilateral footing, the activities of the Bank soon became focused on the latter, particularly upon those countries that gained independence from the colonial core through national-independence struggles in the immediate post-war period. These targeted countries were generally those that had seen more complete integration into international capital circuits owing to their position in the former colonial system. Processes of decolonisation, however, had created new challenges for the leading states and institutions of the capitalist global order. On the one hand, the ending of formal colonial rule brought an end to existing forms of political domination that secured the

³ Itoh and Lapavistas 1999: 185.

position of the colonies within the ambit of the imperial countries and the growing inequalities in global production and begged the fate of the non-core world. New forms of global regulation of trade and investment would be necessary to facilitate the maintenance and expanded reproduction of capital circuits between core and periphery. On the other hand, the relationship between the developed and developing worlds would become framed within the context of Cold War geopolitical dynamics. Through its activities as a provider of capital, the Bank was intended to harness developing nations into the capitalist world economy and, therein, into the web of Western patronage and away from possible Soviet influence or autarkic nationalism.

Within these parameters the Bank would assume a function of what could be called a creditor of sole-resort for many countries that, unable to manage the interest rates demanded by international creditors to cover the high-risks associated with turbulent borrowers, would otherwise be without access to international credit sources. As advanced in the rapidly emerging paradigm of 'development economics', the rationale that underscored the World Bank's activities was to correct capital market imperfections in order to augment transfers of capital and technology to the developing world. IBRD loans were used primarily to fund large infrastructure and developmental projects intended to foment industrialisation and capital accumulation, particularly through integrating isolated and impoverished rural areas into wider capitalist relations. In this manner, in the twenty years following its establishment, two-thirds of Bank lending was destined for electricity supply and transport infrastructure projects.⁴

Concurrently, at an international level, the production of development knowledge, including the identification of objects to be addressed through development practice

⁴ Bakker 1996: 49.

and the prioritisation of specific objectives within these practices, was largely constituted within a constellation of institutions that was established in the immediate post-War period with close links to the US state and academe. As the foremost international institution for promoting capitalist development in the global South, the World Bank became an increasingly central cog in these relationships. As Arturo Escobar suggests, a pronounced synergy was formed between:

[T]he role of experts, from whom certain criteria of knowledge and competence were asked; institutions such as the United Nations, which had the moral, professional and legal authority to name subjects and define strategies; and the international lending organizations, which carried the symbols of capital and power.⁵

It was not primarily the spread of the phenomena that theorists associated with development (industrialisation and modernisation) that led to this second wave of development theoretisation and practices, but rather the pervasive manner in which these phenomena were highly partial occurrences that created decidedly disaggregated social formations with considerable political instability. The overriding concern of the new development doctrines emanating from within this conjuncture of institutions and state power was posited as how to recreate the original transition to capitalist modernity in the European core.⁶ Much of the prescriptive detail of this task fell under the purview of the newly created and rapidly expanding field of “development economics” that was an offshoot of the marginalist-inspired modern economics that sought to apply the prevalent economic theories of the day to the idiosyncratic nature of ex-colonial

⁵ Escobar 1997: 87.

⁶ Roxborough 1979.

economies.⁷ At its birth, development economics was heavily influenced by the prevailing Keynesian orthodoxy that advanced the necessity of sustained state interventions in social relations in order to overcome market failures that were regarded as particularly pervasive in developing economies. Nonetheless, a critical fringe based on fundamentalist neoclassical principals that professed a radically different policy prescription also flanked the paradigm. The latter, as detailed below, would gain increasing ascendancy in the context of crisis in the 1970s. Notwithstanding such divergences, both tendencies within development economics were predicated on the ahistorical and asocial abstractions of marginalism as the basis for the ‘scientific’ production of development knowledge within the post-War period.⁸

Although development economics provided the technical substance of the dominant development doctrine, its narrow range of concerns inhibited its ability to account adequately for – or address – major social phenomena in the South. In this respect, development economics was readily supplemented by incorporation of the themes and concerns of modernisation theory as developed primarily by sociologists working in the United States. In essence, modernisation theory was a profoundly teleological conceptualisation of development in which all countries were destined to pass through identical stages on a road to modernity. In turn, modernity was posited as the achievement of industrialised, mass-consumption society. As Hugo Radice summarises, modernisation theory presented a monotonic route to modernity in which:

The economic, social and political attributes of advanced capitalisms were to be gradually established, as the benign

⁷ Escobar 1995; Leys 1996; Cypher and Dietz 1997.

⁸ Kay 1975.

*institutions of markets, civil society and the nation-state took
root.*⁹

A central feature of modernisation theory was its close symbiosis with the ontological standpoint of modern economic thought as embedded in a universal concept of development as rational progress. However, modernisation theory also provided a critique of development economics by suggesting that it was necessary to consider the wider social environment that could sustain a drive towards modernity through industrialisation. Major considerations within the modernisation paradigm, therefore, were cultural and political ones and the achievement of development was suggested as necessitating profound transition in the South through the implanting of Western values and institutions in order to make Southern populations appropriate to the rhythms and rigours of capitalist work.¹⁰

Within the development economics / modernisation theory paradigm, labour re-entered the imagination and practice of development through the parameters of marginalist economics in terms of its marginal productivity. As indicated above, within the confines of modern economics, labour is construed as a factor of production, socially equivalent to land and capital. Each factor rewards its owner with an appropriate source of revenue (wages, rent and profit) according to its respective contribution to production and the utility of the final product. If labour is more productive, therein providing a larger contribution to the value of the product, it will be rewarded with a higher wage. On this basis, development, in terms of per capita income, can be reduced

⁹ Radice 2001: 3.

¹⁰ Stuart Corbridge irreverently refers to this as a “clocks and condoms” approach as the latter items were commonly disseminated as two primary instruments by which to instil capitalist work time and Western nuclear families respectively; Corbridge 1995: 2.

in essence to a relatively simple question of improving the productivity of labour at a national level. As article three of its founding constitution stated, the Bank was intended:

*To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.*¹¹

Within developing countries, this aim was commonly theorised by development economists as occurring within the framework of a dual economy. The latter built upon the observation in several major developing economies of relatively high-productivity capitalist industrial sectors that existed alongside large, non-capitalist and low-productive agrarian and informal spheres. Development economists such as Arthur Lewis proceeded to suggest that it was necessary to encourage the incorporation of labour into manufacturing where it was more productive and where capitalists would reinvest the revenues from profits for further productive expansion.¹² As such, the motor of development was characterised as a process of removing labour from such “traditional” sectors followed by its subsequent subsumption within the high-productivity realm of capitalist industry.¹³ In this manner, development was conceived

¹¹ The World Bank articles of agreement are available at www.worldbank.org/.

¹² Lewis 1954.

¹³ Although the models of Lewis and others were often criticised as being narrowly focused on the urban realm, to the extent of treating agriculture as a “bargain basement” for cheap labour, the realities of entrenched poverty and bitter social struggle in the rural ambit entailed that the kinds of rural development policies that the Bank would embrace in the 1970s were also well established in many areas from the 1950s; cf. Corbridge 1995: 78.

as being intimately correlated to the expansion of capitalist work relations in the South. Alternative manners of achieving this transformation were suggested, although the predominant post-war consensus was that this process could be facilitated by select interventions of the state to buttress emergent domestic industry, coupled to external financing to compensate for low saving rates. Concurrently, in the name of creating a modern work force, states repeatedly sought to break down explicit manifestations of non-capitalist social relations through policies that encouraged primitive accumulation, such as the rationalisation of agriculture through ‘Green Revolution’ techniques, infrastructural investment and agrarian reform.¹⁴ As the World Bank stated in 1975, the strategy was:

*Concerned with the modernization and monetization of rural society, and with its transition from traditional isolation to integration with the national economy ... [it] implies greater interaction between the modern and traditional sectors.*¹⁵

To achieve its leading aim of promoting capitalist development, the Bank embraced these trends and embedded its lending projects within the prevailing patterns of global accumulation within the context of US-led liberal internationalism. Drawing upon the major tenets of modernisation theory and melding these with the Keynesian-influenced prescriptions of development economics for active state intervention to correct pervasive market failures to enhance the urban-industrial workforce, the Bank

¹⁴ Johnston and Kilby 1975; Harriss 1992.

¹⁵ World Bank (1975) cited in Escobar 1995: 162. The results, however, were generally disappointing, which in part reflected the adherence to the dual economy model despite long established and ongoing processes of (semi-) proletarianisation in the agrarian sphere. As James Ferguson underscored in his penetrating critique of Bank policy in Lesotho, development planning under the aegis of the Bank refused to recognise that the rural peasantry of the small African country were no longer a subsistence farming community but were heavily dependent on migrant labour in the South African mining sector; Ferguson 1994.

sanctioned the principal tenets of import substitution industrialisation strategies so long as these did not regress into autarkic nationalism.¹⁶ Capitalist development was seen as synonymous with industrialisation and, given this key objective, the Bank recognised that certain elements of protectionism were needed to shelter infant industries alongside state promotion of industry through credit provision and technical advice. Indeed, through the activities of the International Finance Corporation (IFC) in particular, the Bank readily embraced the prevailing pattern of promoting foreign direct investment to industry sectors that grew under the protective walls of tariff regimes.¹⁷ Furthermore, the support of national developmentalism could be adequately reconciled with promoting strategies of moderate welfarism, as the state took a greater role in providing health, education and social security.¹⁸

However, although flows of capital to key sites in the newly decolonised states were gaining momentum in the 1950s and, particularly, the 1960s, such investment was patchy and decisively uneven in both quantity and geographic spread. Focused uniquely on projects that would generate rates of return compatible with repayment of the IBRD loan, these financing conditions excluded large sections of the newly independent countries. As such, and in spite of its lofty justifications, World Bank lending was limited and did not tend to mitigate the uneven development of capitalism in the South. On the contrary, by focusing on a concentrated number of post-colonial countries that could afford the terms of IBRD loans, the Bank could even be suggested to have aided the trend towards growing differentiation in the South. To address such issues, the sub-institution of the International Development Agency (IDA) was formed

¹⁶ cf. Fine 2001a: 133-4.

¹⁷ The IFC was established in 1956 to promote private sector investment in the South by financially supporting large initiatives.

¹⁸ Mesa-Lago 1989.

in 1960, a move that initiated the first stage of dramatically expanding the scope of World Bank activities. In establishing this institution, a division of labour was created within the World Bank between the IBRD, which provided subsidised credit to middle-income countries, and the IDA, which provided zero-interest loans to peripheral developing countries. IDA grants, like the IBRD loans, were focused on large-scale development projects, such as dams, roads and other items within the parameters of laying the infrastructural basis for capitalist development. However, their soft-loan status meant that they funded a range of projects that would not qualify under the IDRB conditions of profitability and repayment. In providing capital for development projects in which private capital would not invest and where governments lacked the ability to guarantee repayment, the Bank sought to give impetus to processes of capitalist industrial development in the more peripheral areas of the South, mitigate the uneven development of capital, and give credence to the teleology of modernization theory that provided an essential element of the ideological justification for the character of North-South relations in the post-War period.¹⁹

Unlike IBRD credit, however, the source of capital for IDA soft-loans was not international finance markets. Rather, it came directly from western governments, principally from the US, Japan and Northern European countries, that generally agreed to make three-year pledges to the institution. This system permitted a greater degree of influence for those providing capital and, in particular, allowed a new forum for the political interests of the United States executive and other major shareholders within

¹⁹ Although global inequalities would continue to increase in the liberal world market order, the promises of modernization theory, as most famously propounded by Walt Rostow in his "Non-Communist Manifesto", stipulated that underdeveloped nations would inevitably follow the path of the developed core in a constant process of modernization through industrialisation (Rostow 1960).

the Bank.²⁰ In this regard, the IDA was viewed by leading states, and particularly the US, as an important initiative in the escalating global dynamics of the Cold War. It allowed money to be channelled through the multilateral institution to some of the poorest countries in the world that, following the Cuban Revolution of 1959, had proved to be the most likely theatres of socialist revolution. Whilst some authors have labelled the IDA as a Trojan horse for the US executive and other national governments to infiltrate the Bank,²¹ in the 1960s and 1970s this new forum of US influence was generally restrained to ensuring that a disproportionate amount of money was channelled to strategically crucial US allies.²² With the exception of the latter, the US did not habitually challenge the form or content of World Bank lending until the 1980s.²³ Indeed, in the 1960s, there was considerable similarity between the Bank approach and that adopted by US aid policy as exemplified by President Kennedy's "Alliance for Progress".

Nevertheless, as global economic conditions began to worsen in the late-1960s and 1970s, therein exposing the fault lines in contemporary forms of capitalist development in the South, enthusiasm in the Bank for import-substitution strategies as an adequate means of promoting capitalist development began to be moderated. Urbanisation proceeded at unprecedented rates throughout the global South, as did the capitalisation of agriculture and the growth of urban industrial realms. Yet, despite a period of relative economic growth, developing countries did not emulate the take-off towards convergence and modernisation that was predicted in the models of development

²⁰ cf. Kapur 2002: 62-3.

²¹ Kapur 2002: 65.

²² Woods 2000: 146.

²³ Caufield 1996: 197. However, by the 1990s the US had fallen into arrears in its payments to the IDA, thereby limiting its influence (Bakker 1996: 63). Strategic policy towards the IDA, however, seems likely to be significantly reformed under the current Bush administration and its proposed Millennium Challenge Account; cf. Soederberg 2003b.

economics. As Robert McNamara, President of the World Bank, noted in a speech to the Board of Governors of the Bank:

*Even if the growth rate of the poor countries doubles, only seven would close the gap with the rich nations in one hundred years. Only another nine would reach our level in one thousand years.*²⁴

Industrialisation, to the degree that it occurred, remained partial and appeared in many cases to rest on, rather than dispel, various forms of informal, low productivity and low income work.²⁵ Urban migration proved not to be a sign of progress heralding a transition of the population into a new modern industrial life, but a process of the dramatic expansion of shantytowns where the urban poor struggled for subsistence through mostly informal employment.²⁶ In place of a harmonious era of economic growth, social conflicts escalated and the growing urban working classes buttressed the state in order to mediate the newly emergent relations of social reproduction.²⁷

The tendencies of uneven development, moreover, were exacerbated by the emerging fractures in the trajectory of global accumulation manifested in falling commodity prices and declining rates of profit, both of which increased social tensions in the

²⁴ Quoted in Thompson 1983: 29. Also cf. the statistical data presented in Weeks 2002.

²⁵ Wilson 1998.

²⁶ The issue of the urban marginalized classes permeated development literature, particularly in Latin America; cf. Kay 1989.

²⁷ New theoretical trends that attempted to account for the failure of development through radical theories of imperialism and dependency burgeoned in the late 1960s and 1970s. Dependency theory in particular took issue with all the key propositions of the modernisation doctrine and proposed the opposite effects – that capitalist expansion would develop only underdevelopment, promote authoritarian practices and necessitated de-linking and economic autarky in the South as the sole political-economic strategy able to promote modernisation; cf. (e.g.) Frank 1966.

South.²⁸ Escalating inflationary pressures, rising public expenditure burdens, growing disjunctures between domestic and international prices for industrial goods, deteriorating terms of trade and balance of payments, and heightening social conflicts were all symptoms of the late 1960s and 1970s period. Such tendencies were only accentuated by the oil shocks and the ensuing international instability and breakdown of the Bretton Woods system. Although at this point the World Bank moved to a more discriminating position vis-à-vis the financing of ISI initiatives, it retained its belief that state-sponsored industrialisation was the best means of promoting capitalist development.²⁹ Its more proactive response to the fragility of ISI was a profound expansion of its own lending activities and the encouragement of Southern governments to borrow heavily from private credit institutions in order to ride out what was considered a temporary wave of external shocks.

First and foremost, guided by the presidency of Robert McNamara, the Bank took advantage of the explosive growth in international financial markets to fund dramatically increased levels of borrowing. Lending activity swelled from \$2 billion in 1970 to over \$11 billion in 1980, more than a fivefold increase over the decade.³⁰ An immediate result was a profound deterioration of the quality of funded projects, as judged by the Bank's own criteria.³¹ More importantly than the Bank's own escalation of lending, however, was that the Bank also encouraged client countries to take advantage of the dramatic increases in global liquidity, brought about by the recycling of petro-dollars through offshore markets, to increase private borrowing to overcome expenditure shortfalls. The orgy of borrowing that followed left states across the global

²⁸ Rapley 2002.

²⁹ Mason and Asher 1973: 378-9.

³⁰ Bakker 1996: 49.

³¹ Rich 2002.

South heavily indebted to northern banks. In Latin America, for example, the total external debt (private and public) leapt from \$100,000 million in 1976 to \$336,230 million in 1983.³² The trajectory of accumulation was one of inflation and debt-driven growth and, therein, extremely vulnerable to fluctuations in international interest rates.

Secondly, the Bank expanded its range of activities and began to emphasise the issues of urban infrastructure, education and health, and rural development in what has been termed a shift to a “basic needs” approach.³³ This reorientation of emphasis was partially a reaction to the growing strength of critics that highlighted the tendencies of Bank projects to exacerbate the dramatic class inequalities that processes of capitalist development were creating. More importantly, however, it reflected the course of struggles within the developing world where sustained class-based conflicts – particularly the urban-industrial working class – pressured national states to intervene more fully in mediating the social relations of reproduction of the working class.³⁴ One consequence of these expanded forms of state intervention was a growing fiscal burden upon the state, a tendency that would contribute toward growing indebtedness.

Simultaneously, crises in the rural sphere, partially caused by the tendency of ISI to curb the prices of agricultural products in order to suppress the value of labour-power in the urban centres, increased pressures towards land reform or other means of stymieing rural conflicts. Under McNamara’s expansion, the Bank was no longer involved in merely promulgating the infrastructure for capitalist industrialisation, it was becoming integrally involved in a project to mediate the unseemly social dynamics of

³² Dinerstein 2002: 10.

³³ Gilbert and Vines 2000: 16.

³⁴ cf. Moore 1995. These tendencies are discussed in relation to the Chilean experience in the following chapter.

capitalist development in the South. As Colin Leys succinctly elaborates, the new development discourse was prompted by:

*[T]he growing realization that the hopes of rapid and widespread development were going to be disappointed ... [leading to] sympathy for the masses in the ex-colonies and fear of their reactions.*³⁵

In face of the growing tensions in global accumulation that were manifesting themselves in the form of incipient economic crisis, amplified protectionism and heightening forms of social conflict, by the later 1970s changes within the operating philosophy of the Bank had gathered significant pace.³⁶ The wisdom of state-centred national developmentalism was increasingly questioned in view of the seemingly intractable problems within ISI and the incipient shift towards alternatives in key countries in the North and South. Moreover, the election of Reagan's neo-conservative government in the United States in 1980 gave a particularly strong political impetus for change in the Bank. Many leading Reaganites displayed open antagonism towards the Bank, which they viewed as a leading proponent of statist development policies in the South, and significant pressures were placed on the institution to reform its governing philosophy. Specifically, the US used its own economic crisis as a pretext to threaten a significant withdrawal from IDA funding should the Bank fail to embrace the monetarist wave.³⁷

³⁵ Leys 1996: 12(fn).

³⁶ George and Sabelli 1994.

³⁷ Bello 1994: 26.

It was no coincidence that the leading success story employed to justify the virtues of this policy shift was that of Chile, which had implemented a primary round of radical restructuring in the mid-1970s and boasted significant GDP growth rates in the late 1970s. With the profound crisis of Allende's attempted state-led, socialist strategy and the subsequent "economic miracle" of the Pinochet regime, the Chilean experience seemed to exemplify both the dangers of national developmentalism and the benefits of the new paradigm of monetarism and export-orientation. The manner in which the dictatorial regime had gone significantly beyond the IMF's prescription for social restructuring with the 1974-5 crisis was acclaimed globally as a model for emulation by the advocates of monetarism, both outside and inside of Chile. Indeed, as Francisco Orrego, a leading Pinochet ideologue and early proponent of the 'Chilean model' thesis, stated in 1975:

*Chilean action can assume leadership characteristics ... and the Third World will be able to understand and benefit from the Chilean experience.*³⁸

Owing to the extreme depth of crisis in the early 1980s, many other countries were indeed examining radical responses. As suggested above, by the 1970s the gap in productivity between those capitals operating under the protection of tariff walls and those operating at an international level was growing and, concurrently, placed greater strains on the states in the South. Cumulatively, the failure of capitals operating within a particular national social formation to adjust to dictates of the global movement of value is the unleashing of a 'heavy artillery' that impresses itself upon national states through pressures on the exchange rate, the accumulation of balance of payment

³⁸ Cited in Frank 1975: 19.

deficits and drains on the national reserves.³⁹ All these factors wracked countries across Latin America in the 1970s, a period in which the end of the post-War boom and the collapse of the Bretton Woods regime of fixed exchange rates removed many of the mechanisms that national states had formerly enjoyed in order to mitigate these tensions.⁴⁰ Through a combination of monetary pressures and heightened internal class struggles, the necessity of reconstructing adequate conditions for accumulation was manifested. Together, these manifestations threatened to further undermine the expanded reproduction of capital within the national state formation, upon which the reproduction of state and society in their capitalist form depend.

As an attempt to mediate some of the rapidly emerging global tensions, a transition within the Bank from project-orientated lending toward “structural and sectoral lending” based on the new principals of monetarist fiscal policy and export-orientated development strategy began to take concrete form in the late 1970s. McNamara coined the term “structural adjustment” in a speech in 1979 to symbolise the need for sustained and far-reaching reform of the orientation of national economies in the South and rapid incorporation of structural adjustment principals into the Bank’s lending operations followed. Subsequently, the first specific structural adjustment loan of US\$200 million was granted to Turkey in March 1980 in order to aid transition away from a national-developmental form of accumulation.⁴¹ Sensing the end of an era for the Bank, McNamara resigned in 1981. Within a year the tensions of capitalist development in the South were brought to a head by the unilateral decision of the US to dramatically raise interest rates, thereby prompting the spectre of mass debt default in many leading countries of the South. As the cataclysmic apex of the growing tensions

³⁹ Bonefeld 2000: 39.

⁴⁰ cf. Helleiner 1994; Pauly 1994; Clarke 1988; Leys 1996; Rapley 2002.

⁴¹ cf. George and Sabelli 1994.

of post-War capitalist development in the South, the debt crisis of the early 1980s plunged both the theory and practice of development into profound crisis.⁴²

2. The Debt Crisis, Restructuring and the Dynamics of Capitalist Development

In direct response to the profound crisis of the global South in the early 1980s – and, importantly, that of the Western banking sector which was threatened with financial collapse owing to mass default – the World Bank began to pipeline billions of dollars to debt stricken countries in order to facilitate continued interest payments on their old debt. Reacting to these exigencies, the Bank introduced sweeping changes in the nature and extent of its own operations, sidelining its former emphasis on project-orientated lending and shifting to a conditionality-orientated approach that greatly broadened the scope of its mandate. This represented an attempt to transcend the immediate question of stabilisation by laying down a longer-term development strategy that disavowed the former emphasis on state-led national developmentalism. Likewise, the Bank also shifted to more performance-based lending criteria whereby successive portions of structural adjustment loans were dependent upon successful implementation of prior requirements, as decided by the IMF and Bank. Surveillance functions were heightened and both institutions took a much stronger role in setting the fundamental parameters of client country policy.⁴³ With both the Bank and the IMF seeking to impose mutually reinforcing cross-conditionality restrictions on lending, the Bank became embroiled in a far closer association with the IMF than at any previous point. This rapprochement gave rise to the notion of the ‘Washington Consensus’ as both

⁴² Escobar 1995; Leys 1996; Kiely 1995.

⁴³ Bello 1994: 24. Tony Killick, however, argues that compliance from borrowing governments was decidedly uneven. Given the political costs of denying further funds, however, the Washington institutions generally continued to make further loans; Killick 1995.

these leading financial institutions wielded their considerable influence in order to propagate a moderately homogeneous neoliberal doctrine on a global scale. As John Williamson, who coined the term, stated:

For these purposes, “Washington” meant primarily the International Monetary Fund (IMF), the World Bank, and the US executive branch, although the term was intended to cover also at least the Inter-American Development Bank (IDB), those members of Congress who take an interest in Latin America, and the think tanks concerned with economic policy. It seemed to me that one could identify nine or ten policy areas in which “Washington” could muster something like a consensus on what countries ought to be doing ... A summary description of the content of this Washington agenda is macroeconomic prudence, outward orientation, and domestic liberalization.⁴⁴

In becoming the major funnel for emergency credit to the South, the Bank began to assume an extended role as a global accumulation caretaker and a purveyor of drastic social reform in the South. In providing lines of credit to the crisis-torn countries, the Bank escalated the imposition of conditionality clauses that aimed to restructure radically the relationship between state and society in the South and alter fundamentally the mode of integration of Southern economies into the world market. From within the Bank, such policies were seen as a means of re-establishing the stability of capitalist development in the South and ensuring long-term debt repayment, therein re-establishing the integrity of the international credit system. For this reason, they also

⁴⁴ Williamson 1990: 1.

appealed greatly to the Bank's major shareholders – an essential prerequisite of World Bank practices – as they sought to shore up the financial systems of the North, open new avenues for investment in the South, refocus the productive apparatus in the South towards low-cost primary and secondary exports, and thereby reinforce an ongoing shift in the international division of labour. The latter could subsequently be profitably incorporated into international capital circuits dominated by northern capitals.

The immediate phase of adjustment, commonly managed by the IMF, constituted the imposition of severe austerity measures to restore macroeconomic balances, particularly the suppression of inflation.⁴⁵ By undergoing a shock therapy programme of rapid liberalisation of prices, currency devaluation, and fiscal discipline, a deflationary period could be engineered within which 'excessive demand' was curtailed and inefficient producers sacrificed, along with their workforces, upon the altar of sound money. An emphasis on liquidity, moreover, was expected to enable capital to overcome the barriers to valorisation by escaping unprofitable engagements and concentrating in those sectors that offered more lucrative returns. Capital in mobile money-form would therefore be able to undergo a substantial recomposition: it could renounce inefficient engagements and, freed from established spatial and political constraints, seek a new relationship with labour. Societal 'rationalisation' in this manner almost invariably entailed a substantial destruction of existing capital and was commonly reflected in high levels of unemployment, with significant portions of the labour force relegated to the reserve army.⁴⁶ The decomposition of labour would subsequently provide the conditions under which a new and more disciplinary mode of

⁴⁵ Körner 1984.

⁴⁶ For example, Weeks (1999) details trends in Latin American unemployment; also cf. Gutiérrez 1990 for a Mexican perspective, and chapters six through eight for Chile.

capitalist work could be imposed, and this latter trend (“labour flexibilisation”) is investigated further in the following chapter.

Alongside what could be termed the ‘creative destruction’ of shock therapy measures, the Bank began to advocate an increasingly rigorous set of policy changes that entailed a major transformation in the relationship between capital and labour within national social formations, the form and content of political regulation, and the mode of integration of national states in the world market. Within this context, the broad tenets of neoliberal reform appeared uniquely suited to the task of resolving the crisis and re-establishing the conditions for expanded global accumulation. Their salience as policy options did not derive from their often-questionable economic functionality, but because they seemingly offered a more comprehensive set of solutions to the economic, political and social dimensions of crisis in the late 1970s and 1980s. As John Holloway and Sol Picciotto emphasise:

[C]risis ... is neither an economic nor a political crisis. It is a crisis of the capital relation, a crisis made inevitable by the inherent contradictions of that relation. The crisis inevitably involves a restructuring of the capital relation, a restructuring which necessarily takes on economic and political forms.⁴⁷

In reaction to the generalised social crisis of the South, manifested in distinct political and economic expressions, structural adjustment professed a fundamental re-articulation of social relations that, through imparting a new disciplinary logic into the relations between individuals, social groups and classes, aimed not only to mitigate the

⁴⁷ Holloway and Picciotto 1977: 133.

symptoms of crisis, in the manner of stabilisation, but to obliterate the social configurations in which crisis had arisen. It engineered a process by which the institutionalised regulation of social relations could be progressively fortified by the implicit disciplines of abstract domination, and its foremost ideological expression resided in neoclassical economics.

The prescriptive core of neoclassical social theory, which continues to inform World Bank policy practice, argues that sustained accumulation can be achieved through policies that actively impress the discipline of market relations on both state and society. To impose this discipline is to enforce the limits of capitalist social forms upon social actors through the subordination of social relations to the logic of money and the rule of private property.⁴⁸ In this manner, social relations can be reduced to market relations, which are conceived as neutral and, moreover, ultimately harmonious and, to achieve this, reality had to be rid of the institutional imperfections that prevented it operating in the manner of the abstract models of neoclassical economics. Within the context of the crisis, reforms in this mould attempt to resolve crisis on the basis of capital by forcibly restraining the aspirations of individuals, groups and classes within the limits of capitalist social relations. As long as social actors submit to the play of market forces mediated through neutral monetary relations, the neoclassical argument contends, the optimal conditions for accumulation will predominate, to the benefit of the common good. Accomplishing the latter, therefore, involves the removal of political and social constraints on these conditions, to be achieved in practice through the now-familiar policy package of state retreat, fiscal discipline, protection of private property, extension of commodification and expansion of market relations, and the containment of social demands within the confines of macro-economic prudence.

⁴⁸ cf. Clarke 1988.

Under these conditions, the state was constituted as both the primary subject and object of restructuring. By purposefully reducing the political barriers to the discipline of capital, states have been involved in an attempt to reconstitute themselves as depoliticised apparatuses subject to the abstract pressures of global capital and therefore less responsive to the social struggles that buffet them. In this manner, structural adjustment involved states reacting to crisis by creating the political conditions under which they are more subject to the disciplinary pressures of capital by reconstituting the process of governance to a depoliticised exercise of technical expertise. The strategy promoted by the Bank and eventually adopted across much of the global South was based precisely upon a radical restructuring of the historically developed political forms that mediated capital accumulation. To assert the discipline of capital on state and society alike, the restructuring process rapidly tore down the politically imposed barriers to international competition, including the tariffs, credit subsidies, and fixed prices that commonly characterised former import substitution strategies. Structural change involved further liberalisation of trade, the opening of capital accounts and the entrenchment of fiscal discipline. Concurrent to this shedding of its interventionist character, states dramatically reduced their own presence in the economy by rapidly privatising state-owned enterprises.

Such a strategy profoundly challenged the role of the state in the regulation of social reproduction as the new paradigm promoted the death of the state as a proactive agent in development practice. Within the parameters of neoliberal policy prescription, there is little room for the active mediation of the state in social reproduction save for a few basic tasks of providing necessary infrastructure and providing public goods that could not be devolved to the private sector owing to profitability constraints. Active

development policies are presented as distortion-inducing influences on a natural state of affairs and, therefore, at best profoundly counter-productive and, at worst, the malevolent interference of a rent-seeking political cadre. In contrast, market coordination of social relations is posited as the end in and of itself. As Ben Fine highlights, within this schematic:

*There is no need to define or characterise development – it's what the market brings if left to its own devices!*⁴⁹

However, to proclaim that the history of development as conscious practice had ended was rapidly proved premature. The interventionist state-form that had grown in a sustained manner during the post-War period did not emerge from the subjective irrationality of state managers wedded to erroneous theoretical models, but had developed historically in response to specific social struggles within the context of the contradictory path of uneven capitalist accumulation. On the one hand, therefore, the degree to which the disciplinary character of structural adjustment could be successfully imposed, therefore, depended greatly on the outcome of political instances of struggle within the environment of crisis. On the other, even where the project of social depoliticisation was most rigorously implemented, such as in authoritarian Chile, social tensions tended to escalate. As discussed in chapters one and two, neoclassical theory remains theoretically shielded from the contradictory essence of its own political project. Guided by its conceptualisation of money as a tool to facilitate mutually beneficial market exchanges, it is unable to recognise the exploitative essence of market relations sanctified by the impersonal power of money. It therefore disregards the substantive and conflict-inducing irrationalities of capitalist development

⁴⁹ Fine 2001a: 135.

manifested in the subordination of social need to profit, the pervasiveness of human resistance to processes of commodification and exploitation, and the continual crisis tendencies of social relations that stubbornly refuse to conform to general equilibrium models. All of these tendencies, it can be argued, were given a freer reign through the dismantling of the historically developed institutional forms that sought to regulate them.

In contrast to neoclassical theorists, however, the state cannot ignore these contradictions. On the one hand, the state is directly reliant upon the expansion of capital as, first, the precondition of capitalist development and, second, as the basis of its own material reproduction. On the other hand, it remains the institutional locus of political struggles and, as such, must continually attempt to mediate the tensions between sustaining accumulation and the conflicts therein engendered. The contradictory nature of state action, therefore, is rooted in the contradictions inherent in capitalist social relations. The empirically grounded demonstration of the diversity of responses to the transformation of global capitalist relations, moreover, highlights the importance of historical, geographical and institutional specificities of different spatial locales, particularly national social formations. As authors such as Paul Pierson and Ian Gough have suggested, in contrast to determination by the invisible hand of 'globalisation', social struggle in its explicit political manifestations is still of major importance for the trajectory of policy making.⁵⁰ Despite attempts to demote societal regulation to the abstract domination of capitalist social relations, therefore, the very contradictions inherent within the latter has ensured that the national state form remains a primary locus of social struggle.

⁵⁰ Pierson 1996; Gough 2001.

3. Neoliberal Restructuring and the Question of Development

In spite of its presentation as a radical break from state-centric national developmentalist development strategies, the new development prescription shares many of the underlying tenets of the former owing to their common capitalist character. Firstly, on the basis of improving global productivity, mainstream post-crisis development doctrine retained its unbridled faith in the globalising spread of capitalist social relations as the definitive solution to the quandary of underdevelopment in the global South. The problem with import substitution type strategies, it was suggested, was that the distortions it created through institutional interventions prevented the spread of capitalist labour forms across the economy, and particularly in the agrarian sphere, by preventing economic agents from pursuing rational strategies. Economic imbalances caused by ISI, therefore, perpetuated lingering low productivity 'traditional' sectors because government policies kept returns within these sectors low and deprived individuals of capital. In contrast to the projections of post-War development theory, therefore, state intervention had actually served to frustrate capitalist development by militating against the real comparative advantages of the South, specifically agricultural produce and cheap labour.⁵¹

Consequently, therefore, structural adjustment was suggested to re-orientate capitalist production in order to take advantage of these natural advantages by encouraging agricultural exports and, most fundamentally, the formation of labour-intensive industry. Openness to international capital flows and adoption of strict fiscal prudence, moreover, was suggested to pave the way for an influx of foreign investment that could

⁵¹ cf. Weeks 1995a.

power new growth and promote technological transfer. In order to promote these trends, states in the South were encouraged to take an active role in mediating the formation of human capital in order to complement the needs of a labour-intensive manufacturing sector. These interventions, as discussed at length in the following chapter, were to operate on the principals of selective and focused interventions that avoid the inefficiencies and fiscal burdens of universalised systems of social protection.⁵² If the right balance is struck, as the Bank restated in 1990, policy aimed to encourage labour intensive growth coupled to boosting human capital “can improve the lives of most of the world’s poor”:

*The first provides the poor with opportunities to use their most abundant asset – labor. The second improves their immediate well-being and increases their capacity to take advantage of the newly created possibilities.*⁵³

There is an immediate and revealing contradiction in the Bank’s presentation, however. On the one hand, the position adopted by the World Bank appears to be correct. Labour performed under capitalist conditions is generally more productive. Wages are commonly higher within the more modern sectors of the economy, and forms of social protection more readily available. In this respect, it is not surprising that the World Bank should celebrate the growing realisation of the imminent process of the spread of the capitalist work relation in the contemporary age. For example, in the 1995 World Development Report the Bank enthusiastically noted that by the year 2000 some ninety percent of global workers would be drawn into what they termed the “economic

⁵² cf. (e.g.) World Bank 1990; 1991.

⁵³ World Bank 1990: 51.

mainstream” of market relations.⁵⁴ In its view, the spread of market relations, underpinned by the relation of capitalist work, remains the foremost manner of providing for the material needs of humanity and ending the incidence of poverty. By associating the process of capitalist development with the alleviation of poverty, moreover, the Bank creates an implicit yet unbreakable bond between the perceived benefits of capitalist development and the generalisation of capitalist work.

On the other hand, however, if the liberating spread of market relations has reached globally unprecedented levels, then the question as to why the majority of workers in the South still labour under poor conditions for modest pay becomes more pertinent. Contrary to the expectations of neoclassical economists, structural adjustment did not bring an explosion of labour-intensive capitalist work in the South. As two IMF economists noted in 1997:

*There is no doubt that globalization has coincided with higher unemployment among the less skilled and with widening income inequalities... We might have expected trade liberalization to boost the demand for unskilled labour and raise unskilled wages, but in fact the opposite has happened in some developing countries.*⁵⁵

Rather, labour intensive industry has become concentrated in several key regions of the international division of labour that were not keen embracers of the neoliberal prescription. The Southeast Asian ‘Tigers’, like the ‘Newly Industrialising Countries’

⁵⁴ World Bank 1995: 50.

⁵⁵ Slaughter and Swagel (1997) cited in Lieten 2001: 100.

(NICs) that preceded them, based their industrial strategy on selective yet pronounced state interventions to forge specific (if temporary) comparative advantages for exports.⁵⁶ Likewise, China and India are both examples of countries that have rapidly expanded export-orientated labour-intensive manufacturing sectors yet in a manner that belies neoclassical prescriptions for rapid liberalisation and limited state intervention.⁵⁷

Compounding these problems is the reluctance of the World Bank to probe the relations that underscore the capitalist international division of labour, preferring to rely on the scriptures of neoclassical economics that insist on the mechanical realisation of comparative advantages once the ‘correct’ policies are adopted.⁵⁸ Ostensibly, it is extremely surprising that, given the centrality of capitalist work to the World Bank’s development doctrine, relatively little of the Bank’s voluminous intellectual production acknowledges this reality or, still less, provides a rigorous analysis of the relationship between liberalisation, capitalist work, development and freedom that is implicit within its theoretical framework.⁵⁹ In short, the hidden abode of production is not an area in which the Bank has often had the courage to trespass despite their acknowledgement that:

*Throughout the World, most people spend most of their lives working. Even among the world’s poorest, only a relative few are idle; the great mass of the poor works hard for little pay.*⁶⁰

⁵⁶ Burkett and Hart-Landsberg 2000.

⁵⁷ Milanovic 2003; Rodrik 2003.

⁵⁸ World Bank 1990, 1991, 1995, 2000a, 2000c; IMF 2000a.

⁵⁹ Significant Bank literature on production is largely confined to the *World Development Report 1995: Workers in an Integrating World* (World Bank 1995), which is scrutinised in chapter five. Also see Rama 2000 for a lonely Bank research document on “Globalization and Labour”.

⁶⁰ World Bank 1995: back cover.

Before developing these themes in more detail in relation to the case study of Chile, however, the following chapter presents a more thorough analysis of state reconstitution through neoliberal structural adjustment in respect to its mediation of the social reproduction of the working class. This entails a closer examination of production relations within structural adjustment through an examination of the rubric of labour flexibilisation.⁶¹

⁶¹ Chapter ten examines the further reinvention of the World Bank in the late 1990s.

CHAPTER 5 – THE WORLD BANK AND THE RESTRUCTURING OF SOCIAL REPRODUCTION

The previous chapter examined structural adjustment as a series of institutional reforms aimed to assert the discipline of the capitalist social forms upon state and society through the logic of money and other forms of the abstract domination of capital. The area in which the state has repeatedly attempted to implement this project of social depoliticisation is in reforms to institutionalised forms of state mediation of the social reproduction of the working class. In undertaking an analytical deconstruction of the fundamental tenets of World Bank sponsored reforms to labour and social policies, this chapter provides a bridge between the analysis of the World Bank and the Chilean case study. This analysis is undertaken within the context of the social theory laid out in the first two chapters and the historical political economy of the World Bank presented in chapter four.

1. Flexibilisation and the Recomposition of the Capital Relation

Systematic reform to state regulation of labour markets and the juridical framework governing capital-labour relations was formally introduced to the “Washington Consensus” model of structural adjustment in the mid 1990s.¹ Nevertheless, the emergence of labour reform as a key pillar of the “second generation” reforms was a further example of the Bank providing a systematic prescription and theoretical grounding to a process that was already well advanced in many Southern countries. Productive reorganisation was central to the aims of structural adjustment and the social conflicts over the institutional forms that regulated labour relations were integral

¹ The Bank’s principal statement on labour reform is to be found in the “World Development Report 1995: Workers in an Integrating World” (World Bank 1995).

features of the 1980s political panorama. Reform emerged most virulently as a political strategy in the Latin American context in the early 1980s precisely because the effects of incipient crises not only demanded a refashioning of the capital relationship in order to reassert the profitability of accumulation, but also the immediate effects of crisis – in terms of mass unemployment and collapsing wages – thrust the organised working class into a position of unparalleled political weakness. Shock therapy and structural adjustment, therefore, provided many of the political and social conditions under which flexibilisation processes could begin through contributing to the expansion of a reserve labour army, mass expulsion of labour from the public sector, and the weakening of unions. Resulting from struggles within this socio-economic climate, a wide spectrum of changes in the conditions under which labour is contracted and performed have been noted, ranging from the flexible organisation of labour processes, reconstituted patterns of regulating industrial relations, and the escalating deregulation of labour markets.² In particular, a growing body of empirical studies suggests that the struggles surrounding economic restructuring have served to refashion important facets of the relationship between capital and labour in a more ‘flexible’ form.³

To be sure, changes in the relations between capital, labour and the state vary dramatically from country to country and sector to sector. Similar to debates over the “death” of the welfare state in the advanced capitalist countries, it must be emphasised that global labour flexibilisation is not an inevitable process, implanted evenly across all social space by the augmented power of capital in a globalising world. On the contrary, as developed below, attempts to refashion the relations between capital,

² For example: Arzuaga and Senen 1998; de la Garza and Bouzas 1998; Weeks 1999; Bensusán Areous 2000; Bagchi 2000; De la Garza Toledo 2000b; Wang 2001.

³ cf. Harvey 1990: 189-197; Standing 1997; Taylor-Gooby 1997; Edwards and Elger 1999; Waddington 1999; Munck 2002; and, for a specific Latin American focus, Enrique de la Garza Toledo 2000a.

labour and the state have developed in a highly uneven manner across the globe owing to specific institutional legacies, the particular trajectory of struggles within domestic and international ambits, and the idiosyncrasies of different locations within the global circuits of capital. In this respect, the incorporation by the World Bank of labour reform as a pivotal aspect of their reform prescription reflects an attempt to influence the course of profound yet fragmentary changes in the relationship between capital and labour at a global level.

Observing the aforementioned global changes in the capital relation, a paradigm of the 'flexibilisation of labour' has often been applied to mark changes in employment relations across the international division of labour.⁴ In a fundamental respect, however, much contemporary usage of the term "the flexibilisation of labour" neglects that the flexible usage of labour by capital is a fundamental characteristic of capitalist social relations. Capitalism is predicated upon the existence of a labouring class divorced from the means of production and thereby continually dependent upon selling its capacity to labour in order to attain, temporarily, the means for subsistence. Flexibility is, to a considerable extent, not a facet of the current capitalist epoch but the essential hallmark of capitalist work. As elaborated in chapter two, once separated from the means of subsistence, the freedom of the worker to contract with whomever he or she chooses is matched by the commensurate freedom of capital to absorb and discard labour from the production process according to the dictates of profitability. In times of crisis, capital repeatedly ejects labour from the production process, thereby

⁴ This characterization has been particularly evident in the debates over 'post-Fordism'; cf. Amin 1994; Bonefeld and Holloway 1994.

swelling the ranks of the reserve labour-army until such time as capital can once again profitably incorporate labour.⁵ As Marx suggested:

*It is similarly in the very nature of wage-labour subjected to capital that it is indifferent to the specific character of its work; it must be prepared to change according to the needs of capital and let itself be flung from one sphere of production to another.*⁶

If it is accepted, therefore, that the very essence of the commodity labour-power is its flexible exploitation by capital, then what is to be made of the contemporary polemic of the ‘flexibilisation of labour’? Here I contend that the flexibilisation of labour is best understood as a political strategy aimed at removing the historically forged restrictions upon the treatment by capital of labour-power as a commodity. In this respect, labour flexibilisation is both consonant with and an integral dimension of the wider process of imposing abstract domination that lays at the heart of neoliberal restructuring, and upon which more immediate forms of domination are constructed. This conceptualisation of flexibilisation as a project to reformulate the historically specific regulatory forms of the capital relation in order to impose more directly the abstract discipline of capitalist social relations is implicitly reflected in the discourses on flexibility coming from both neoclassical and post-Fordist perspectives, and also from empirical studies of labour transformation in particular sectors in various countries.⁷ Furthermore, the historical case study of Chile in the following chapters demonstrates the emergence of many of these trends and, as discussed below, the World Bank’s prescription for ‘optimal’ state intervention in labour markets is also extremely instructive in this regard. Indeed,

⁵ cf. Marx 1976: chapter 25; Kay and Mott 1982.

⁶ Marx 1981: 297.

⁷ cf. footnote 4.

through an examination of the World Bank's prognosis, several inter-related dimensions of flexibilisation as an attempt to impose the unrestricted treatment of labour-power as a commodity are discerned. This analysis therefore subsequently helps to structure the examination of labour flexibilisation in Chile in chapters six through eight.

A primary target of the World Bank's 'second generation' prescription for labour reform is the institutional forms that designate the conditions under which labour is legally permitted to organise itself collectively. In the World Bank literature, labour markets are viewed through the lens of neoclassical theory, which constitutes labour-power as just one more commodity to be traded on the market. Within the fetishised forms of appearance of capitalist social relations upon which the latter is based, the market presents itself as a realm of freedom in which the contradictions of bourgeois society are extinguished.⁸ Money appears as the neutral instrument of social transactions that mediates between commodities, rather than an abstract instrument of social power. On this basis, the relationship between employer and worker is presented as a rational and mutually beneficial exchange performed under conditions of equivalence. In derivation from this presupposition, labour flexibilisation is not only laudable in terms of efficiency questions, but also as a means of asserting the equality of exchange relationships in a neutral and technical manner. Any party to exchange transactions that, through collective influence, attempts to pervert the natural market price for a particular commodity is guilty of attempting to exact a rent, whereby a special interest distorts optimal equilibrium for personal gain and to the detriment of the common good. From this point of view, unions are precisely a monopoly of commodity owners that are attempting to raise the price of labour-power above its

⁸ cf. (e.g.) Friedman 1962.

natural level. On this basis, therefore, the labour contract should preferably be an individual relationship between the owner of labour-power and the owner of capital, free from the pernicious influence of non-market factors such as of state or union power. The individualisation of the capital relation is, unsurprisingly, a hallmark of neoclassical prescriptions for flexibilised labour systems although, as discussed below, the Bank itself recognises flexibilisation in this most radical individualised form as an unrealistic and undesirable project.⁹

According to the Bank, moreover, those that suffer most from monopolies that distort the price of labour-power are the underprivileged sections of the working class, specifically those in non-unionised sectors, and those reliant on state transfers. This is because, as explained by John Pencavel in one World Bank sponsored essay collection, raising wages above their natural rate in the formal sector dissuades capital from investing in more labour-power, thereby forcing an increased number of workers into the low-paying informal or 'competitive wage' sector.¹⁰ Overall, therefore:

[C]ollective bargaining is less a struggle between labour and capital for the division of national income, and more a competition between different groups of workers and between

⁹ Indeed, as Ben Fine has comprehensively demonstrated, the analytical coherence of labour flexibilisation in neoclassical and post-Fordist paradigms is extremely weak. For example, in contrast to neoclassical projections, the application of flexibility in one area of labour relations can lead directly to inflexibility in others; Fine 1998: 74-77. Likewise, de la Garza and Bouzas (1998) were surprised to find Mexican employers refraining from adopting the most radical models of flexibilisation owing to adverse effects on productivity. Once again, however, it is not the economic functionality of labour flexibilisation that has led to its wide propagation, but its role as part of a wider strategy of social discipline.

¹⁰ Pencavel 1997: 37-8.

*workers as a whole and the population receiving income in the form of transfers through the state.*¹¹

The theoretical basis of this assertion is the theory of factors of production and the assumption of a single, unified labour market that is able, if public and private distortions are removed, to coalesce at an optimum level where supply and demand are equal.¹² Within this framework, when wages are allowed to coalesce upon the market equilibrium, this situation provides the conditions for a process of market clearing that, in theory, should result in minimal unemployment with wages set in accordance with the productive input of the particular worker as determined by human capital endowments. Notably, however, notwithstanding his initial argument that collective organisation presents primarily a danger to the working class itself, the predominant concern of Pencavel's subsequent analysis is precisely with the distribution of resources between labour and capital and the overall effects for economic growth. This is because, despite assertions that it affects primarily relations between different segments of the working class, flexibilisation strategies aim precisely to refashion the relationship between capital and labour within a national state formation. As Paul Schultz aptly characterises, although the perceived gains of flexibilisation are directed towards wage earners as part of the common good, the substantive changes occur in the relationship between capital-in-general and labour-in-general:

Flexibility is most concretely defined as the ability to hire and fire without excessive costs and the mobility of workers to change jobs,

¹¹ Pencavel 1997: 45.

¹² Refer to the critiques in (e.g.) Weeks 1989, 1999 and Fine 1998.

*sectors and regions of employment without legal or social restrictions.*¹³

In contrast to neoclassical assertions of the harmonious exchange of labour for wages, however, this thesis has argued that the primary dynamic of the capital relation is a conflictive relationship wherein the abstract forms of domination particular to capitalism impose an objective necessity upon employers to enforce their employees to work harder, longer and often to suppress their wages. Such considerations cannot enter into the theoretical paradigm of neoclassical economics owing to its conceptualisation of production as the mere joining of the productive factors (capital, labour, land), each of which is rewarded independently according to the marginal utility of the respective contribution (profit, wages, rent). Within this construct, the complete disregard of class relations that constitute the capital relation facilitates the portrayal of collective organisation by labour as the attempt to establish specific interest groups that seek to exact rent.¹⁴

By stripping away institutionally embedded forms of collective protection, the individualisation of contracting often directly impacts on two pivotal aspects of the relationship between capital and labour: the price of labour-power and the ability to release the workers when they no longer offer a profitable contribution. Individualised contracting offers the promise of sidestepping collective wage negotiations, either at the level of the firm or according to generalised agreements by sector or profession. Flexibilisation in this manner can play a key role in suppressing the price of labour-power by politically atomising the workforce through a plethora of individualised

¹³ Schultz 2000: 300.

¹⁴ Weeks 1999: 163.

contractual arrangements.¹⁵ Likewise, collective or state influence over the terms of contract can also distort the ability of capital to hire and fire labour-power in a manner consistent with the needs of the enterprise. Often integrated into the labour regulatory regimes common to national developmentalist states such as India, Bangladesh and Latin American corporatist regimes, were provisions that required firms to pay substantial severance pay to laid off workers and prohibited the closing of a firm without state permission. In short, collective and statist measures are deemed to interfere with capital's ability to use or discard as desired the commodity that it has freely purchased. From the neoclassical perspective, therefore, labour flexibilisation is a manner of avoiding:

*[M]isallocations of workers and human capital investments in the economy that seriously retard development.*¹⁶

Resultantly, short-term contracts and greatly reduced job security, for example, are clearly identifiable aspects of a flexibilisation strategy aimed to minimise capital's purchase of superfluous labour-power. Likewise, removing political barriers to the suppression of wages also heightens the ability of capital to increase the extraction of absolute surplus labour. The latter appears to the individual capitalist as a method of sharpening his/her own competitive advantage within intra-capitalist competition. However, its results at the level of social capital are to enlarge the pool of surplus capital that is then divided up by capital according to the dictates of competition. Achieving a suitably flexibilized labour market of this nature repeatedly necessitates profound reorganisation of the relations between organised labour and capital, with

¹⁵ cf. Escobar and López 1996.

¹⁶ Schultz 2000: 295.

changes ranging from the immediate level of the firm through to forms of regulation that have become institutionally embedded in the state. The potential benefits of flexibilisation to capital-in-general, however, are multiple as they allow the disciplinary mechanism of the relative surplus army to operate in a more systematic fashion. A labour force suitably commodified, in that it does not enjoy significant protection in terms of job security and employment rights, assists in the ability of capitals rapidly to downscale assets or switch investments according to the dictates of profitability. At a social level, therefore, flexibilisation facilitates the shifting of labour between different branches of production, and this has significant implications for the global movement of capital and the ongoing recomposition of the international division of labour.¹⁷

The misallocation of labour is understood in the neoclassical tradition as over-employment within a particular sector or firm. Misallocation, however, can also be understood to occur within a specific firm, although, to examine this facet, analysis must part company with the neoclassical focus on exchange and enter the hidden abode of production in order to examine power relations over the organisation of work. Flexibility within the labour process is the aspect of flexible-labour that the post-Fordism paradigm has most emphasised under the rubric of ‘flexible specialisation’.¹⁸ Within post-Fordist paradigms, the rigidities of Taylorist production methods are seen as a barrier to profitability in an era where economies of scope are a key to greater success than economies of scale. According to the latter approach, a paradigmatic change in the relations between capital, labour and state is becoming visible in which changing global markets impart the need for:

¹⁷ Moreover, as examined in the following section of this chapter, labour flexibilisation has often been linked in close conjunction with a reformulation of social policy.

¹⁸ de la Garza Toledo 2000b: 159.

[A] flexible production process based on flexible machines or systems and an appropriately flexible workforce.¹⁹

Collectively imposed restrictions on the forms of employment of labour-power within the enterprise can be seen to hinder the capitalist's free use of the purchased commodity. From this perspective, therefore, flexible production systems necessitate a degree of polyvalence in workers and the ability of capital to shift worker functions freely within the enterprise. It is on this basis that some authors have highlighted flexibilisation processes as requiring both cooperative management systems alongside sustained investments in workers, thereby accumulating human capital through training programmes.²⁰

These assertions are questionable on two grounds. First, it is clear that there is a heavy degree of romanticism involved in the post-Fordist paradigm, with little empirical evidence for its principal claims concerning the degree to which a 'post-Fordist' world has emerged in which the socio-economic conditions associated with mass-production are in crisis.²¹ Given the explosive growth of mass-production industries in key areas of the global South during the 1980s and 1990s, the assumptions involved in such generalisation are painfully evident when attention is withdrawn from several key OECD case studies (such as the textile sector in Italy) and refocused upon the international division of labour as a whole. Second, to the extent that 'flexible specialisation' within firms has been introduced, it should be noted that there are other methods for firms to achieve the effects of polyvalence without incurring the costs of

¹⁹ Jessop 1994: 19.

²⁰ Haagh 2002b: 23-43.

²¹ cf. Fine 1998: 73. In part, this romanticism can be traced theoretically to the ambiguous and over-generalised manner in which the original paradigm of 'Fordism' is understood, and to which post-Fordism is contrasted; cf. Clarke 1990b.

intensive training schemes that utopian visions of post-Fordism emphasise. One is to ensure sufficiently flexible hiring practices that permit the contracting of the requisite skilled labour for the precise duration of time needed. If this is achievable, the particular composition of the skilled labour force within the production process, alongside the ratio of living-labour to constant capital, can be altered on a short-term basis through temporary contracting. Another is through outsourcing and subcontracting practices by which, in contrast to the Fordist model, firms undergo a process of vertical disintegration in order to reduce the contraction of unnecessary labour and to be able to pass down the costs of restructuring to lower levels of the subcontracting hierarchy in the event of market changes. The latter strategy has been particularly prevalent in Chile in the 1990s, as discussed in chapter eight.²²

At the heart of the strategy of labour flexibilisation, therefore, is the attempt to eradicate ‘non-market’ influences upon labour markets and to remove institutional restrictions upon the usage of labour-power once it has been purchased. In short, the attack on labour is an attack on political structures that constrain capital’s freedom of manoeuvre and this necessarily involves a political assault on the institutional forms regulating capital-labour relations. To the extent that such restrictions exist, and particularly the established patterns of collective organisation, they present a threat to the wider goals of liberalisation. Given that within the Washington Consensus paradigm liberalisation is equated with growth, inflexibility – or, the restrictions on the commodified form of labour – is seen as an impediment to the former. In short, unionisation risks obstructing the virtuous circle of mutually reinforcing positive tendencies predicted by neoclassical models in which:

²² For discussion cf. Escobar and López 1996.

[T]rade market liberalisation and labour market flexibility should increase employment; general deregulation should foster growth; and faster growth should lead to higher wages.²³

On this basis, the World Bank's 1995 World Development Report entitled "Workers in an Integrating World" asks rhetorically:

How can policymakers create an environment that minimizes the negative effects trade unions can have, while encouraging them to make a positive contribution to economic growth and equity?²⁴

In short, the question posed is how, through the refashioning of the juridical forms of labour relations, can unions be made to support or at least be compliant with liberalisation, structural adjustment and flexibilisation? The answer provided is through the decentralisation of bargaining to the level of the individual enterprise within a free market environment that is considered to impose the discipline of market relations upon workers owing to their reliance upon making the enterprise efficient in order to retain their jobs. This, in the Bank's view, is the foremost manner by which the discipline of the market can be imposed on unions and, thereby, limit their "negative effects". Concurrently, it also bears close resemblance to the flexibilisation strategy introduced in Chile under Pinochet's reform of the labour code in 1980, and the subsequent reformulations in the early 1990s.²⁵

²³ Weeks 1999: 152.

²⁴ World Bank 1995: 82.

²⁵ See chapters six, seven and eight.

Conspicuously, the primary reason the Bank can find for recognising the need for workers to be allowed to unionise to any extent is that, in the absence of unions and enterprise-level collective bargaining, the state tends to intervene and set wages and working conditions in a bureaucratic fashion that, unlike impersonal market forces, could be subject to particular political pressures.²⁶ The unspoken recognition is that in the absence of any unionisation, and therein the complete individualisation of contracting, capital would use its power resulting from ownership of the means of social reproduction to force down wages and the conditions of work to levels that would threaten the reproduction of the working class and the sustained accumulation of capital. The latter is a process that, as discussed in chapter six, occurred in Chile in the first half of the 1980s. Resultantly, limited unionisation is viewed as necessary by the World Bank precisely in order to create ‘equilibrium’ in the respective bargaining powers of capital and labour and therefore assert the proper market rates in the determination of wages. This in turn restrains the need for the deleterious role of the state in setting such levels whilst avoiding the absolute immiseration of the working class.

Finally, the Bank also approvingly notes the positive effects of the decentralisation of bargaining upon the politics of adjustment. Labour flexibilisation on an economy-wide scale and the downscaling of collective bargaining to the enterprise level are viewed as two aspects of undermining the power of organised labour at a national level. In the conflict-laden decades of structural adjustment, the latter was commonly viewed as a pressing political concern as national labour unions were often at the forefront of resisting the imposition of structural adjustment.²⁷ In this respect, juridically enforcing

²⁶ World Bank 1995: 85.

²⁷ Moody 1997.

the decentralisation of union activity to the level of the individual firm provides a significant offensive in a wider strategy to reduce the role, importance and political prowess of national federations. As the Bank argues, the latter rarely play a constructive role in neoliberal adjustment processes as:

It is difficult to persuade a powerful pressure group to design and implement a stabilization plan, and eschew general strikes against restructuring measures aimed at increasing the outward orientation and privatization of industry, when the result is likely to be to reduce the relative wages of its members.²⁸

Within this new framework, the onus of responsibility for change therefore rests upon unions accepting the new realities. For example, Victor Tokman, at the time the International Labour Organisation's Assistant Director General and Regional Director for the Americas, saluted the initiative of decentralised bargaining owing to its capacity to ensure "flexibility and more adequate" responses. Whilst he warns that decentralisation might deliver workers into an essentially unbalanced power relationship with capital owing to the removal of labour's power of national negotiation, he suggests that:

This, however, need not be the inevitable outcome, provided that union strategies adapt to the new industrial relations scenario ... Federations and confederations of workers have a role to play in supporting negotiations at different levels, and new areas are opening possibilities for action at such levels (e.g. training and

²⁸ World Bank 1995: 84.

*social security) where the execution of recent reforms has been displaced from government to the private sector.*²⁹

In this manner, Tokman advocates precisely the form of labour relations solidified in the 1990s in Chile, where decentralised bargaining changed the role of national labour federations into a political pressure group without a solid power base at the national level from which to influence policy decisions. The limits to Tokman's optimism, therefore, are well displayed in the turbulent trajectory of Chilean labour reform and labour relations, as detailed in chapters seven and eight.

It should be clear from this brief analytical examination that the flexibilisation of labour within the parameters of structural adjustment is not simply a technical or economic feat, but constitutes an historical process that involves concrete struggles over existing and often institutionalised forms of state-capital-labour relations. As a struggle-driven process the results have been partial and varied across countries and sectors, with a multitude of different strategies levied by capital in an attempt to achieve similar effects. These struggles, moreover, necessarily comprise political, ideological and economic dimensions. To elaborate, the attempt to enhance the flexible exploitation of labour is an intrinsically political process in the sense that it involves the retrenchment and/or reformulation of the modes of regulating labour relations that have historically become interwoven into the form of the state through the complex interaction of social struggles within the dynamics of capitalist accumulation. Labour flexibilisation stands alongside other dimensions of neoliberal restructuring as representing a manner of capital disengaging from the positions and commitments taken up during the national-

²⁹ Tokman 1998: 213-214.

developmentalist era.³⁰ The degree to which flexibilisation practices have routinely – if not always successfully – been resisted, however, is testament that the neoliberal ideology of the marketplace as the realm of freedom and positive-sum games has found little acceptance amongst those exposed to the unseemly dynamics of capitalist exploitation and neoliberal restructuring processes.

2. The Reformulation of Social Policy

Similar to changes in the regulation of labour relations, there is an emerging consensus that the form and content of social policy in the global South have undergone a relatively profound transformation under processes of neoliberal restructuring in the past two decades. Drawing from the Latin American experience, during the first wave of crisis in the 1980s social policies were recognised to have suffered generalised quantitative cutbacks. However, under what are termed second-generation reforms in the 1990s these same policies have become increasingly the object of a more pronounced qualitative transformation. Viewing this transformation in the mid-1990s, Evelyne Huber suggested that Latin America stood at a crossroads in terms of the trajectory of social policy. The option, as she presented it, was between: “market-determined, private, individualistic and inegalitarian models on the one hand, and market-correcting, public, solidaristic, and egalitarian models on the other”.³¹ Although her four-study analysis suggested that countries were split between a slow creep and a headlong rush towards the former, neoliberal, pole, her conclusion remained upbeat. She suggested that the return of democracy in many Latin American

³⁰ Clarke 1988; Gamble 2001.

³¹ Huber 1996: 141.

nations might prompt recognition that universalistic forms are desirable on grounds of both ethics and efficiency.

By the close of the decade, however, such expectations seemed dim. An article by Susana Sottoli, although lacking the empirical richness present in Huber's piece, reaffirmed that a wide-seated transformation of social policy was ongoing in Latin America, converging towards a model with four corner stones: *selectivity* and focalisation in place of universalism, *privatisation* of service provision, *decentralisation* of remaining state responsibilities, and *compensation* for the social costs of structural adjustment through anti-poverty programmes.³² Other recent work supports Sottoli's characterisation of qualitative transformations in Latin America social policies and her four pillars of reform, moreover, closely mirror established World Bank wisdom on the subject.³³ As such, they express the growing influence of international financial institutions in the analysis and formation of social policy in the developing world.³⁴ Indeed, Asa Laurell, for example, considers this influence to be the chief explanation of what she considers the "striking uniformity" in reform trends across the continent.³⁵

The fact that the World Bank's prescription closely reflects the commonly identified themes in neoliberal social policy reform, however, is not just a measure of the influence of the Bank but also reflects two further factors. First, there has been a strong tendency to impose analytically a greater coherence to restructuring trends that, in

³² Sottoli 2000.

³³ Raczynski 1998; Garland 2000; Székely 2001; Székely also notes the emergence of new programmes in the later 1990s that, whilst tentative in their regional spread, supersede the safety net style policies by seeking to selectively invest in the human capital of specific social groups through decentralised processes. Also, cf. World Bank 1990; 1993; 1994; 2001a; 2001c; 2002; 2003b.

³⁴ cf. Deacon 1997; Pender 2001; Weber 2001.

³⁵ Laurell 2000: 308.

practical implementation, were often partial and fragmented between social sectors.³⁶ Second, the close relationship between Bank prescription and concrete tendencies is also testament to the reciprocal extent to which the international organisation has paid close attention to the forms assumed by a decade of conflict-laden restructuring at the national and sub-national levels. Within this process, the World Bank has undergone a continuous appropriation of instances of reform into its own prescription, and has sought to give them greater theoretical coherence by anchoring them to the projected rationality of the Bank's wider vision of social transformation. A brief examination of the Bank's literature reveals how much it borrows from what are judged to be successful instances of national reforms. In particular, the World Bank has drawn heavily on the forms of restructured social policy developed in Chile and Mexico, as detailed below and in chapter seven.

Despite various degrees of empirical rigour, however, each of these above descriptions of the shifting contours of social policy in Latin America contains little analysis of the underlying causes of transformation. Whilst this is partially explainable by the uncomfortable level of abstraction involved in offering a "Latin American" panorama, at the expense of national level case-studies that could provide more causative insight, a focus on description at the expense of analysis mirrors tendencies that have long been present in the study of social policy. Ramesh Mishra, in his classic work on the different streams of social policy analysis, highlighted a tendency for what he labelled the "social administration" genre to assess the relative efficiency of state policies in a particular branch of social policy with the intention of promoting policy improvements to further rationalise the various instances of political-administrative intervention.³⁷

³⁶ Cf. Haagh 2002c: 4.

³⁷ Mishra 1977.

Analyses of this nature are able to highlight general trends, offer specific insight into the workings of particular social policies and provide valuable evaluations of initiatives within the margins of their projected goals.

Nevertheless, this kind of problem-solving approach is blind-sighted to many important analytical considerations that are not only necessary to help explain why social policy should have a particular content, but also why it should take a specific historical form. It is the contention of this section that in order adequately to explain the changing forms of social policy in Latin America an analysis must relate social policy transformation to the crisis-laden trajectory of capital accumulation and the politicised struggles over the restructuring of state-society relations in the era of neoliberal reform. From the perspective adopted in this thesis, therefore, social policy reform is one further dimension of the structural adjustment project to effect a fundamental reformulation of the social reproduction of the working class with economic (the reinstatement of the burden of social reproduction more firmly upon the individual), political (the disarticulation of movements and struggles), and ideological dimensions (notions of fairness, efficiency and choice). The following two sections therefore offer a framework for the comprehension of social policy reformulation that is subsequently concretised in the more detailed examination of social restructuring in Chile.

3. Privatisation, Targeting and Decentralisation

Over the last two decades, neoliberal restructuring of the institutional forms of social policy has repeatedly focused upon the transfer of potentially profitable social service provision into the private sector where, assuming a commodity form, it would proceed according to the dictates of market forces. This project underscores the increasingly

common practices of privatising various aspects of welfare provision, including social security, health and education, in which the state, and sometimes the employer, previously exercised a degree of responsibility. As the World Bank outlined in relation to health care, the model to follow involves three facets:

First, the state should take responsibility for health interventions that have a public-good character (e.g. clean air and traffic safety) or that generate benefits to the community in addition to private benefits (e.g. immunization against communicable diseases). Second, in curative care the main role of the state as a provider of services should be to supply basic services in those regions that the private sector is unlikely to serve. Third, if a private delivery system is in place, the state should make sure the poor have access to basic care ... Chile again offers an example.³⁸

The principal rationales behind the privatisation tendency were fourfold. First, in conditions of fiscal crisis, states were attracted to reducing their fiscal burden and downsizing the state apparatus by offloading services into the private sector. Second, privatisation was presented as a manner of introducing market mechanisms to service provision that would maximise optimising efficiency and individual freedom of choice. Third, in a period of economic uncertainty, privatisation opened new avenues of profitable investment for the both domestic and foreign capital.³⁹ Fourth, privatisation potentially offered the state an escape from political pressures aimed at improving

³⁸ World Bank 1990: 85; also cf. World Bank 1993, 1994.

³⁹ Indeed, with an increasing mass of surplus capital seeking investment opportunities at a global level, both the IMF and World Bank have been at the vanguard of prying open national capital accounts to allow financial investment on a greater scale. Amongst the consequences, however, has been the torrent of devastating financial crises during the 1990s; cf. Soederberg 2002a.

qualitatively and quantitatively state mediation of capitalist social reproduction. In short, privatisation constitutes an attempt to absolve the state from political responsibility for social reproduction. It therein seeks to reverse the institutionally embedded outcomes of popular struggles that had in many countries resulted in over half a century of welfare expansion.⁴⁰

In many respects, the first two justifications of privatisation have proved to be chimeras of the neoliberal imagination. Although the immediate reaction to the crises of the 1980s was often rapid expenditure retrenchment, leading to a twenty four percent drop in per capita social expenditure for Latin America as a whole during the 1980s, the social costs of adjustment and the resulting social instability and conflict commonly prompted the implementation of extensive safety nets and other anti-poverty measures that required extensive expenditure.⁴¹ Moreover, the manner in which privatisation has been fashioned necessarily entailed significant short and medium term costs for the state as the state took a leading role in systematically creating and expanding the conditions in which market-based provision could exist.⁴² The primary example of this process is found in the substantial expenditures involved in transferring public pensions into the private sector, as occurred in Chile in 1980, Peru 1993, Argentina 1994 and Bolivia in 1997.⁴³ In addition to the immediate costs of transferring existing pensions to private pension funds, for example, the post-privatisation costs of public pension expenditure in Chile at the turn of the millennium still amounted to over six percent of GDP annually, a sum that represents double the pre-privatisation total.⁴⁴

⁴⁰ For the post-War expansion of welfare state institutions in Latin America, cf. Mesa-Lago 1989.

⁴¹ Ocampo 1998: 7.

⁴² Prior to this sustained state intervention to create market providers, private provision tended to arise sporadically at the fringes of state institutions; cf. Haagh 2002c: 2.

⁴³ Mesa-Lago 2002: 1309-1321.

⁴⁴ Borzutzky 2001: 297. Also see Taylor 2003.

In this respect, the early 1990s saw a sharp reversal in social expenditure retrenchment with per capita social expenditure eighteen percent higher in 1995 than levels registered before the crisis.⁴⁵ Although many have welcomed the return of a more socially active state, such figures must be sharply qualified by recognition that a very high proportion of the increase has been directed to pension payments (the least progressive form of distribution) and, to a lesser degree, anti-poverty programmes that seek to ameliorate the increased levels of social polarisation and social conflicts associated with them. In the case of education, for example, real per capita expenditure in 1995 had only recovered its 1980 level for the region as a whole and was still below that level in a considerable number of individual countries.⁴⁶ Therefore, although the institutional forms of social policy have undergone a qualitative shift, the quantitative expenditure trend has been reflected in an unexpected resurgence in many countries in the period following the initial periods of retrenchment and stabilisation. This trend belies the neoliberal prediction of a generalised reduction in state expenditure and the creation of 'lean states' through social policy reformulation.⁴⁷

In spite of World Bank assertions, it is also equally questionable that privatisation trends have improved service provision. The existing institutions of social provision, which in the post-War period had expanded rapidly in most Latin American countries, were commonly designated as inherently inefficient bureaucracies that tended to respond to politically articulated interests rather than objective needs. In contrast, the employment of market mechanisms in service provision was suggested to provide a

⁴⁵ CEPAL 1998.

⁴⁶ Ocampo 1998: 9.

⁴⁷ For example, that social expenditures in the medium-term underwent a significant recovery, although in a qualitatively different form, is born out both in the case in Mexico in the late 1980s and Chile in the post-debt crisis period and throughout the 1990s, as detailed below.

neutral institution that could improve efficiency and personal choice through inducing competition between providers.⁴⁸ Nevertheless, the essential presupposition of privatisation is that efficiency, personal choice and the provision of services can all be subordinated to profitability without compromising the perceived rationality of market-based service provision. Within the Latin American context, not least in conditions of escalating social polarisation, the latter constraint effectively reduces the potential client group for new private sector companies to the relatively small middle and upper classes and a small proportion of the more affluent working class. As demonstrated in the Chilean case, but also with evidence from other Latin American studies, privatisation of pensions, health and education led to the private sector absorbing the most profitable individuals into private service provision whilst saddling the state with the burden of reproducing the less affluent social classes.⁴⁹ Moreover, whilst those that have been able to subscribe to privatised systems have often been rewarded with better service choice and provision, the reassertion of the cash nexus has created a strong articulation between the quantity and quality of services received and the ability of the individual household to pay for them. Dualization of service provision, therefore, has been an entirely logical outcome of privatisation trends, resulting in the substantive irrationality and inefficiency of privatisation for the majority of the working class.⁵⁰

Indeed, when coupled together, the immediate result of retrenchment and privatisation has been precisely to reinstate the burden of social reproduction more fully on the shoulders of the working class. The primary aim of privatisation is to constitute social reproduction as a personal responsibility to be achieved through subordination to appropriate wage labour and strategies of familial or communal solidarity. Historically

⁴⁸ Huber 1996; Duhau 1997.

⁴⁹ Taylor 2003.

⁵⁰ Huber 1996; Duhau 1997; Laurell 1999, 2000; Taylor 2003.

developed forms of state social mediation of working class reproduction, and particularly those forms that involved a shared responsibility between worker, state and employer, were deemed to be anachronistic, inefficient, and ultimately prejudicial to those they ought to help. In this respect one of the most important dimensions of this process has been the privatisation of pensions. The Chilean model, which since the early 1990s has been propagated throughout the global South by the World Bank,⁵¹ is one in which responsibility for pensions is removed from the ambit of the state-worker-firm triad and placed squarely in the relationship between the individual labourer and a private pension company. As an extension of the principles of labour flexibilisation, notions of collectivist solidarity are abandoned whilst the new systems tie the reproduction of individuals in old age to their ability to contribute to private pension plans during their working lives and in disregard of their personal employment trajectory.⁵²

Concurrently, there was a strong political motivation behind privatisation. In removing responsibility for social reproduction from the state and reconstituting it as a private relationship between private company and private individual, social reproduction, it was envisaged, would become increasingly an individual responsibility mediated solely by market relations. Concurrently, the state would be incrementally removed from its former position as the primary locus of social struggles that targeted the state in order to mediate their social reproduction. In this respect, privatisation appeared as a key aspect of fashioning the neoliberal ideal of atomised and thoroughly individualised societies and, therefore, a further moment in the ongoing attempt to disarticulate political struggle. In short, privatisation was part of a strategy that has been termed a

⁵¹ World Bank 1994; Mesa-Lago 2002.

⁵² The Chilean model of pension reform is analysed in detail in Taylor 2003.

“de-politicisation of the social,” concurrent to a “de-socialisation of the political”, referring to the process of imposing a strict separation between the onus of social reproduction and the realm of politics.⁵³

Part of the failure of the reformulation of social policy as envisaged by neoliberal ideologues, however, is that the social relations of capitalism do not guarantee the social reproduction of the working class.⁵⁴ Moreover, within the environment of crisis and restructuring, a substantial proportion of Latin American populations were comprehensively excluded from the relation of capitalist work on which they depended for a living wage. In conditions of growing un- and under-employment, the stagnation of real wages, growing income inequality, and sustained levels of poverty,⁵⁵ the ability of large sections of the population to participate in privatised systems was never a realistic proposition. Whilst the immediate repercussion was the adoption by households of alternative survival strategies,⁵⁶ the political pressures resulting from the failures of social reproduction of the working class rapidly gave rise to the implementation of large-scale anti-poverty programmes and the targeting of social expenditures on those most marginalized by capitalist restructuring.⁵⁷ In this manner, the targeting of social expenditures is the reverse side of privatisation and retrenchment. State focalisation offers a potential manner of mediating the failure of the social reproduction of the poorest individuals within a climate of fiscal retrenchment that places an expanded burden upon the shoulders of the working class.

⁵³ cf. Taylor 1998; de la Maza 1999.

⁵⁴ The other major factor blocking implementation of radical neoliberal social policy reform has been politically articulated opposition from the working class. Similar to the case of labour reform, variations in the effectiveness of opposition have created a fragmented map of reforms over the Latin American continent. This situation has spawned a growing literature on how to create the political conditions propitious for reform: cf. Graham et al. 1999.

⁵⁵ Altimir 1998; Weeks 1999.

⁵⁶ Halebsky 1995.

⁵⁷ Graham 1994.

Within the context of societal restructuring (and beyond the altruistic language of the World Bank and national governments) expenditure targeting and reformed delivery procedures have been undertaken in order to construct new forms of regulating the poor in a period of escalating social polarisation.⁵⁸

Despite their universal pretensions, the uneven expansion of social policies in the global South in the post-War period led to fragmented forms of service provision and generally favoured the organised urban working class employed in the formal sector. On this basis, the ideological strength of the selective targeting of social expenditure is typically one of fairness and revolves around theories of social exclusion and marginalisation.⁵⁹ In abstraction from the wider trends of restructuring, therefore, targeting appears both morally and practically justifiable. However, there are several problems with this simplistic duality. First, there is no direct correlation between market-based systems of social provision and the goals of targeted provision. Indeed, as Louise Haagh presciently surmises:

*Targeting is compatible with a range of universal policies, and would not have seemed out of place in either developmental or welfare states.*⁶⁰

Second, much of the eulogising literature, including that provided by the World Bank, merely assumes that targeting is effective in that services are delivered precisely to the specified social group, without analysing the necessary institutional preconditions. For

⁵⁸ Especially considering that a key facet of adjustment policies was tax reform that increased the regressive nature of the tax burden, targeted social policies represent primarily a redistribution of wealth within the working class.

⁵⁹ Tandler 2000; Arce 2002.

⁶⁰ Haagh 2002c: 26.

all but the smallest of programmes, however, successful targeting presupposes a sophisticated range of social mapping techniques in order to identify the social object, and subsequently an efficient bureaucracy that can effectively distribute the service to this population. In many cases, the institutional infrastructure for adequate targeting simply does not exist and, where it does, the extensive costs of social cartography and focused delivery raise questions as to the efficiency of the exercise vis-à-vis more universally orientated programmes.⁶¹

In this respect, the main impetus behind targeted policies would seem to be ideological, in the manner by which assisting the social reproduction of the most vulnerable sections of society can be justified within the context of wide retrenchment and disciplinary reform. Politically, the importance of targeting has been placed upon the creation and mobilisation of new social groups that can become stakeholders in the reform process and, in this respect, anti-poverty policy and targeted local development initiatives can become important elements in political legitimisation.⁶² Similar themes are also encountered in the third characteristic of neoliberal social policy reform – decentralisation. The decentralisation of remaining state responsibilities to sub-national levels is a trend concordant with privatisation and targeting. The prospect of decentralisation of state functions, such as providing health, education and other social services, was a significant feature of the 1990s development discourse and was widely heralded by the World Bank.⁶³ The latter enthusiastically proclaimed that:

⁶¹ Tandler 2000: 96-9.

⁶² Graham et al. 1999.

⁶³ cf. Angell et al. 2001.

*By decentralizing government so that more decisions are made at subnational levels, closer to the voters, localization nourishes responsive and efficient governance.*⁶⁴

Such rosy assessments did little justice to the actual results of decentralised forms of social policy. There is no essential correlation between the decentralisation of government functions and responsive and efficient governance. The problem of the ‘capture’ of local state resources does not dissipate through decentralisation. On the contrary, local structures of power relations and patronage can be equally, if not more, present at regional levels.⁶⁵ As the Bank came to recognise at the turn of the millennium, the principal determinant of whether local resources will be delivered to those who most need them is not the formal institutional framework of governance but, rather, the relative impact of popular struggles to impart a more democratic character upon the structures of the state.⁶⁶ Concurrently, there is no *a priori* reason to suggest that the latter are more effective at a local level.

Similarly, local government is not necessarily more efficient in its allocation of resources. In contrast, decentralisation has often presented local governments with administrative tasks that they are ill equipped to perform, a situation that can be heightened if the decentralisation of responsibility is not matched with a correlate decentralisation of funding.⁶⁷ As Allison Garland emphasises:

⁶⁴ World Bank 2000a: 4.

⁶⁵ For example, John Gledhill provides an interesting account of “caciquismo” (local boss rule) in 1990s Mexico and George Gray-Molina provides an account of inefficiency and the political usage of funds in a decentralised participatory programme in Bolivia; cf. Gledhill 1998 and Gray-Molina 2002.

⁶⁶ This is discussed in the conclusion.

⁶⁷ For a Mexican case study, cf. Muñoz Patraca 1999.

*Inefficiencies and weaknesses encountered in the central government similarly appear in local-level public institutions with the same implications for quality, productivity and effectiveness of social services.*⁶⁸

Given the unsubstantiated nature of the claims to greater accountability, responsiveness and efficiency of decentralisation, the question remains as to why this trend has been so widely embraced by governments in the South and the international development institutions? One aspect generally left untouched by works on decentralisation is the macro-political motivations behind the trend. As I support with evidence from the Chilean experience in chapter six, a strong political impetus towards decentralisation can be found in the desire to fragment political opposition to both the wider parameters of social policy reform and to the neoliberal project in general. On one level, the most ardent opposition to the neoliberal restructuring of social services is commonly found within public sector unions, such as teachers and health workers. Decentralisation, alongside privatisation, is a clear method by which the power of such unions can be undermined through spatial dispersion.

Secondly, as an attempt to transfer struggles over the conditions of social reproduction down to a localised level, decentralisation can aid in the process of fragmenting conflict over services from the macro-economic decisions that constitute the parameters in which social policies are formed. As discussed in relation to the World Bank's concept of "good governance" in the conclusion, a key facet of decentralisation and local participation in social development policy design and implementation is the

⁶⁸ Garland 2000: 6.

transformation of political struggles into effective vehicles of development policy.⁶⁹ In this respect, whilst popular struggles are even encouraged to ensure efficient delivery at a local level by fighting corruption, key political decisions over macroeconomic policy direction operate at a different level of political articulation, thereby providing new challenges for popular struggles over social policy to link the micro with macro determinants. In sum, decentralisation can play a significant role in the attempt by the state to reconstitute the political forms of class struggle, imparting a more fragmented and regionalised character upon struggles.

This chapter has emphasised how the seemingly technocratic reforms to labour and social policy are integral aspects of the wider project of neoliberal restructuring that aims towards social depoliticisation through the removal of institutional mediations to the abstract domination of capitalist social relations. Currently, the thesis turns to concretise the examination of restructuring as developed in the last two chapters, through a critique of restructuring in the specific historical setting of Chile. The latter provides an optimal case-study owing to the profundity of neoclassical inspired – and World Bank inspiring – reforms over the course of almost three decades. Indeed, not only are the general tenets of restructuring as a form of social discipline by facilitating the operation of the abstract social disciplines of capitalist social relations evident, but also the sub-trends of labour flexibilisation and neoliberal social policy reform are manifested in a particularly blunt manner. Indeed, the Chilean labour code, fashioned by the Pinochet dictatorship and modified under the post-authoritarian governments, closely resembles the posterior model of best-practise subsequently promulgated by the World Bank. Likewise, the Bank has explicitly heralded social policy and anti-poverty policy trends in Chile. Chile therefore provides an excellent case by which to examine

⁶⁹ cf. (e.g.) Cooke and Kothari 2001.

the social genesis of these forms of restructuring, their impact upon social relations and also the limits to these strategies and the specific struggles that emerged to contest them.

CHAPTER 6: ACCUMULATION, CRISIS AND THE RECOMPOSITION OF CAPITAL AND LABOUR IN CHILE, 1973-1988

The following chapters examine the transformation of development policy in Chile over the last three decades within the wider context of the struggle-driven and crisis-marked trajectory of capitalist development. The present chapter focuses on the wider political economy of accumulation processes in Chile focusing on the period of the Pinochet dictatorship, 1973-1989. It argues that the forms of social restructuring instigated by the Pinochet regime represented a radical response to the growing crisis that peaked during the three-year presidency of socialist president Salvador Allende, 1970-3. By highlighting the evolving forms of state intervention and their effects upon the trajectory of capital accumulation and the course of social struggles, the chapter provides a foundation for a focused examination of labour and social policy transformation. In so doing, the chapter addresses the decomposition and reconstitution of the Chilean working class and changes in the forms of state mediation of working class social reproduction.

1. State, Class Struggle and Post-War Development

During the course of the twentieth century, prior to the neoliberal revolution introduced under the Pinochet dictatorship, the Chilean state had become increasingly involved in mediating the relations of social reproduction. In the wake of pronounced social conflict following the crisis of the nitrate industry and the collapse of Western markets for other Chilean minerals owing to the great depression, a new period of Chilean capitalist accumulation began to emerge in the 1930s. This accumulation trajectory, subsequently labelled import-substitution industrialisation (ISI) and given ideological

coherence in the writings of Prebisch and Singer amongst others, was notable for changes in the pattern of accumulation and for growing state regulation of a range of social relations. Up to this period, Chilean incorporation into the circuits of global capital had come primarily through mineral and agricultural exports, owned by foreign interests and the rural landed class respectively. Growing integration of this kind stimulated a partial and geographically focused development of capitalist social relations from the mid-nineteenth century onwards, a process partially based on the existence of a relatively large untied labour force that existed as a leftover from frontier wars and that was supplemented by a surplus rural population.¹ A proletarian class expanded most rapidly in the mining and docking sectors, although vicious trade cycles attributable to fluctuating global demand for nitrates, wheat and copper periodically caused the mass decomposition of this emergent working class with considerable social devastation. From the 1920s onwards, however, Chilean accumulation became characterised by the escalating formation of indigenous consumer goods industries geared towards growing domestic markets. The latter were owned by an incipient national bourgeoisie and abetted by state credits, subsidies and technical support. The World Bank, moreover, gave its first ever developing country loan to Chile in 1948 and made a further nine in the following ten years, all orientated towards infrastructural projects.²

Although sometimes characterised as “inward-orientated development”, accumulation of the import-substitution type depended heavily on global capital circuits. Mineral export revenues, especially copper, were critical for sustaining capital accumulation as foreign exchange revenues provided for oil and technological imports that serviced the

¹ Roddick 1989: 188.

² cf. World Bank group, “Chile Projects and Programs”, at www.worldbank.org/

domestic goods sector, whilst export taxes provided a significant and growing source of state income. In this way, Chilean accumulation and the material basis for state intervention in the reproduction of the working class became heavily dependent on the course of global accumulation in the post-war boom period.

Accumulation within the import-substituting form served to speed the transformation of Chilean social structures. By organising and subsidising the formation of domestic industries the state helped to nurture a domestic industrial bourgeoisie and urban middle class.³ Conversely, the traditional landowning oligarchies suffered a marked decline in both economic standing and political power. Agriculture, as a share of GDP, fell from 14.9 percent to 10.1 percent whilst industry increased by one third between 1940 and 1960 to 22.2 percent.⁴ However, a necessary corollary to the expansion of the industrial sector was the growth and consolidation of an urban working class. As peasants and agrarian workers left the rural sphere for employment in the rapidly expanding urban centres, the emergence of a proletariat removed from traditional forms of social domination exerted in the countryside constituted a potential threat to the bourgeoisie. Likewise, concentrated groups of workers also expanded in the northern and central mining areas. Organised labour developed rapidly (refer to table 6:1) and retained ample autonomy from the state, unlike in other Latin American countries where relative independence was sacrificed for corporatist institutionalisation. At the same time, radical political parties – particularly the Communist and Socialist parties – grew in size and in spite of a general inability to overcome factionalism at the national level they exerted considerable influence on the political system.⁵

³ Roxborough et al. 1977.

⁴ Fortín 1985: 205

⁵ cf. Monteón 1998: 190-204; also Roddick 1989; Vitale 1990.

Table 6:1 - Urban Unionisation in Chile, 1932-73.⁶

<i>Year</i>	<i>No. Unions</i>	<i>Union Members</i>	<i>Percent Unionised</i>
1932	421	54,801	(n/d)
1940	629	91,940	18.7
1952	1,982	282,383	19.3
1960	1,892	272,141	14.3
1970	4,001	436,974	19.4
1973	5,632	704,499	30.5

Changing social dynamics encouraged the emergence of new state forms. In response to growing social pressures, the Chilean state attempted to regulate the relations between capital and labour via interventionist methods in the realm of distribution that became progressively institutionalised. The latter grew to include indexed wage increases, subsidised basic goods and the development of a social policy system that both subsidised and regulated various aspects of middle and working class reproduction. Through these various forms of intervention, the state attempted to harness the working classes to capitalist development, check the growth of subversive ideologies, and provide the social and industrial calm necessary for sustained accumulation. Simultaneously, supplementing the purchasing power of the Chilean middle and working classes helped to consolidate outlets for domestically produced consumer goods.

These institutionalised forms of social mediation, however, imparted complex effects on the relations between state, capital and labour, the course of social and political struggles, and also upon the relationship between different branches of production. On the one hand, by subsidising basic foodstuffs consumed by the urban working class the state took an active role in reducing the price of labour power in the urban centres. This partial subsidy to industrial capitals, however, had the consequence of suppressing

⁶ Figures from Roberts 1998: 90.

profits in the agrarian sphere and further antagonising the landed classes. Concurrently, by mediating the level of wages through indexed salary increases, the state became directly involved in regulating the distributional conflict between capital and labour with the necessary corollary that the state increasingly became a primary locus for the struggles of the working class. This was particularly apparent in the growing state participation in the economy through ownership of an assortment of key enterprises wherein the state took on a direct relationship with the working class. Various social groups pressured the state for material compromises and these repeatedly became manifested in the institutionalised form of social policies such as the granting of assorted levels of social security to different elements of the middle and working classes.

As such, the concrete development of state social policies in this period was uneven as the consolidation of institutionalised forms largely depended upon the trajectory of particular social struggles and the ability of primarily class-based social movements to effectively voice their demands. Accordingly, the assorted systems governing pensions, healthcare and education became notoriously fragmented as different sections of the middle and working classes variously succeeded in pressuring the state to grant or extend coverage to their particular occupational group. By the 1970s the social policy system, despite its heavy centralisation, constituted a legislative and bureaucratic labyrinth with hundreds of programmes and institutions.⁷ Although a certain degree of universality was reached relative to other countries in the region – Huber estimates that seventy percent of the working population had some form of state sponsored social security and Titelman suggests that ninety percent of the population had access to the health system – there were notorious inequalities in both coverage and provision of

⁷ Mesa-Lago 1989: 109.

services.⁸ One notable consequence was the extremely partial coverage of social groups who fell outside of the urban-industrial realm.

The interventionist form of the state, however, developed major contradictions related to the trajectory of accumulation and class struggle within the ISI mode of capitalist development. Economic downturns served to increase the respective distributional claims of capital and labour upon the state. During the periodic slumps the former sought to stifle the wage claims of workers whilst the latter expected the state to protect wages and provide greater social security in conditions of rising unemployment. Such crises were repeatedly marked by the state discarding its populist veneer and attempting to renew the conditions for accumulation by suppressing real wages.⁹ However, the tensions inherent in the ISI mode of accumulation became particularly acute in the later 1960s as the post-War boom that had underscored global capitalist expansion for two decades began to falter and forms of social struggle picked up momentum. By the end of that decade, signs of crisis within the Chilean political economy became increasingly apparent in the stagnation of the import substitution industrialisation development trajectory alongside growing instances of social mobilisation. With copper providing almost seventy-five percent of Chilean export-earnings in the post-war period, capital accumulation in Chile had been consistently vulnerable to the vicissitudes of world market prices for this commodity, especially its relative price compared to oil. In the mid-1960s the price of copper began a slow but notable descent. Although copper exports continued to buoy macroeconomic indicators they nonetheless provided a decreasing source of revenue for the state. Considerable cause for concern, however, was to be found in a growing inflationary trend and a failure of dynamism in industrial

⁸ Huber 1996: 148; Titelman 2001: 266.

⁹ For various accounts refer to Roxborough et al 1977: 36; Stallings 1978; Vitale 1990; Salazar and Pinto 1999.

sectors orientated towards the domestic market operating under the protection of high tariff walls.¹⁰

Christian Democrat president Eduardo Frei (1964-69) responded to the manifestations of crisis by deepening forms of state intervention through amplified credits to industry, infrastructural investments, agrarian reform and new social programmes designed to incorporate and foment domestic demand amongst urban subaltern groups that were not directly involved in capitalist production relations but were located in informal sectors.¹¹ Frei's stated intention was to pursue socially progressive reform within a 'neo-capitalist' model of development that would combine state intervention in key industries (particularly mining) with substantial foreign investment. In an attempt to facilitate the expansion of capital on an augmented scale the state followed an expansionary policy, drawing heavily on foreign credit to finance increased intervention in Chilean social relations. The strategy was buoyed by considerable US financing through President Kennedy's Alliance for Progress initiative that sought to stave off revolution in Latin America by promoting moderate social change. Nevertheless, Frei's strategy was unable to surmount growing political fissures and economic stagnation. Extending social programmes to the urban subalterns and introducing agrarian reform in marginalized rural areas did not result in the growing dynamism of either consumption or agrarian production as hoped, but did provide a further drain on the social surplus.

Conversely, the mobilisation of these groups by the state also proved insufficient to counter-balance the political power of the established union movement. Owing to the

¹⁰ Stallings 1978; Fortín 1985.

¹¹ With regard to Frei's policy towards the urban marginal sectors and the theories of marginalisation used to support this endeavour, cf. Kay 1989: 97-100.

success of the latter in securing rising wages following a massive upsurge in strike activity in 1965-6, capital was faced with growing difficulties in maintaining profit rates.¹² Inflation was rising and business interests clamoured for an end to the mounting redistributive component of the Chilean political economy and a cap on wage increases. The failure of the economy to respond to Frei's expansionary initiatives meant that resources became increasingly restricted precisely at a moment when social mobilisation augmented pressure for greater material compromises. Under these constraints and amidst growing social polarisation the interventionist state-form started to break apart. Notably, support for the Socialist and Communist parties grew considerably, comprising over one-third of the electorate, whilst the bourgeoisie became increasingly confrontational towards Frei's reformist tendencies.

The regime responded in 1968 with a shift to the right, reducing social expenditure and employing the security forces to crack down on the more explicit forms of popular mobilisation.¹³ However, the polarising trends unleashed by the crisis of accumulation, and the resulting dissolution of Frei's political middle ground, were sharply manifested itself in the general elections of 1970. Socialist candidate Salvador Allende won a narrow victory with 36.6 percent of the vote, as compared to the Conservative candidate who received 35.2. Allende's programme of nationalisation and increasing state intervention in distributional issues, however, represented a further development, rather than a break, with the trajectory of capital accumulation up to that point. Furthermore, it proved unable to overcome the growing crisis. Predicated upon price controls and general wage hikes, the demand-driven growth strategy initially served to increase production in domestic consumer industries although the inflation rate also

¹² Stallings 1978: 105.

¹³ Stallings 1978: 113.

began an ominous rise. Concurrently, the nationalisation of key industries – particularly that of copper – at first provided the regime with a reasonably vibrant state sector. However, the tendency to respond to growing industrial conflicts by nationalising the enterprise in question brought many smaller and less profitable industries into the state’s purview. Moreover, the political uncertainty surrounding the regime and the trend towards nationalisation made capitals located in the domestic consumption sector extremely reluctant to invest, even to cover the renewal of machinery necessary for the production process.¹⁴

In sum, whilst Allende’s government acted under the banner of moving towards a socialist future, the immediate effects of restructuring were to deepen the state’s economic role and expand redistributionist aspects within a capitalist framework. The upshot of these actions was to further undermine the basis for capital accumulation, prompting the unleashing of even greater crisis tendencies. Although in 1973 the Allende government prepared to moderate some of its reforms, other elements of the state-system began to mobilise in a contrary fashion.¹⁵ The bourgeoisie and allies perceived, in Guillermo O’Donnell’s words, “a great threat to the survival of the basic capitalist parameters of society”.¹⁶ They sought to return the state to within the limits of its capitalist form and therein reaffirm the basis for renewed capital accumulation. With the crisis of accumulation deepening and the US government openly supporting the growing anti-Allende forces, the military emerged from the barracks on September 11th 1973 and unleashed a bloody yet successful coup.

¹⁴ Fortín 1985: 150.

¹⁵ The Allende regime had been cut off from World Bank and IMF credit owing to the political pressure of the US.

¹⁶ O’Donnell 1979: 295.

2. Crisis, Authoritarianism and Social Restructuring

In many respects, the crisis of accumulation in the early 1970s shattered some of the fetishised forms of appearance of capitalist society. Growing social polarization and forms of class-based mobilisation served to unite economic and political struggles, with struggle manifested in class-based movements that targeted the state. The iron rule of property was shaken through state expropriation of a growing number of industries and the deepened agrarian reform process. By 1973, companies within the state's "area of social property" represented 39 percent of GDP, as opposed to 14.2 percent in 1965.¹⁷ However, the limits to a socialist strategy that viewed the capture of the capitalist state as its primary object of struggle had also been manifested, with the state running up against the conditions of its own existence in the form of profound economic, social and political crisis. As the crisis deepened, control of the coercive apparatus by state managers closely linked to the bourgeoisie and committed to re-establishing the parameters of capitalist social relations proved decisive. The new authoritarian regime looked to develop a strategy by which to renew the conditions for the expanded reproduction of capital, which necessarily involved fashioning a new relationship between capital and labour. It concurrently sought to re-establish the fragmented social forms of capitalism and therein reassert an unbending separation of politics and economics, remove the state as the central object of social struggle and atomise the collective subjectivities forged in the previous decades of struggle. Nonetheless, beyond exercising their control of the means of coercion, the new authoritarian state managers were initially uncertain of how to achieve these aims. As developed below, in the context of deepening crisis the authoritarian regime would become incrementally

¹⁷ Fernández 2000: 105.

drawn towards a course of action that would re-assert the power of money, as a tangible form of abstract capitalist domination, into all aspects of social life.

Over the first few years of the dictatorship, this strategy to re-impose the abstract discipline of capitalist social relations coalesced into a neoliberal approach to policy making. In this manner, the gradual internalisation of neoliberal ideology by the military regime was not predicated solely on its supposed economic functionality. On the contrary, despite avid propagation by an influential clique of economists working at the Universidad Católica, monetarist policies were initially ignored by the regime and there existed considerable doubt that these throwback ideas to an earlier stage of capitalism could be effective. At this historical juncture, long before neoliberalism had assumed the global hegemonic mantle that it presently enjoys, Keynesian assumptions regarding the necessity of state intervention to mitigate crisis were prevalent and the idea of a minimalist state seemed bizarre and suspect. Nevertheless, as analysed in the previous chapters, the forms of restructuring that would later earn the neoliberal tag are not merely economic in nature, but rather comprise a wider societal transformation that necessarily encompasses economic, political and ideological dimensions. This was specifically recognised by the Pinochet regime, which in reaction to the crisis pronounced that it wanted to give Chile:

*[A] new institutional basis ... to rebuild the country morally, institutionally and materially.*¹⁸

Chilean neoliberalism, therefore, was not selected as an economic doctrine according to the rational principles of the state managers, but emerged in an uneven fashion as a

¹⁸ Cited in Taylor 1997: 39.

drastic response to the *social* crisis that had reached a pinnacle in the Allende years. Withdrawing the state from historically developed roles – such as price controls, wage agreements, welfare policies, industrial policy – and reinserting the primacy of the market not only seemed to offer a possible solution to the economic manifestation of crisis by controlling inflation and restructuring the productive apparatus, but also presented a mechanism of societal depoliticisation by obliterating the circumstances in which politics had become a means for attaining social and economic ends and the state had become the primary locus for social struggle.

The first actions of the incoming authoritarian regime were aimed at solving the political crisis and clearing the way for the forthcoming restructuring of Chilean society. To this end, the military concentrated on its coercive expertise and engaged in a policy of fierce repression that served to annihilate the political forces that had challenged the foundations of Chilean capitalism. The primary achievement of repression was the decapitation of organised labour, the destruction of autonomous and politically active union movements, and the generalised suppression of political opposition.¹⁹ Moreover, political violence was supplemented by an oppressive labour policy that involved the prohibition of strikes, the dissolution of unions, suppression of wages and a reform of labour legislation that relaxed regulations and allowed a dramatic decrease in employer social security and tax benefits to workers. The assault on organised labour and the rights of the Chilean labouring class would provide the necessary political climate in which to dramatically lower the conditions for the social reproduction of the working class.²⁰

¹⁹ Petras and Leiva 1994: 21.

²⁰ Notably, violent political oppression did not dissuade the World Bank from re-establishing a close relationship with the Chilean state, with seven loans for infrastructural projects made in the three years following the coup, and a total of thirty made in the period of the dictatorship.

Through repression, the authoritarian regime extinguished the immediate political dimension of the crisis. Nonetheless, the economic and social crisis remained and would elicit increasingly radical solutions. Notwithstanding the severity of the economic circumstances inherited from the Allende period, the first year and a half of the military regime witnessed a relatively gradualist approach to macroeconomic management that moved concertedly away from the structuralist emphasis of the previous two administrations yet avoided stabilisation through austerity. Crisis was attributed to the expansion of consumptive state expenditure alongside wage hikes that undermined the profitability of capitalist enterprise whilst reinforcing market distortions. Under the banner of reasserting the primacy of the market, the new regime lowered the price and wage controls implemented in the Frei and Allende periods, thereby reducing subsidies to working class consumption without allowing a compensatory rise in wages, and began to selectively reduce import tariffs. Social expenditure was also cut by over twenty percent, with serious implications for the quality of social services.²¹

Nonetheless, continued triple digit inflation, persistent economic stagnation and a marked fall in the value of copper on depressed global markets pressured the military regime to adopt a more radical approach. Under the increasingly direct leadership of General Augusto Pinochet the military regime began to follow the prescription of a group of neo-classicist economists based at the Universidad Católica in Santiago. These were the “Chicago Boys”, so-called owing to their training by Chicago-schooled monetarists, who had played a key role in providing business interests and the Chilean

²¹ Torche 2000: 557. Taylor 2003 provides a comprehensive critique of social policy in the Pinochet era.

Right with an alternative economic and social platform during the Allende period.²² Their orthodox monetarist formula for societal transformation established a clear plan for setting Chilean capitalism back on its feet through a dramatic reversal of the state's relationship with society. As noted above, the regime initially shied from implementing the full shock therapy called for by the Chicago Boys owing to the anticipation of economic recession, social destabilisation and protest from across the social spectrum, including segments of the industrial bourgeoisie opposed to a dramatic reduction of protective tariffs. However, the relentless nature of the crisis and the growing influence of large conglomerates with a heavy concentration of liquid assets that could increasingly re-orientate production towards international markets opened the way for more drastic methods.

Consequently, in 1975 the full fury of an austerity programme was unleashed with remaining price controls abolished, wages left to deteriorate under hyperinflationary conditions, a dramatic reduction in both tariffs and public expenditure, and a mass shedding of jobs in the public sector. By prompting the mass destruction and centralisation of capital, the regime's austerity programme of 1975 immediately thrust a significant proportion of the labour force into the reserve labour army. Even by the regime's generous understanding of what constitutes employment, over fifteen percent of the workforce was unemployed by 1975.²³ Notably, the Chilean state itself was a principal subject in this decomposition. In 1974, before the mass-privatisations that would follow in the late 1970s and mid-1980s, the state controlled twenty of the largest twenty-five Chilean companies, including the largest ten.²⁴ Consequently, public sector employment accounted for an extensive component of total employment, with 870,000

²² A detailed account of the development of the Chicago-school of monetarism in Chile is Valdés 1995.

²³ Díaz (1993: 1) offers a breakdown of the military government's unemployment categorisations.

²⁴ Ritter 1992: 13.

out of a total employment of slightly fewer than 3 million in 1973.²⁵ However, in the two years of 1974 and 1975 the state implemented uncompromising measures to reduce the fiscal deficit and to raise the profitability of state controlled industries. One-third of public employees lost their jobs, meaning that some two hundred and sixty-five thousand public sector employees were forced into the ranks of the reserve army.²⁶ An expulsion of labour of this magnitude would have been politically inconceivable without the centralisation and prolific application of the means of coercion by the authoritarian regime. Public sector unions were amongst the strongest in Chile and faced intense repression in the post-1973 era and a ban on all local union activity. Concurrently, the sheer rapidity of the downsizing of the public sphere would also serve to damage the long term strength of these unions, represented in a reduction of the levels of unionisation across the board, as developed below.

State industries were not alone in pursuing drastic restructuring that involved the mass ejection of living labour from the production process. With both state and private industrial sectors in profound crisis, many of the branches of industrial production that had been steadily growing since the introduction of ISI-style policies in the 1930s underwent severe contraction. This trend was accentuated by the steady reduction of tariffs by the Pinochet regime between 1974 and the early 1980s, which introduced stern foreign competition in formerly protected domestic markets. Chilean industrial producers, whose productivity was below the global average, were faced with a dramatic intensification of the crisis. The necessary outcome of this process was the destruction of fixed capital, rapid deindustrialisation, and the large-scale expulsion of labour from key industrial sectors where firms either folded or introduced new forms of

²⁵ Coloma and Rojas 2000: 519.

²⁶ Larraín and Vergara 2000: 76.

mechanisation. In total, over one-quarter of the industrial sector workforce was jettisoned between 1974 and 1981.²⁷

Together these measures precipitated a profound contraction of demand, spelling the demise of many small and medium firms in the consumer goods and service sectors, and a deep recession with per capita GDP contracting by a staggering 14.4 percent. Manufacturing production would not recover to its 1972 levels until 1987.²⁸ Unemployment climbed above fifteen percent (refer to table 6:2) and real wages collapsed, with the share of wages in the national product declining from 62.8 percent in 1972 to 41.1 percent in 1976, a shift from one of the highest in Latin America to one of the lowest.²⁹ These dramatic increases in the size of the reserve army and the rate of exploitation constituted fundamental pillars in the long-term recovery of Chilean capitalism. As such, although the austerity package did not restore an immediate macro-economic equilibrium as intended, it nonetheless laid the basis for the greater transformation of Chilean society along the lines of the emerging neoliberal consensus within the military regime.³⁰

Table 6:2 – Unemployment 1970-1982 (percentage of economically active population):³¹

Year	Open Unemployment	Emergency Employment	Unemployment + Emergency Employment
1970	5.9	0	5.9
1975	15.7	1.9	17.6
1976	16.6	5.3	21.9
1977	13.3	5.6	18.9
1978	13.8	4.2	18.0
1979	13.5	3.8	17.3

²⁷ Figures drawn from Foxley 1986: 40-1.

²⁸ Agosin 2000: 107.

²⁹ Petras and Leiva 1994: 26.

³⁰ For details on the failure of monetarist policies between 1973-82 to establish the equilibriums expected by their exponents, cf. Fortín 1985.

³¹ From Mizala and Romaguera 2001: 214.

1980	11.7	5.2	16.9
1981	10.4	4.7	15.1
1982	19.6	6.5	26.1

A second key aspect of the Chicago Boys' monetarist strategy was a profound alteration in the manner of articulation between domestic accumulation and global capital. The structuralist doctrine of national-developmentalism, in its quest for domestic industrial expansion, sanctified a form of development in which the weaknesses of domestic production were to be overcome through state mechanisms. The latter sought both to protect domestically located productive capitals by means of tariff barriers and to take a leading role in stimulating investment through a variety of measures, ranging from tax relief to direct ownership. The neoliberal solution was more radical. The Chicago Boy analysis of the stagnation and crisis of the Chilean economy centred around the rigidities that had developed within the economy owing to the limited mobility of capital. They related the latter to the stasis of capital in relatively ossified productive forms that entailed not only sizeable outlays on fixed capital but also an inflexible relation with the labour-force governed by the historically developed mediation of the state. Hence, the essence of the neoliberal solution was a shift in state policy in order to prioritise capital in its money-form rather than capital as production.³² An emphasis on liquidity was expected to enable capital to overcome the barriers to valorisation by escaping currently unprofitable engagements and concentrating in those sectors that offered more lucrative returns. Capital in mobile money-form would be able to seek a new and profitable relationship with labour, freed from established spatial and political constraints.

³² For a wider discussion cf. Clarke 1988; Gamble 2001.

A new dominance of capital in money-form was forged through the Pinochet regime's deregulation of both trade and finance. The implications were felt across Chilean society as liberalisation went hand in hand with a profound reorganisation of the social relations of production. In the financial sphere, alongside privatising banks and freeing internal interest rates, the regime removed restrictions and provided incentives for foreign capital to flow into domestic enterprises and financial markets. High interest rates were expected both to curb the inflationary spiral and attract inflows of foreign capital, although one serious consequence was a rapid overvaluation of the peso. Additionally, from 1977 the regime enabled domestic banks to borrow directly from international financial markets. A further corollary was the newfound ability of domestic banks to borrow at international rates and re-lend domestically at hugely inflated levels, making incredible profits and therein helping consolidate the increasingly important position of the financial sector (refer to table 6:3).³³

Table 6:3 - Distribution of payments to capital by main sectors.³⁴

Years	Agriculture (%)	Industry (%)	Trade (%)	Banking (%)
1960-1970	10.5	30.0	22.4	1.0
1981	7.3	20.9	27.8	18.0

Concurrent to these changes in the financial sector, liberalisation allowed large economic groups that had access to international finance to use this credit to purchase or establish industries in the new export sectors and also to procure state industries that the regime was privatising at greatly subsidised prices. As such, this period witnessed an incredible concentration and centralisation of capital, expressed in the emergence of the “grupos económicos”. The latter were large conglomerates rooted in the financial

³³ Fortín 1985; Soederberg 2002b.

³⁴ Figures from Fortín 1985: 186.

sector and with vast yet constantly changing portfolios of investments.³⁵ When placed alongside the re-entry of foreign firms into the mining sector, this concentration of capital led to the domination of all key sectors of the Chilean economy by a handful of domestic economic groups and multinationals (refer to table 6:4).

Table 6:4 - Concentration in the Export Sector by 1988.³⁶

Industry	Number of Large Firms	Industry Share
Mining	7	97.1
Agriculture	8	80.6
Forest Products	5	78.4
Fish Products	6	51.1
Food	6	67.3
Wine and Beverage	2	70.2
Wood	7	78.6
Paper, Cellulose	2	90.0
Chemical Products	2	71.4

With respect to trade, by June 1979 the maximum tariff had been reduced to just ten percent. This reinforced a reorientation of capital away from consumption goods production for the domestic market and towards newly emergent export industries, particularly primary produce such as fruit, fish, wine, lumber and metals. Intrinsic to this process was a mass decomposition and recomposition of the labour force. Ejected from the crisis-stricken industrial and state sectors, labour was only partially reabsorbed by the informal sector, the export processing industries and the service sector. Concurrently, a state-sponsored reversal of the land reform process served to transfer terrain away from the recipient peasantry, who retained only 31.1% of land grants, and was either sold to emerging large-scale agro-capitalist enterprises (33.8%) or returned to former landlords (28.4%).³⁷ Moreover, given the inability of those who retained their land grants to farm at a profit after the removal of agrarian tariffs and subsidies,

³⁵ Hugo Fazio (2000) has provided the most systematic details on the grupos económicos. For other perspectives refer to Fortín 1985; Petras and Leiva 1994; Martínez and Díaz 1996.

³⁶ Figures from Petras and Leiva 1994: 36.

³⁷ Ritter 1992: 13; Green 1995.

many peasants were forced to sell their plots. As Marcus Kurtz has detailed, only 6.5 percent of land sales were to another reform parcel holder, resulting in a substantial concentration of land in agro-capitalist hands.³⁸ Similarly, Cristóbal Kay notes that by the end of this counter-reform, only five percent of Chile's peasantry had managed to secure a family farm.³⁹ Reversing the agrarian reform process in this manner served to increase urban migratory processes, thereby escalating the century-long trend towards initial primitive accumulation and expansion of the urban reserve labour army.⁴⁰

The cumulative effects of these processes was that between 1970 and 1978 secondary employment in general – comprising employment in the manufacturing, construction and utilities sectors – decreased from 37.8 percent of total employment to 24.4 percent.⁴¹ Although the primary export sectors of the Chilean economy began to slowly increase their dollar importance in Chilean production – with, for example, exports of lumber and fishmeal increasing by over forty percent between 1974 and 1981⁴² – these sectors did not constitute labour intensive branches of production and therein could not offer a significant outlet for the reserve labour army. As a result, both unemployment and underemployment escalated dramatically, with unemployment reaching 16.6 percent of the labour force in 1976 and a further 5.3 percent of the labour force reliant on state emergency employment programmes (refer to table 6:2). These figures compare to an average unemployment rate of six percent during the post-war era.⁴³ To the extent that a limited recomposition of labour occurred during the first crisis period, it was centred on the tertiary sector through the expansion of commerce

³⁸ Kurtz 1999: 281.

³⁹ Kay, cited in Kurtz 1999: 282.

⁴⁰ Riesco 1999.

⁴¹ Díaz 1997: 167.

⁴² Agosín 2000: 107.

⁴³ Hojman and Ramsden 1993: 108.

and services. Alejandro Foxely attributed half of the jobs formed in the recovery period of the late-1970s to these two sectors,⁴⁴ leading to a situation in which tertiary sector jobs accounted for 64 percent of employment by the early 1980s, as opposed to 46 percent in 1973.⁴⁵ However, tertiary employment during this period has been shown to be largely spurious in nature, thereby merely acting as a refuge from open unemployment for a portion of the reserve labour army. Specifically, the expansion of employment in the tertiary sector was centred on a growth in small informal commerce, various private sector services, and public services provided through the large-scale emergency work programmes initiated and expanded by the regime.⁴⁶

Far from solving the problems of Chilean capitalist development, the prioritisation of capital as money proved to be a significant cause of the succeeding crisis. By the late 1970s monetarist policies had reduced but not tamed inflation. Concurrently, GDP growth levels above eight percent marked something of a recovery, notwithstanding that in 1979 per capita GDP remained only 95.5% of the 1971 figure.⁴⁷ Underlying this surge in economic activity was the entry of some US\$6593.6 million of foreign credit from international financial markets between 1975 and 1979, a massive sum, equal to five years of copper exports. However, despite the proclamation of an “economic miracle” by the advocates of neoliberalism, the largely illusory joy was quickly dispelled. Although new forms of integration into the global chains of finance and commodity circulation certainly brought substantial reward to the large economic conglomerates that were able to partake in rentier activities and increase production of primary exports, Chile’s balance of trade rapidly and profoundly worsened in the late

⁴⁴ Foxely 1986: 42.

⁴⁵ Díaz 1993: 14.

⁴⁶ Martínez and Díaz 1995: 120.

⁴⁷ Fortín 1985: 156.

1970s as the growth of imports far exceeded that of exports. The steady overvaluation of the Chilean peso bolstered this process and further undermined the profitability of domestically located productive capital, therein accentuating the ejection of labour from domestic production. Concurrently, much of the investment associated with this boom was ploughed into unproductive and short-term ventures.

Far from freeing capital to establish the exploitation of Chilean labour on a new and profitable footing, many capitalists took advantage of the deregulations to avoid any relationship with labour at all. In this manner, a speculative bubble had quickly built up around sectors such as real estate. In order to compete against the unhindered entry of foreign consumer goods, surviving domestic industries borrowed heavily at high rates in an unsuccessful attempt to regain their market position by improving production technologies. Moreover, as the sustained inflow of international capital caused an appreciation of the peso vis-à-vis the dollar, even the dynamic new export industries experienced stagnation and a contraction in profits.⁴⁸ To compound matters, the late 1970s and early 1980s witnessed a drop of commodity prices on the world market and a mammoth hike in international interest rates, reaching eleven per cent in 1982. Under these conditions short-term foreign investments in Chile were rapidly liquidated, the debts of Chilean capitals soon became unmanageable, and the Chilean economy plunged into deep recession. In sum, the inability of capital to incorporate labour within the production process displays the relatively fictitious nature of the late-1970s “economic miracle” that was based principally on large inflows of capital into non-productive and speculative sectors, concurrent to a dramatic rise in the role of finance. The crisis that the Pinochet regime believed it had resolved through societal restructuring emerged again on a larger scale.

⁴⁸ Ritter 1992: 17.

3. The Debt Crisis and the Decomposition of the Working Class

When the full force of the debt crisis rocked Chile the military regime was in disarray and reacted with a naïve hope that the markets would self-correct. However, as production fell by 16.7 percent, investment by over 40 percent, and official unemployment topped 26 percent, it became clear that the economy faced collapse without sustained state intervention. As such, facing a profound crisis of accumulation, the regime was propelled into action despite the neoliberal rhetoric of non-interventionism. Intervention took three immediate forms: the takeover of collapsing firms by the state, the socialisation of \$7.7 billion of private external debt incurred by Chilean capitals, and the dramatic expansion of the emergency work programmes that offered less-than subsistence wages to a significant proportion of unemployed workers. Subsidies offered to capitals in the two years of 1982 to 1983 – including full takeovers, assumption of debts, subsidised dollars and debt renegotiation – came to a total of 16.1 and 17.3 percent of GDP respectively.⁴⁹ In desperation, the regime also signed a stand-by agreement with the IMF in 1983, followed by a structural adjustment loan from the World Bank in 1985. These settlements served to bolster the regime's commitment to neoliberal policies by making a renewed commitment to neoliberal fundamentals the prerequisite for receiving financial assistance. As such, the regime not only committed to upholding the foreign debts of all state companies and major domestic debtors, but also to reverse the emergency import tariffs implemented in 1982, cut state expenditure, remove the final vestiges of wage indexing, and initiate another wave of privatisations.

⁴⁹ Larraín and Vergara 2000: 89.

Attempting to re-establish macroeconomic stability, however, did little alleviate the impact of crisis on the working class. The socialisation of the debts of the financial sector and the major economic groups did not impede capitals located in industrial sectors from once again either liquidating or ejecting living labour from the production process in an attempt to regain profitability. Consequently, the years 1982-3 represented the worst point of crisis, reflected in the massive destruction of fixed capital and a new wave of labour expulsion from the productive process. This resulted in an additional expansion of the reserve army, contracting still further the price of labour-power, and imposing a greater degree of immiseration upon the working class. Employment in the secondary sector, as a percentage of total employment, dropped once more, from 24.4 percent in 1978 to 21.8 percent in 1986, with manufacturing falling from 19 percent to 15.6 percent.⁵⁰ As visible from table 6:5, unemployment reached new highs with open unemployment almost doubling to just under 20 percent in 1982, a figure that excludes the 6.5 percent of the labour force participating in the regime's emergency work programmes.

The bulk of the immiseration process fell most heavily on the industrial working class. Poverty amongst households whose primary wage earner worked in industry and construction rose from 8 percent in 1971 to 47 percent by 1987.⁵¹ In this manner, poverty ceased to be a status prevalent only in the rural and urban marginal sections, but became a universalised phenomenon amongst the working class. Whereas employment in industry or construction had previously offered formalised and secure work conditions and relatively high wages, crisis and restructuring obliterated these circumstances. Likewise, for workers in the commercial and service sector, poverty

⁵⁰ Díaz 1997: 167.

⁵¹ León and Martínez 1998: 301.

rates accelerated from 11 percent in 1971 to 42 percent in 1987.⁵² Only the working class employed within mining escaped the process of immiseration. In sum, from the 1982 crisis until the close of the decade, just under one-half of the population occupied a position below the poverty line, and therein was unable to purchase the necessary goods for an adequate level of subsistence. Notably, this re-manifestation of crisis provided the conditions under which real wages underwent a second drastic decline. Eventual economic recovery in the later 1980s would not translate into rising wages but, on the contrary, a continued suppression of the price of labour-power marked the entire decade.⁵³

Table 6:5 – Unemployment 1981-1991.⁵⁴

Year	Open Unemployment	Emergency Employment	Unemployment + Emergency Employment
1970	5.9	0	5.9
1981	10.4	4.7	15.1
1982	19.6	6.5	26.1
1983	18.7	12.6	31.3
1984	16.3	8.3	24.6
1985	13.8	6.9	21.7
1986	12.1	5.2	17.3
1987	10.9	2.9	13.8
1988	9.7	0.8	10.5
1989	7.9	0	7.9
1990	7.8	0	7.8
1991	8.2	0	8.2

With the mass ejection of workers into the ranks of the unemployed, the increasing pauperisation of the masses, and the emergent political organisation of community groups, the authoritarian regime faced a growing threat of social disintegration and political opposition. Under such conditions, it felt compelled to respond. Three major

⁵² León and Martínez 1998: 301.

⁵³ Stallings 2001: 52.

⁵⁴ From Mizala and Romaguera 2001: 214.

elements of this initial intervention can be highlighted and are addressed in turn below: firstly, the initiation of the emergency employment schemes; secondly, focused nutritional assistance for mothers and children; and thirdly, a more tightly focused social expenditure. New initiatives of this nature, however, did not entail a cessation of the regime's fierce quantitative welfare retrenchment in the traditional areas of social security, housing, education and health. What they did indicate was the tentative beginnings of a qualitative reshaping of various forms of welfare provision that would target expenditure towards a newly constructed category of the extremely poor. Although cautious in its initial application, this transformation in the form of state mediation of working class social reproduction would subsequently become one of the basic modes assumed by anti-poverty policy in Chile for the succeeding three decades. By introducing social mapping techniques that differentiated the working class according to income and vulnerability, expenditure could be focalised towards the extreme poor, thereby sustaining the social reproduction of the poorest sections of the working class in conditions of generalised pauperisation and expenditure retrenchment. In short, the regime anticipated a change in the form of social policy in order to sustain the reproduction of capitalist social relations whilst maintaining a drastic reduction in the content of social policy through a precipitous decline in the social wage.

The most immediate and direct form of state intervention directed towards sustaining the social reproduction of the working class was the introduction of large-scale emergency employment schemes.⁵⁵ As indicated by table 6:5, the emergency employment programmes provided work for a significant portion of the vastly expanded reserve army that had been ejected from the circuits of capital. In broad

⁵⁵ The World Bank cited these programmes approvingly as effective strategies to counter unemployment; World Bank 1990: 119.

terms, the purposes of these programmes were to manage the vast reserve labour army, and thereby mitigate some of the social and politically destabilising effects of mass unemployment, whilst concurrently upholding the disciplinary aspects of the wage-form. At a time when up to 31 percent of the working population could find no employment through a relationship with capital or through informal labour, the regime attempted to reproduce the immediate capital-labour relationship through the surrogate auspices of the state.

The programmes themselves were organised in a heavily authoritarian manner, with the reserve army being sustained at extremely low wages and the threat of immediate unemployment blocking any form of negotiation over salaries or conditions.⁵⁶ Described by observers as “the ultimate humiliation of the worker”,⁵⁷ enrolees were set to work on manual labour tasks, often linked to building infrastructure for the armed forces and the business sector. Carlos Fortín suggests that in 1981 the average remuneration for workers in the Minimum Employment Programme was equivalent to 32.1% of the minimum wage, whereas Carol Graham places the sum at a lower level, corresponding to one-quarter of the minimum wage.⁵⁸ Concurrently, extreme pressure remained upon those enrolled to continue seeking employment in formal labour markets where subsistence salaries were attainable despite the depreciation in both wages and working conditions. In conditions of low wages and poor conditions, worker discipline was low and resistance was occasionally manifested in acts of dramatic sabotage, such as the attempted burning of a partially constructed amphitheatre in 1986. Nonetheless, maintaining the framework of the wage form and the working day for a significant portion of the vast reserve army served an important

⁵⁶ cf. Graham 1991: 16.

⁵⁷ Cited in Graham 1991: 17.

⁵⁸ Fortín 1985: 182; Graham 1991: 13.

political purpose for the regime and for capital alike, even if the ability to impose discipline was repeatedly frustrated by participant resistance. At a more general level, the emergency employment schemes served to keep a substantial proportion of unemployed workers off the streets and provided a relatively cheap manner in which to prop up the social reproduction of the working class.

4. The Second Wave of Adjustment

In the medium-term response to the crisis, the regime began to deepen many of the existing reforms through amplified degrees of state intervention and, therein, enhance and consolidate the processes of social transformation. The recognition that the state would have to play a greater role in fomenting the conditions for accumulation has often been labelled as a shift from orthodox monetarism to “pragmatic neoliberalism”.⁵⁹ Dramatically increased state intervention involved heavy expenditures, with average government spending as a proportion of GDP standing at 25.1 percent between 1983-88, a figure 1.5 percent higher than in the 1967-72 populist period.⁶⁰ Such expenditures, however, represented very different forms of intervention than those of the populist period of Frei and Allende. By socialising the debts of the private sector, moderately augmenting its activities in financial regulation, increasing its infrastructural investment, and selling public companies at below market rates, the state took a greater role in providing the supply-side conditions for capital accumulation.

Following the economic debacle of the 1982-4 period, the regime and international advocates of its neoconservative policies proclaimed a second ‘economic miracle’

⁵⁹ Cf. Silva 1996.

⁶⁰ Martínez and Díaz 1996: 66.

encompassing the period between 1985-1989. This miracle was announced on the back of sustained GDP growth rates, with an average rate of growth of 6.7 over this period, or 4.9 in per capita terms. This expansion was credited to the regime's adoption of this deepened neoliberal strategy buffered with increased state mediation. This must be understood, however, in the context of a less miraculous combination of making up the massive idle capacity created by the severe drop in production during the recession period, added to the existence of a large labour reserve army and suppressed wages.⁶¹ Additionally, economic activity was centred upon the further development of the 'new growth poles' in the Chilean export economy, a boom in the unproductive sector of the economy (services and finance), and high international prices for copper.⁶² If the period 1982 to 1989 is taken as a whole the performance is considerably less impressive with aggregate GDP growth being 2.6 percent annually, and per capita GDP at 0.9 percent.

Four main pillars of the transformed policy approach can be discerned. First, the authoritarian regime began a concerted programme of devaluing the Chilean peso, precipitating an 80 percent reduction in the real exchange rate by 1988.⁶³ The intention was twofold, to boost the competitiveness of Chilean exports on the world market whilst concurrently improving the conditions for foreign investment in Chile. Exchange-rate manipulation, however, was only one of the means by which the state sought to fortify Chile as a profitable site for global capital investment. Other measures that sought to remove existing restraints on profitability included the further abolition of taxes on wealth and capital gains, and the withdrawal of restrictions on foreign profit

⁶¹ Rosales 1998: 210.

⁶² Petras and Leiva 1994: 32-3.

⁶³ Schurman 1996: 94.

remittances.⁶⁴ This policy programme benefited both foreign and indigenous capitals, a factor reinforced by the passing of law DL 600 that specifically guaranteed the equal treatment of foreign and domestic capital. By the mid-1980s, foreign direct investment began to flood into the Chilean export sectors, particularly the copper mining sector in which foreign companies reclaimed a position unseen since the early 1960s. Conspicuously, however, the regime retained control of Codelco, the extremely profitable state-owned copper company created in the Allende period and which provided a major source of fiscal revenues of which ten percent were channelled directly to the armed forces.

Second, the recomposition of capital in export-orientated productive sectors continued, with a deepening specialisation in agricultural and raw material exports. State industrial policy, to the extent that it existed, involved arranging credit and informational services to the export sector, and particularly to large producers working with economies of scale in the relatively infant agro-export sectors.⁶⁵ The majority of economic expansion that occurred in the 1984-1989 period was precisely in these new “dynamic poles” of Chilean production. Whilst in the 1960s the value of exports amounted to 13 percent of GDP, this had risen to 20.7 percent in the 1974-1981 period and underwent a further large jump to 29.6 percent in the 1985-1989 period.⁶⁶ As indicated previously in table 6:4, the bulk of this expansion was performed under the aegis of the large economic groups who dominated the new-export sectors, although smaller capitals existed in some of the more peripheral activities that needed relatively little capital investment. In this way, the emerging recovery and subsequent productive boom based on primary exports in the later-1980s slowly began to reincorporate the

⁶⁴ Mogueillansky 2001: 178.

⁶⁵ Schurman 1996: 86; Kurtz 2001: 15-17.

⁶⁶ Stallings 2001: 46.

vastly expanded reserve labour army back into the circuits of capital. This re-absorption was notable in a growth of urbanised labour forces involved in primary production, specifically fruit-picking, forestry, fishing and mining. Whilst traditional forms of agriculture were declining, the growth of agro-industry created a large sector of urbanised workers involved in forestry and fruit picking, particularly in the Bío-Bío and central valley areas respectively. Notably, as discussed below, in many respects the jobs created in the new export industries have proved the most under-regulated and precarious.

In addition, new employment expanded in the unproductive sectors of the economy, with commerce and services rising as a percentage of employment in both formalised and informal forms. As a notable example of formal sector service extension, financial services rapidly expanded, growing from 2.4 percent of employment in 1970 to 4.8 percent in 1986 and 6.8 percent by 1994.⁶⁷ Despite this partial recomposition of the working class, however, it should be noted that a large reserve army existed throughout the decade, a corollary of the rationalisation of industrial capital brought about through crisis and the new concentration of capital in capital-intensive branches of production. Consequently, with the abundance of unemployed labourers and the restricted bargaining powers of unions, wage recovery was heavily stifled and in 1987 real wages remained at only 86 percent of their 1970 level.⁶⁸ Likewise, the conditions of labour were also poor. Longer working hours were imposed across all branches of production, and were combined with minimal protection as workers experienced precarious employment tenure, especially given the regime's sanctioning of lax dismissal rules in conjunction with the proliferation of subcontracting practice in the export sector.

⁶⁷ Díaz 1997: 166.

⁶⁸ Coloma and Rojas 2000: 519.

Working conditions deteriorated to levels that, as Rachel Schurman indicates, were reminiscent of the industrial revolution. Twelve to fourteen hour days were common throughout the export sector, resulting in the proliferation of occupationally related sicknesses.⁶⁹ In sum, a second dramatic rise in the rate of exploitation was a fundamental aspect of the post-debt crisis restructuring, and provided the basis on which Chilean capitalism could regain its profitability.

The third aspect of the dictatorship's post-crisis restructuring concerned the dramatic reformulation of social policies. The reformulation of social policy, as one further moment of the extraction of the state from historically developed economic and social activities, comprised renewed large-scale privatisation alongside the imposition of strict fiscal discipline that incorporated a substantial reduction in social expenditure. Firstly, the dictatorship desired to transform social policy in a manner that would negate the historically developed forms of class struggle of the previous decades through a profound atomisation of social relations. This was to be achieved through processes of decentralisation and privatisation that would effect a recasting of the relations involved in social service provision. No longer would social services be conditioned on the mobilisation and articulation of various collective social subjects that levied demands on the central state apparatus. Rather, such relations were to be recomposed where possible as market relationships between individuals and firms.

In harnessing the ideological manifestations of commodity fetishism, with the market constituted as the realm of freedom and equality in which the contradictions of bourgeois society appear erased, the authoritarian state sought to impose a framework of radical individualisation upon the relationships between state and society. In this

⁶⁹ Schurman 2001: 6, 8.

manner, introducing the market into the sphere of welfare was presented under the veneer of increasing the efficiency of service provision to the benefit of all welfare 'consumers'. The latter were now to be free to choose between those providers that offered the best services at the lowest prices. In short, the retreat of the state from service provision was juxtaposed with a correlate shift from a commitment to providing basic services as social rights to an emphasis on the freedom of choice of the user. Concurrently, the element of competition and the response of enterprises to public desires as indicated by market forces were suggested to create an optimal allocation of resources throughout welfare provision.⁷⁰ Moreover, where the state was still involved in provision, processes of decentralisation were implemented in order to segment collective articulation into the localised realm of municipal governments that had been stacked with functionaries hand-picked by the Pinochet regime. Social service decentralisation was not only envisaged as a manner in which to fragment the subjectivities of service recipients, but also to disarticulate the national power of unions involved in the provision of services including, for example, the powerful teachers' union that had been a principal backer of the prior Allende regime.

Secondly, under the justification of removing the pernicious effects of state intervention and concurrently increasing the element of user choice (and therein promoting competition between service providers), the regime encouraged private sector provision of key social services on a for-profit basis. This included a compulsory privatisation of social security and the creation of dual systems of health and education in which private enterprises would compete with each other and the state to provide services to paying

⁷⁰ Torche 2000: 547.

customers.⁷¹ In many respects, this process offered a significant opportunity, subsidised by the state, for the emergent economic groups to increase their investment opportunities. Whilst the privatisation of the pension system offered the most significant profit making opportunities, particularly as it was protected by the guarantee of state intervention in the event of crisis, the prospect of providing profitable high-end medical care and private education also attracted capital. The nature of the privatisation processes deliberately offered investors the opportunity to adopt the most profitable aspects of service provision whilst leaving the state to provide a general safety net for the majority of the population.⁷²

The necessary corollary of the privatising process, therefore, would be twofold. Firstly, the rapid privatisation of a broad range of state services induced a concentration of service providers. These were primarily drawn from the large economic groups who, enjoying privileged access to finance, were the best placed to capitalise on the new opportunities for profitable investment. Secondly, this created highly differentiated dual structures of service provision that displayed a pronounced stratification of the quantity and quality of services attainable in relation to the purchasing power of the individual. Unsurprisingly, privatised services would become the preserve of primarily the rich and upper middle classes, with the state maintaining a minimal form of intervention in the reproduction of the working class.

Finally, with the shift from ISI to an export-orientated model predicated on primary goods with little value added during the production process (i.e. copper, fruit, wine, fish products and lumber), the regime sought a qualitative change in the form and content of

⁷¹ It is beyond the remit of this chapter to offer a detailed examination of these particular reforms: cf. Taylor 2003 for an extensive critique.

⁷² cf. Monckeberg 2001.

social policy to articulate better with the changing form of the social relations of production. There are two dimensions to these tendencies. First, many of the forms of social policy that had developed over the preceding four decades appeared not only as drains on social surplus but also as barriers to the free functioning of labour markets, thereby restraining a more flexible exploitation of labour. Secondly, the economic basis of the former structuralist emphasis on demand-driven accumulation – as advanced most strongly in the populist elements of the Frei and Allende regimes – dissipated owing to the re-concentration of capital in export-oriented branches of production. It is correct to argue that, at an abstract level, capital has a contradictory relation to the reproduction of the working class.⁷³ On the one hand, capital has a strong interest in minimising the social wage given that it presents an ultimate drain on surplus. Concurrently, however, capital also desires the expansion of the consumption and labouring potentials of the working class, particularly if accumulation is running up against the barrier of a limited market.

These insights, however, need qualification not only in respect to whether accumulation is in an expansionary or crisis phase, but also according to the international division of capital and labour that spatially differentiates the distinct moments of the circuits of capital. Within the Chilean national state, the substantial reorientation of production towards global primary commodity markets created a situation in which the realisation of value embedded in Chilean commodities would occur to a greater extent in exogenous spatial locales. As such, for the large Chilean export capitals, the limit of the market would not be encountered in the domestic sphere but rather on global markets. Resultantly, the fomentation of internal demand was of little priority for the major economic groups whose accumulation strategies had been extensively

⁷³ Clarke 1988: 156-7.

internationalised. Those capitals that retained their predication on domestic consumption were generally medium and small producers who, given their minimal political strength and their more marginal role in the accumulation process, would continue to struggle ineffectually for measures to boost domestic consumption throughout the dictatorship period and beyond.

The fourth and final aspect of the dictatorship's restructuring involved the consolidation of the political domination of labour through a rigid new labour-code promulgated in 1979. The latter aimed at suppressing all forms of effective collective action in the realm of production and therefore provided a resolutely pro-capital means of regulating labour relations and resolving industrial conflict. By affecting both the conditions of the valorisation process and the distributive struggle between capital and labour over the price of labour-power, this measure was the primary medium by which the state intervened in the realm of production.

Surrounding the decision to pursue this form of intervention were real tensions within the authoritarian regime. A significant divide opened between a corporatist-orientated element, located predominantly within the army, and the neoliberal current, represented principally by the technocratic advisors to the regime and key allies within the military junta. The former advocated the adoption of a populist position towards the working class, incorporating the labour movement into authoritarian state structures, and retaining a significant regulatory role over capital-labour relations. Such a position remained the rhetorical position of the regime until 1978 despite the state practice of almost unmitigated political repression. Alternatively, the technocrats were inclined to free all controls over wages and allow "market forces" to determine the level of wages. In response, the regime pragmatically decided to follow provisionally the indexation

policy, portraying the decision as a fair and neutral policy towards wages that avoided the “special interests” of both capital and labour. This strategy avoided precipitating a greater breakdown in the level of wages and therefore partially stymied the growing crisis of the reproduction of the working class within capital. It also, however, created a large differential in the value of wages between those covered by the wage policy in the formal sector and the growing numbers that had been forced into informal employment.

By 1979, however, growing labour disquiet pushed the regime towards a more comprehensive institutionalisation of labour relations. The *Plan Laboral* came into effect from 1979 through a series of legislative acts, and was modified consistently until the mid-1980s as the regime attempted to counter certain unanticipated implications and worker strategies that restricted the operation of the labour code as envisaged.⁷⁴ Following six years of generalised labour repression that left the previous mode of politically structured industrial relations in a state of limbo, the new code represented a defining moment in the institutionalisation of a new relationship between state, capital and labour. It occupied a key place in the dictatorship’s strategy of institutionalising the new balance of class forces within Chilean society, and therein attempting to obliterate the established pattern of capital-labour relations forged since before the post-war period. Not only would it remain the touchstone of industrial relations for the rest of the dictatorship but also, as developed in the succeeding chapters, it would become the site of major struggle in the post-authoritarian period as various working class movements challenged the regressive aspects of this institutionalised form of labour relations.

⁷⁴ Cortázar 1997: 242-2; Mizala and Romaguera 2000: 205-7; Barrera and Valenzuela 1986: 253-9.

The Plan Laboral re-instated the right to unionise whilst simultaneously eliminating any forms of compulsory unionisation such as those that had previously existed in the industrial sector. Moreover, the new code imposed relatively low quotas for union formation, a strategy intended to foment the creation of multiple, competing unions within each firm. Concurrently, funds for union activity would have to be drawn solely from contributions with no financial support from company profits. These edicts thereby re-established the right to unionise for the first time since the regime's suspension of union activity in 1973. However, several important exclusions were made, most significantly the prohibition of unionisation of public servants and temporary workers. Such exclusions forbade, respectively, the formation of unions in what had been previously a pro-Allende stronghold (public servants such as teachers), and also in one of the new dynamic poles of the export sector (fruit exports). With the latter reliant on large seasonal intakes of temporary cheap labour, the flexible exploitation of labour was viewed as imperative. Concurrently, unionisation for purposes of collective agreements was to proceed solely at the level of the individual plant. Inter-firm or inter-sectoral forms of unionisation were forbidden and federations could be established only to engage in mutual aid, education and cultural enlightenment. Finally, all union activity could be scrutinised by the labour inspectorate, and any suspicion of irregular activity permitted the inspectorate to halt unions from drawing upon their bank resources.

Collective bargaining was re-established for plant-level unions, although within narrowly defined limits that severely constrained the power that labour is normally able to derive from interrupting the production process. First and foremost, collective bargaining was restricted to solely the wage question, could only happen twice per year at times set by the regime, and was not allowed to impinge on the conditions of work.

This served to consolidate authoritarianism within the workplace, allowing capital to flexibly manage the labour process without politically imposed restrictions. Even granted its restriction to the wage question, however, collective bargaining is of minimal use to the workforce if it possesses no tools to exert pressure upon employers. In this respect, the regime curbed the right to strike by confining all strikes to a maximum limit of sixty days. For the duration of the strike, firms were entitled to hire non-unionised labour to cover the lost labour-power. Moreover, should a strike involve more than fifty percent of the workforce, employers could implement a lockout. If agreement had not been reached by sixty days, workers were expected to accept the last offer made by employers or be considered as resigned from employment. Finally, the code also granted employers one further instrument by which to effect disciplinary measures within the firm and to undermine collective action. Dismissal without reason was established in order to allow the firm flexibility over the size of its labour force in reaction to changing market conditions, but also to root out suspected subversive individuals if needed. One month's pay for each year of service was the stipulated compensation, although the regime imposed a maximum recognition of five years' service, therein greatly increasing the insecurity of workers in the absence of any generalised unemployment insurance.

The new labour code was an integral part of the dictatorship's strategy of frustrating collective resistance to the power of capital and therein more sharply imposing the disciplinary power of money and market forces. By stripping labour of the ability to intervene collectively with any degree of effectiveness in the wage struggle, the state sought to remove collectively imposed restrictions upon the treatment of labour-power as a pure commodity. On the one hand, the regime established the basis upon which struggles over wages would be decisively stacked in the favour of capital. Therein, the political conditions would be established so that, when combined with the 1982 recession, a second massive reduction in the standard of living of the working class

could be imposed. Indeed, once the new labour code had been established, the regime relaxed its previous wage indexation policy and, in the context of the 1982 crisis, abandoned it completely. Resultantly, wages were subjected to full market discipline in conditions of a vastly expanded reserve labour army. On the other hand, the new code also weakened the power of labour to impose regulations concerning the uses of labour power within the firm. Factors ranging from the length and intensity of the working day to the various tasks required of workers abruptly became out of the limits of collective bargaining. In this manner, the importance of the authoritarian state in fostering the political conditions for an intensified exploitation of labour cannot be understated.

CHAPTER 7: DEMOCRATIC TRANSITION AND PUBLIC POLICY
IN THE CONCERTACIÓN ERA

1. The Collapse of the Dictatorship and the Limits of the Post-Authoritarian State

The cataclysmic drop in social conditions following the 1982 debacle fuelled existing political discontent. Struggle was given an immediate impetus by the labour movement, which had been looking for ways to protest the repressive hue of the regime's new labour code since its implementation in 1979. However, fearful of the repression that had been levelled against strikes in the preceding period, it decided to call for generalised street protests as an alternative form of struggle that would avoid recriminations in the sphere of production and possibly generate a large enough movement to dampen the prospect of coercive suppression by the military. The strategy proved relatively successful. In spite of the spectre of coercion, numerous highly visible public protests in major cities were undertaken, therein helping to forge tentative links between the labour movement and other opposition forces. Nonetheless, the early protests remained sporadic, driven by this eclectic mixture of labour groups and social movements, including shantytown dwellers (*pobladores*) and clandestine political organisations. As argued by Alejandro Fernández, the mobilisations did not constitute a single centralised movement, but were the point of convergence of several sectoral mobilisations with different degrees of organisation, spontaneity and combativeness.¹ It was only with the dislocation caused by the second crisis in 1982, added to the emergence and consolidation of contending oppositional leaderships, that a sustained protest movement emerged with added vigour between 1983 and 1986.

¹ Fernández 1993: 68.

The first of a new and larger wave of protest erupted in May 1983 and regular demonstrations subsequently became a constant feature of the political panorama until the defeat of the dictatorship at the close of the decade. Although the labour movement and the urban poor remained the primary social base of the protest movement, opposition transcended class lines to include sections of the middle classes and bourgeoisie.² The latter had largely been locked out of decision-making processes since the mid-1970s, a situation deemed intolerable when combined with the heavy losses incurred during the debt-crisis period.³ In terms of leadership, in the years following 1984 a more consolidated directorship began to coalesce around a group of politicians connected to the old political parties. This led to the emergence of a formidable political opposition cadre in 1984 called the Alianza Democrática (Democratic Alliance). The Alianza Democrática was able to prosper over other political groupings, particularly the more radical Movimiento Democrático Popular (Popular Democratic Movement), owing to its willingness to insert into authoritarian political structures, endorse liberal capitalism, and to court business support. Its two primary constituent forces, the old Christian Democrat and Socialist parties, had both undergone processes of reconstruction within the political environment of the dictatorship. Each placed the resurrection of a formal democratic state at the centre of their political practice and by the late 1980s both parties had announced strong support for an export-orientated development policy predicated on neoliberal macro-economic management.⁴

Ideological renovation was most profound in the Socialist party and created a deep rupture between the parties and movements of the left. On the one hand, the Socialist

² De la Maza 1999: 378. Also, cf. Salman 1994; OXHORN 1995; Roberts 1997.

³ cf. Silva 1996.

⁴ Roberts 1997: 163.

party reinvented socialism as a process of institutional change aimed at attaining and deepening democracy through the provision of greater civil and social rights within a liberal framework. This shift thereby facilitated their common cause with the Christian Democrats and provided the ideological framework for the moderate opposition to the dictatorship. In contrast, the Communist party and smaller radical groups remained committed to an insurrectionary counter dictatorship line and more radical notions of social transformation.

Given this background, the Alianza Democrática began to focus their political strategy on institutional openings provided for in the dictatorship's constitutional amendments of 1980.⁵ The latter, promulgated at a juncture wherein the insecure political foundations of the dictatorship had forced the regime to attempt to sanctify its position institutionally, provided for a referendum in 1988 that offered a choice between a further eight years of Pinochet's "protected democracy" or a return to civilian rule. Approaching the date of the plebiscite, the regime arrogantly yet sincerely believed that comprehensive victory would reinforce its political legitimacy by displaying wide popular backing for the project of subordinating society to the discipline of capital. The regime, however, placed too much faith in the ideological fortitude of its "economic miracle" and its "experiment in freedom", and therein greatly underestimated the strength of the opposition. Despite major advantages in terms of intimidation and media control, the dictatorship was shocked to find itself voted out of power by 54 to 46 percent. Acquiescence to the result within important sections of both the armed forces and business sector, and international pressure from the US State Department amongst others, ensured that the referendum was respected. In 1989 national elections were held and resulted in a comfortable victory for a centre-left

⁵ cf. Fernández 1993.

coalition led by the Christian Democrat and Socialist parties called the Concertación, the leaders of which had played major roles within the Alianza Democrática. Notwithstanding defeat at the plebiscite and poles, however, the institutional framework still provided the regime with a year's grace period in which to prepare for the transition.

As the climax of considerable political mobilisation, the fall of the Pinochet dictatorship in 1989 seemingly ushered in a new epoch for Chilean politics. Indeed, the social basis of the incoming Concertación regime was precisely the popular mobilisation that had emerged to combat the dictatorship and that had subsequently delivered a clear electoral victory to the coalition. Although there was widespread recognition of the limited character of the victory over the authoritarian state, expectations remained high that the first Concertación president, Patricio Aylwin, would harness marginalized social forces in a political movement directed against the perceived excesses of the dictatorship's authoritarian neoliberal technocracy. For their part, the Concertación leaders announced a prospective programme of labour law reform, tax code revisions, increased social expenditure, new social programmes, a review of human rights violations, and constitutional reform.⁶ Political practice, it was anticipated, would centre on democratising society and the state.⁷ In essence, this would prove to be a liberal form of social democratisation by which the regime would extend civil and social rights to the working class and subaltern sectors. Nevertheless, a combination of structural and contingent factors would decisively condition the Concertación's possibilities of action, leading to a situation in which the new regime would maintain and even deepen the pivotal tenets of the restructuring undertaken in

⁶ Silva 2002: 344.

⁷ Barton 2002: 367; also cf. Haagh 2002a: 209-211.

the dictatorship period whilst failing to deliver the expected degree of civil and social democratisation. To explain this disjuncture, the following section examines three factors in turn: the balance of social forces; the institutional form of the post-authoritarian state; and the internationalisation of the circuits of capital.

Firstly, the balance of social forces within the Chilean social formation was, and remains, extremely uneven. In a context of manifold political weaknesses amongst organised labour and progressive social movements, the more conservative wing of the Concertación, rooted within the Christian Democrat party, was able to assert its predominance and adopt a heavily elitist (“*cupular*”) style of politics that has served to insulate its political cadre from more radical voices within the grassroots of the coalition parties.⁸ On the one hand, organised labour suffered almost two decades of systematic repression that, despite its figurehead role in the anti-dictatorship struggle, profoundly debilitated its political capacities. At a grassroots level, the union movement had been impeded by the preservation of the authoritarian institutionalisation of state-capital-labour relations and the subsequent sanction of anti-union practices enshrined by this legislation. One major impact of the code was the formation of multiple small unions within enterprises, and a distinct lack of affiliation to labour bodies organised above the level of the enterprise, with only 44.2 percent of unions belonging to the national labour federation (CUT).⁹ Moreover, owing to processes of deindustrialisation and privatisation, the movement was left devoid of its traditional heartlands in the industrial and public sectors and had to readjust to a more fractured membership, with smaller and weaker participating unions covering more diverse economic sectors.

⁸ cf. Taylor 1998.

⁹ Ruiz-Tagle 1993: 146.

Concurrently, at a national level, the political momentum of the anti-dictatorship movement had embedded a leadership drawn primarily from the Concertación parties and strongly in favour of the new regime's moderation. Indeed, the initial reaction of the CUT was one of complicity with the Concertación line, accepting the strategy of economic opening and cooperation with capital over production in return for a greater emphasis on investment in workers through training, education, health, pensions and job security. The leaders who presided over the transition period articulated a strategy that involved the suppression of labour's demands in order to help guarantee the stability of the democratic transition. Moreover, whilst frustration with the realities of the post-transition compromise would gradually induce a radicalisation of the CUT and eventual rupture with the politics of conciliation, the legacy of acute structural and political weaknesses compromised its ability to influence the Concertación effectively. Indeed, one of the most telling signs of the weakness of the labour movement has been its inability to pressure the state into a more fundamental reform of the Labour Code, a factor discussed below.

Similarly, whilst various social movements played an important role in the struggle against the dictatorship, political oppression and the effects of extreme economic marginalisation perpetuated weaknesses and factionalism within these small groups. In terms of their political impetus, many threw their limited weight behind the Concertación's electoral movement in the mid-1980s and became less visible after the victory of the latter. As indicated in Philip Oxhorn's detailed study of popular movements in the anti-dictatorship struggle, most had set their aims on re-establishing the procedural guarantees that would protect them from the routine abuses of dictatorship, and that would ensure a political process that was not immune from

popular pressure.¹⁰ Once the unifying principal of the struggle for democracy had dissipated, most social movements either disappeared or retreated onto issue-specific and geographically localised campaigns. Another trend that manifested itself as the decade progressed was the transformation or displacement of social movements by foreign supported and generally apolitical NGOs. Joe Foweraker suggests that remaining grassroots movements have been considerably marginalized by this process. Where they have chosen to interact with the state, they have been commonly subordinated as instruments of state policy and unable to effect notable policy change above the project level. Alternatively, where they have avoided interaction, they have often been reduced to marginalisation and ineffectiveness.¹¹

In contrast to labour and grassroots movements, the organised bodies of capital emerged strengthened from the authoritarian epoch and, in the post-transition period, have proven well structured, highly mobilised, and presciently aware of the political strength stemming from concentrated ownership of the means of production.¹² Capitalists, and particularly the large economic groups, have enjoyed multiple channels through which to assert political pressure. In terms of specific bodies, capitals located in each branch of production are represented by individual sectoral business unions, and a powerful overarching business union called the Confederación de Producción y Comercio (CPC) represents the interest of large capital at a national level. To this must be added consistent representation by the political parties of the right, particularly through the close links forged between the CPC and the Unión Democrática Independient (UDI). Given its organisational strength, capitalist organisations have enjoyed an active and privileged relationship with the government throughout the

¹⁰ Oxhorn 1995: 171.

¹¹ Foweraker 2001: 847.

¹² Silva 1998.

Concertación period, and particularly under the administration of the Christian Democrat president Eduardo Frei-Tagle (1994-2000). All important policy initiatives, including fiscal and labour reforms, were negotiated through a dialogue between the Concertación and the CPC.

Second, despite the victory of the anti-dictatorship forces in the 1988 plebiscite, the military regime had not been overwhelmed by popular mobilisation. Rather, it suffered defeat within the parameters of a political framework that it had established. Crucially, this provided for it to retain provisional hold on all key aspects of institutional and coercive power during the transition. Presiding over the transition in this manner, the authoritarian regime enjoyed an extremely powerful position from which to influence the institutional form of the post-authoritarian state. In the period between the plebiscite defeat and the elections of 1989, the military regime and civilian representatives negotiated the constitutional framework for the transition of power. Within this process the outgoing authoritarian regime ensured that there existed multiple institutional safeguards (known as ‘authoritarian enclaves’) to impose moderation upon the incoming elected government. These included the appointment of nine designated senators – including one from each branch of the armed forces and the national police – that would ensure that the political right enjoyed a majority in the Senate, and an electoral system that served to create an over-representation of the parties of the right.¹³

Such particularities of the post-transition state-form have greatly abetted the reconciliation of the Concertación with a neoliberal trajectory by imposing political limits on the possibilities of government policy and also by serving as a convenient

¹³ For further details on these authoritarian enclaves refer to Portales 2000, Siavelis 2000, Taylor 1998.

device by which the Concertación has been able to justify its moderation to the popular constituency. Nonetheless, the argument that the perseverance of authoritarian political structures alone can substantially account for policy continuities in the Concertación era, made most forcibly by Petras and Leiva, cannot be sustained.¹⁴ As the decade progressed, many of these institutional idiosyncrasies began to diminish in importance or, indeed, to operate in a manner that favoured the Concertación. Concertación President Ricardo Lagos stated in 2001 that the newfound willingness of the political right to reform the political process derives from the constitution currently being “on our side”, yet this has occurred alongside little significant change in policy trajectory.¹⁵

Thirdly, drawing from the earlier theoretical chapters, it is expressly important to highlight that the Chilean state is intrinsically a capitalist state, predicated upon capitalist social relations, in both their national and global moments, and pressured to work within parameters imposed by such relations. As such, the possibilities and limits to state action are conditioned by the ubiquitous pressures to guarantee the expanded reproduction of social capital (or capital-in-general) upon which the material reproduction of society in its capitalist form – the state included – depends. In this manner, the Concertación regime, like the dictatorship that preceded it, has sought to secure and further capital accumulation through the attempted subordination of self and society to the discipline of money as the most abstract form of capitalist social relations. Since broad integration with global capital circuits has necessarily created a substantial dependence of accumulation within the national social formation upon the global movement of money and commodities, subordination to the discipline of money has increasingly assumed the form of the discipline to world money expressing the

¹⁴ Petras and Leiva 1994.

¹⁵ Financial Times, “Chile’s Leader Takes Careful Path to Reform”, London, 1 October 2001.

movement of value at a global level. It is within this context that the retention and deepening of neoliberal-style policies have remained an integral part of a strategy that aims to reassert continuously the validity of accumulation within the Chilean national-state vis-à-vis the parameters imposed by the trajectory of global accumulation.

For example, one of the principal forms in which the discipline of capital is exercised upon the actions of the contemporary Chilean state is through the constant necessity to retain flows of world money anchored within Chilean capital circuits. Owing to the accelerated processes of integration with global capital circuits, capital valorisation within Chile relies in no small measure upon the constant input of foreign capital, both as investment and as credit (e.g. FDI and short-term portfolio capital respectively). This constant influx of capital is necessary to service high-levels of private sector debt and to implement the technological advances necessary for sustained productivity increases to keep Chilean products competitive on global markets. Concurrently, a significant decline in capital inflows or accelerated capital outflows threaten to plunge the Chilean economy into serious crisis, as was acutely realised in 1998.

In this respect, the intrinsic mobility of capital in its money form means that to attract and retain capital within the Chilean social formation places a strong degree of financial coercion upon the state to provide the most stable and profitable investment environment possible. In the contemporary global political economy, this concern with sustaining the conditions for capital accumulation implies a relative commitment to capital-friendly policies, as taxonomised by the IMF, World Bank, credit-rating agencies and other international financial actors. With the integration of indigenous capital with transnational circuits, however, pressure in no way emanates solely from external bodies. Domestic political pressures alongside the mundane movement of

macroeconomic variables also place considerable pressure upon the state to reproduce the conditions for the comparative advantage of Chilean products on global markets, through the management of trade policy and exchange rates alongside interventions in diverse social relations, including labour markets, production relations, and the material reproduction of key social actors. Given that the political project of neoliberalism aims to uphold the viability of Chilean capitalist accumulation through precisely this form of subordination of both state and society to the discipline of capital as a global social relation, there is a strong material basis to the Concertación's dedication to the neoliberal project.

Within these parameters, the three successive Concertación governments, headed by Patricio Aylwin 1990-1994, Eduardo Frei-Tagle 1994-2000; Ricardo Lagos 2000-2006 respectively, have remained remarkably faithful to the basic tenets of a neoliberal approach to policy making. Before formally coming to power, the Concertación pledged to recognise the sanctity of private property, institutionalise the dictatorship's economic model, and make no dramatic changes to the country's social structure. Explicitly, it promised to exercise fiscal prudence and refrain from the populist excursions of past Christian Democrat and Socialist governments in order to maintain the pro-business climate of the Pinochet years.¹⁶ This did not entail a carbon copy of Pinochetista style politics. Unlike the Pinochet regime, which relied upon the systematic employment of coercion to fortify its position, the Concertación operates in a formally democratised state apparatus that, for all its authoritarian idiosyncrasies, necessitates the establishment and maintenance of a strong electoral base. Political struggle within the electoral arena would add a further mediating link between state and society, and the legitimacy of successive Concertación governments rested in no small

¹⁶ cf. Portales 2000; Muñoz Gomá and Caledón 1996.

part upon their pledge to strive for social justice within the neoliberal model. In practice, whilst the Concertación has maintained neoliberal and technocratic solutions to socio-economic issues in an attempt to promote the expanded reproduction of social capital, this has occurred alongside a moderate expansion of social programmes. The banner under which they christened this strategy was “growth with equity”, a designation chosen to emphasise the confidence in the free market, export-orientated strategy and its amalgamation with a more progressive social policy agenda that would reincorporate those groups marginalized under the dictatorship’s restructuring programme. Hence, whilst remaining true to the spirit of neoliberal macroeconomics introduced by the dictatorship, the Concertación ideologues argued that innovative social policies could be used, primarily, to correct the market failures that restricted the benefits of economic growth from reaching all parts of the population and, in a less pronounced manner, to initiate a virtuous circle of increased human capital leading to sustainable and more equitable economic expansion. It is on this ideological basis, moreover, that the reformed neoliberalism of the Concertación has been a source of inspiration for the spirit and content of World Bank policies throughout the 1990s and beyond.

The argument of the current and following chapter, however, is that “growth with equity” represents not an idealist endeavour to refashion a socially just society, but rather a sophisticated political strategy that is grounded upon an appeal for the acceptance of politics within limits. All reform, argued the Concertación, would involve change within a fourfold conjuncture of limits: namely, the limits of the stability of the democratic transition, the limits of the sanctity of private property, the limits of fiscal prudence, and, ultimately, the limits of the continuing success of sustained accumulation. The contradictory heart of this strategy was expressly

manifested in the tension between the furtherance of internationalisation and export competitiveness heavily dependent upon the maintenance of a relatively cheap and flexible workforce to work in a highly transnationalised, low-skilled export and service economy, as opposed to a commitment to the collective organisation of labour in order to challenge the prevailing conditions of production and distributional arrangements. In these circumstances, the “growth with equity strategy” soon developed into an attempt to mitigate the institutional confinement of production relations in the form crafted under the dictatorship by incorporating social aspirations primarily into the realm of social policy. On the one hand, this strategy would maintain the core conditions of the current trajectory of capital accumulation. On the other, it offered a strategy of translating and containing political struggle into an area where the state anticipated the ability to exercise greater control.

To propose such an interpretation is not to suggest a crude instrumentality in the Concertación’s actions. On the contrary, the strategy emerged and evolved through the political struggles of various coalition factions within the circumscribed political-economic environment. From this perspective, therefore, “growth with equity” constituted an evolving attempt to reconcile the tensions in the Concertación’s political position as a coalition whose electoral support and grassroots activism was based upon a pledge to ameliorate the conditions of social reproduction of the working class, with the three conditioning factors highlighted above: i.e. the material constraints of ensuring the expanded reproduction of capital in Chile, the institutional constraints of the post-transition state form, and the political balance of social forces. In this way, far from a static core of policy prescription, “growth with equity” would undergo processes of moderate change during three phases that loosely correspond to the three successive presidencies. The Aylwin presidency would mark the rapid ascription of limits to the

“growth with equity” strategy, as the outcome of struggles between the Concertación and the political forces of capital and the right undercut many of the more progressive aspects of the reform package. Moreover, such circumstances heightened disjunctures and conflict within the Concertación coalition itself.¹⁷ The remainder of the Aylwin period and the majority of the Frei-Tagle regime witnessed a consolidation of “growth with equity” within the context of sustained economic expansion that eased temporarily some social tensions. Nevertheless, the dramatic conclusion of the economic boom in 1998 put an end to the fragile social and political peace. Towards the culmination of the Frei-Tagle administration in 1999, the Concertación encountered growing social and political tensions, and these would be manifested in a moderate shift leftwards within the Concertación coalition prior to the 2000 elections, reflected in the choice of Ricardo Lagos, a member of the Socialist Party, as the Concertación’s presidential candidate for the 2000 elections.

As detailed in the following chapter, the succeeding Lagos presidency has reacted in a patchwork and contradictory manner to the challenge of maintaining social and political discipline alongside aiding the ailing accumulation trajectory. Renewed social and political polarisation in the current era has placed the greatest strains yet on the Concertación and the paradigm of “growth with equity”. Such strains, despite being pushed by the course of political struggle, are not merely contingent, but rest upon the contradictions at the heart of social reproduction under capitalist social relations and their current articulation within the Chilean national social form. To elaborate this argument, the present and following chapter detail the major trends in capital accumulation and state intervention in social reproduction during the period 1990-2000.

¹⁷ Portales (2000) provides an excellent account of these conflicts.

Immediately, however, the following section examines the Concertación's handling of the paramount political issue of reforming the Pinochet era labour code.

2. State and Labour Reform in the 1990s.

The opening to this chapter presented the argument that a pivotal aspect of the Concertación's political strategy was that the nature of the political transition allied to the political-economic conjuncture heavily conditioned the political possibilities of reforming the institutional form of state-capital-labour relations. This may seem paradoxical given the strong ties between the labour movement and the political cadre of the anti-dictatorship movement. These political linkages seemed to promise considerable possibilities for reform following the plebiscite defeat of the dictatorship in 1988. However, the explicit and implicit limits to the new state form became reflected in a politics of limits, particularly in regard to the labour issue. The main question for the Concertación policy elite concerned the degree to which organised labour would be permitted to strengthen its organisational capacity within the context of the inherited mode of labour regulation. Any prospects for a substantial fortification of the latter would be moderated still further within the course of political struggle, and these outcomes have been shaped within the conjuncture of the Concertación's unwillingness to prejudice the material basis of the accumulation strategy, the ongoing political weakness of the organised labour movement, and the active struggles of the Chilean capitalist class to ensure moderation.

The defining positions within the ensuing debate were clear. As detailed in the previous chapter, cheap and flexible labour with few rights to collective action has been central to the recovery and expansion of Chilean capitalist accumulation since the 1982

debt crisis. Moreover, the subordination of labour through political repression and material immiseration in the dictatorship period had been consolidated in a series of amendments to the labour code that denied basic rights to the working population. Accordingly, in the post-dictatorship period, various unions, social movement activists and many within the governing parties have stipulated that changes to the labour code to strengthen worker rights and fortify the power of organised labour were central aspects of any attempt to challenge the deep inequities of contemporary Chile. Contrarily, capitalist interests strongly opposed any substantive changes to the labour code arguing that, by impinging on labour market flexibility, reforms to the labour code would undermine the foundations of domestic accumulation to the detriment of all Chileans. In this manner, the issue of labour reform was constituted as a defining issue in the post-dictatorship Chilean political panorama and remained an issue of intense political conflict for the ensuing decade.

In their election campaign of 1989 the Concertación pledged to:

*[I]ntroduce profound changes in the juridical position of organised labour in order that this provides workers with fundamental rights and allows the strengthening of labour organisations; so that the latter can transform themselves into an efficient tool for wage earner interests and become a substantial influence in the social life of the country”.*¹⁸

The Concertación's proclaimed rationale was that, if the state was to observe the general tenets of a market orientated approach and therein refrain from sustained

¹⁸ Cited in Hernández Riquelme 1999: 93.

intervention in the economic sphere, a greater degree of labour organisation had to be permitted in order that workers could protect their own interests in the sphere of production. This would be necessary because the state was to allow labour relations to assume the form of negotiations between two freely contracting social actors. As the Aylwin regime suggested:

*It is the involved social agents, through balanced, free and democratic relations, that will set the conditions of work. The state has the role of guaranteeing that the system functions and to generate permanent and stable rules so that the actors proceed adequately ... the state is not a third actor in labour relations.*¹⁹

With organised labour strengthened, the argument proceeded, unions could increase their bargaining prowess and thereby ensure a more equitable distribution of the increased revenues that economic growth would bring. Under pressure from the labour movement, it was with recourse to such justifications that the Aylwin government undertook a first attempt at labour legislation following its assumption of power in 1990.

Nonetheless, the Concertación regime met with the determined resistance of the bourgeoisie in the organised form of the Confederación de Producción y Comercio (CPC) that represented an agglomeration of capitalist interests, and particularly from the Sociedad de Fomento y Fabril (SOFOFA), the industrialists' business union. Activists from these groups involved in the government sponsored dialogue claimed that any reforms that significantly bolstered the strength of labour, and particularly

¹⁹ Cited in Ruiz-Tagle 1993: 142.

those that hindered the ability of capital to eject labour from the production process, threatened to undermine the industrial stability that lay at the heart of the economic boom that had been ongoing since the mid-1980s. Applying neoclassical labour market theory, they vigorously defended a position that claimed that the interest of the common good was best served by a regulatory code that assured the utmost flexibility. The latter, they claimed, would ensure the optimal allocation of labour and provide the fullest levels of employment and wages.

Under pressure from both capital and labour, and working within the confines of the post-transition institutional framework, the Aylwin regime carefully engineered a compromise solution by altering some of the content of labour legislation to offer more defensive rights to workers, whilst maintaining the basic form of capital-labour relations established by Pinochet. As such, the primary aim of the Aylwin regime's changes to the existing labour code was to establish a "labour institutionality" that would ensure long-term stability owing to the self-adherence of the major social actors through co-operation between capital and labour within the structure of the adjusted labour code. "Institutionality", therefore, constituted an attempt to form an industrial pact by providing a framework whereby organised labour acknowledged private ownership and investment as legitimate bases of the Chilean economy and recognised the need for stability and the suppression of ideology in negotiations. Within this logic, confrontation between organised labour and capital and the state in order to realise worker needs was deemed obsolete. Conversely, the private sector would accede to the necessity of moderately raising the minimum wage and, at a more general level, accept an augmented tax burden to allow for increases in pensions and social welfare to attain

a more equitable division of the social product.²⁰ In this fashion, the general hue of production relations could be left untouched whilst the burden of material compromise would be passed into the realm of social policy. It was on these grounds that, during the process of renovating the labour code, and despite the concerns raised by the private sector, the government remained adamant that reform would not fetter the flexibility of the labour market.

Furthermore, at the same time as negotiations over the labour code reform were ongoing in the first two years of the democratic regime, growing antagonism between government and the labour movement became marked with the break out of strikes in copper, steel, coal, public health and state education sectors. Although these industrial actions were manifested primarily within the state sector, framed within a paradigm of grievances accumulated from the dictatorship period, and relatively long-lasting; the state remained firmly opposed to the strikes and they attained few of their material demands. To justify their rejection, the Aylwin regime claimed that, first and foremost, accession to the strikers' demands would affect its ability to maintain control over inflation.²¹ Subservience to the discipline of money and the refusal to set a precedent of acquiescence to the direct demands of labour were clearly determining priorities for the new Concertación regime and the defeat of the labour movement in these strikes did not bode well for the substantive content of the labour reform.

Consequently, beyond the rhetoric of an abstract pact for industrial peace, the reforms led to few substantive changes in the relationship between enterprises and their workers or, at a more abstract level, between state, capital and labour. Firstly, under the 1980

²⁰ Muñoz Gomá and Caledón 1996: 198.

²¹ Epstein 1993: 60.

code, employers had been granted the right to dismiss workers without giving reasons. The Aylwin government's new code stipulated that a reason for dismissal had to be provided. If a sacked employee believed the reason to be unfair, then he or she could attempt to pursue the issue within labour tribunals and, if successful, would receive compensation. Compensation for unfair dismissal, in turn, was increased under the provisions of the reformed code. Nevertheless, the legislation was rendered ineffective as employers were allowed to use the all-encompassing phrase “*necesidad de la empresa*” [need of the company] as the reason for dismissal, thus maintaining highly arbitrary practises of hiring and sacking. Moreover, as a recent government report confirms at length, employers still routinely sack workers who have sought to create unions, either using the above loophole to justify the sackings or simply stalling or refusing to pay the fines if they are imposed by the overworked labour commission.²² Unsurprisingly, the International Labour Organisation has repeatedly decried such activities throughout the decade; profoundly deploring the anti-union conduct of firms in Chile and highlighting many cases of union persecution.²³

Secondly, the right to strike was re-established, but with the proviso remaining that the firm is permitted to hire replacement labour (*rompehuelgas*) to replace strikers for the duration of the action. Similarly, the founding of numerous competitive unions within a firm was reaffirmed, the results of which have been to continue the movement towards smaller, less powerful unions that are in competition with each other within particular corporations. Fourthly, whilst the new code granted unions increased rights to form regional or national federations, no collective bargaining has been allowed to proceed above the level of the individual union vis-à-vis the firm in question. This

²² Preinforme 2001.

²³ El Mostrador. “OIT acoge denuncia contra Chile por prácticas antisindicales”, 1 July 2001, Santiago de Chile.

sustained a heavily reduced status for the national bodies of organised labour such as the primary national union organisation, the Central Unitaria de Trabajadores (CUT). National federations of this ilk, although receiving formal recognition by the Concertación, are reduced to acting as political pressure groups vis-à-vis the state. They can endeavour to establish national agreements regarding pay or labour rights but these will not stand unless there is multilateral agreement between themselves and capitals in a particular sector over the terms of such agreements, a possibility that has not occurred owing to the intransigence of capital. Given the leading role played by organised labour in the anti-dictatorship movement, the CUT and other labour groups were dismayed by the institutionalisation of a marginalized role. Frustration within the labour movement over this situation led to a growing radicalisation and combativeness, with the Communist Party becoming the leading political force within the CUT and a more antagonistic relationship with the state emerging.

Finally, given the Concertación's insistence on consensual agreements between capital and labour at the level of the firm, it also maintained the institutional grounds for forms of self-regulating labour relations called "*convenios*". Occurring primarily within the sectors of the formal economy where labour organisation was historically strongest, the technique of *convenio* has given added strength to employers seeking a more flexible relation with the workforce. A *convenio* signifies a situation where employer and employees give mutual consent within a non-regulated dialogue to a binding agreement on labour regulations and practise that falls outside of the institutionalised code. It creates an isolated relationship between employer and small groups of workers and forbids collective action and striking. Research indicates that *convenios* are nearly always formed on the suggestion of the employer and, often, their signing can involve

coercion or can form a prior condition for workers to gain employment.²⁴ The principal results of *convenios* are to satisfy the employers' desire to diminish the possibility of industrial conflict and insulate workforce regulation from external interference whilst maintaining the tenor of the productive relationship with labour forged under the dictatorship.

The new labour code therefore served to sanctify the continued processes of labour flexibilisation that had been introduced by the Pinochet regime. As elaborated in chapter five, the “flexibilisation of labour” is best understood as a process of removing the historically forged restrictions upon the treatment by capital of labour-power as a commodity. Flexible labour relations help to reduce barriers to accumulation by reducing the influence of state and union power over hiring and firing practises, the content of contracts, and supra-wage social benefits. By turning the relationship between employer and employee into an increasingly individualised relationship, one that is relatively free from collective control manifested either through state provision or bodies of organised labour, the power of capital over the tenure, nature and conditions of work can be amplified. Flexibility can therefore aid in the suppression of wages and increasing the hours and intensity of work by minimising collective bargaining, all trends that have been witnessed in Latin America over the last two decades, have formed a key aspect of Chilean capital's reactions to global slowdown in the latter half of the 1990s.²⁵ Flexibility also augments the ability of capitals rapidly to downscale assets or switch investments to maximise profit-making opportunities owing to reduced job security. In this manner, the flexible exploitation of labour can constitute an integral element of competitive advantage in the world market.

²⁴ Henríquez Riquelme 1999: 104.

²⁵ cf. Weeks 1999.

The consequences of the tepid nature of the labour reform also had manifold implications for the strategy of the labour movement at a national level. In this respect, the lack of a strong reaffirmation of the legal rights of the working population severely frustrated the formation of a strong national labour movement, both in terms of the number of union affiliates and the strength of the main national federations. In terms of union membership, organised labour numerically remains little above dictatorship levels. After a brief spurt of union growth in the first two years of Concertación, which followed the momentum gained by the labour movement during the immediate pre-transition period, union membership and the incidence of collective negotiation has tailed off considerably. This depreciation is related to the anti-union tactics of employers, the practise of *convenio*, and a general cynicism towards the effectiveness of unions within the current framework.

Table 7:1 - Evolution of Unionisation, 1988-1996.²⁶

Year	Number of union affiliates	Percentage unionisation of salaried workforce	Percentage unionisation of occupied workforce	Rate of collective negotiation	Number of unions	Average number of union members
1988	446,194	15.8	10.5	10.0	6,446	69
1990	606,812	19.8	13.4	13.4	8,861	69
1992	724,065	21.9	15.1	15.1	10,576	69
1994	661,966	19.3	14.0	14.0	12,109	55
1996	655,579	17.7	11.8	11.8	13,528	49

Considering that the Concertación ideologues had placed the creation of a stronger labour movement that exercised greater potential for collective negotiation at the centre of their schema to achieve greater social equity, failure to support organised labour seriously undermines their proposed strategy. Those within the CUT have consistently sought the imposition at a national level of a higher minimum wage, a stricter coupling

²⁶ De la Maza 1999.

of productivity increases to wage rises, and other generalised wage agreements. Nevertheless, at no stage over the 1990s did the CUT benefit from the political impetus to achieve these aims. Moreover, stronger unions at the level of the enterprise could have reduced such employer strategies as imposing convenios, arbitrary or politically motivated firing practises, and exploitative subcontracting techniques. In this manner, the effects of the tenacious repression of organised labour undertaken by the dictatorship have not been overcome, leaving the political strength of the union movement weak throughout the decade and compromising its ability to pressure the Concertación. The tangible results of this conjuncture with respect to the trajectory of capital accumulation and the social reproduction of the working class are examined in the following chapter. First, however, the current chapter examines what has been presented as the core of the growth with equity strategy – renewed expenditure and novel initiatives in the realm of social policy.

3. Growth with Equity and the ‘Model’ Reformulation of Social Policy

The Concertación’s approach to social policy has been presented as a key dimension of the growth with equity strategy. As examined in the previous section, the new government did not fundamentally reshape the juridical forms that regulated the capital relation, thereby preserving the dictatorship’s flexibilized legal mould for the sale and expenditure of labour. The political legitimacy of the Concertación governments within the unevenly emerging liberal-democratic structures, however, would be in no small measure staked upon their promise to promote a more equitable form of neoliberal development. On assuming power, President Aylwin emphatically pronounced that:

*Chile needs positive state action to move towards equity... A moral imperative demands that Chile moves increasingly towards social justice.*²⁷

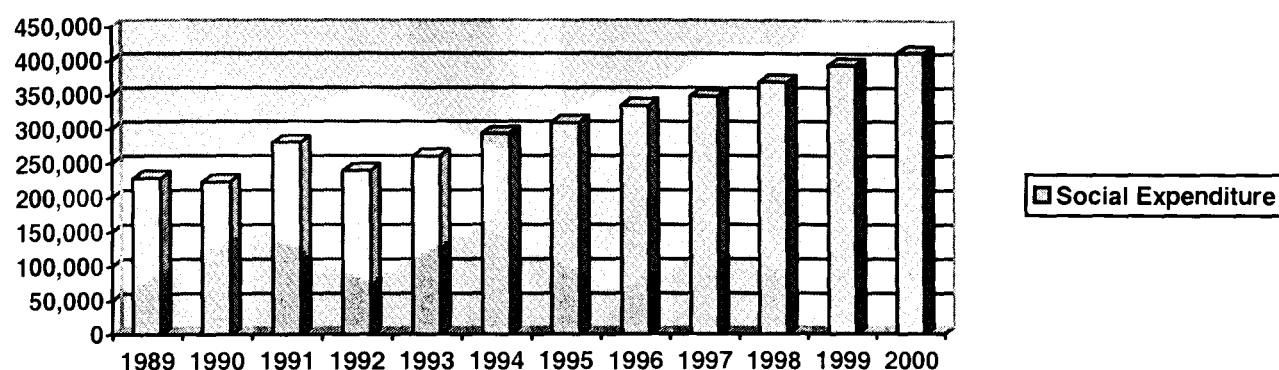
The initial hallmark of the Concertación's 'Growth with Equity' strategy in this respect was a tax increase on corporate profits – agreed with the *Confederación de Producción y Comercio* (CPC) union of business leaders – to increase the resources devoted to the existing health and education systems and also to initiate several new programmes aimed at transferring resources to low-income sections of the populace, including the flagship FOSIS anti-poverty programme. This was part of the government's social reconciliation strategy, whereby they pledged to seek consensual arrangements between major social groups including business and labour groups over all key issues. The initial goal of this 'Framework Arrangement' was to provide the basis for tax and labour reforms through a series of meetings between the main bodies of organised business and labour, the CPC and CUT respectively. Whilst a consensus was reached over the tax reform, the previous section noted how disagreements plagued the negotiations over labour reform owing to the fundamental issues raised over the nature of production relations.

Ultimately, the issue of labour reform provoked irreconcilable tensions between organised business and labour and, with the regime leaning to the side of business, it prefigured the ultimate demise of the attempted consensus strategy. Nonetheless, the Concertación's pledge for a greater intervention in the distribution of the social product in order to divert more resources into social policies so as to ameliorate the sharp inequities produced by the two decades of restructuring remained. This intervention,

²⁷ Cited in Barton 2002: 369.

they warned, would be both gradual and would have to remain within the bounds set within the bounds of fiscal responsibility in order to maintain macro-economic balances. Concertación ideologues were adamant that their new regime would not succumb to “populist pressures”.²⁸

Figure 7:1: Public Social Spending per Capita, 1989-2000 (in 2000 pesos).²⁹



Caveats aside, the Concertación indeed diverted increased taxation revenues towards social expenditure and also used part of these revenues to introduce a novel anti-poverty programme called FOSIS. Not only did increased expenditures mark a significant break from the dictatorship’s repeated retrenchments, but also the style of social policy reform in the Concertación period would gain attention in international circles and, particularly from the World Bank. The return to a liberal democratic form of government in Chile, despite its perversion through authoritarian enclaves, offered the Bank and other observers an opportunity to show how the successes of the Chilean restructuring could be maintained and even built upon within a democratic political frame. In this respect Chile has been widely heralded as an affirmative example of the benefits entailed in conforming to the general parameters of an ideal-type neoliberal approach to social policy. This process had begun in the 1980s, and the strongest instance of the explicit propagation of a Chilean “model” remains the privatised pension system, which is the most widely cited “blueprint” for social security reform at

²⁸ Weyland 1999.

²⁹ MIDEPLAN 2001b.

a global level and the basis for the World Bank's current prescription.³⁰ Likewise, Nicholas Bruce argues that the Chilean health care reforms were also presented as a model worthy of emulation during the first wave of structural adjustment in Latin America in the 1980s, and this is reinforced by the heralding of Chile's health care reforms in the World Development Report of 1990.³¹

More subtle, however, is the general recognition that the parameters of social policy reform closely approximate the World Bank's model, particularly as the 1990s have progressed. As noted in chapter five, Susana Sottoli recently suggested that the four pillars of neoliberal social policy transformation in contemporary Latin America, as promoted by the World Bank, are: *compensation* for the social costs of macro-economic restructuring, *selectivity and focalisation* of spending, *privatisation* of service provision, and *decentralisation* of remaining state responsibilities.³² The latter three features have been central features of the Chilean reformulation of social policy since the mid-1970s, and an emphasis on social compensation has been a further feature of the Concertación's legitimisation strategies, forming the central axis of 'growth with equity'. Once again, the latter closely mirrors the concerns and prescriptions to be found in the most recent World Bank "World Development Reports".³³

In this sense, Chile represents perhaps the closest approximation of the type of neoliberal reformulation of social policy currently promulgated by the leading international financial institutions, a factor reinforced by the consistent recourse to Chilean examples in the World Bank's annual World Development Reports from the

³⁰ Mesa Lago 2002. Also cf. the articles at <http://www.pensionreform.org/chileanmodel.htm>

³¹ Bruce 2000; World Bank 1990: 85.

³² Sottoli 2000; also cf. Laurell 2000.

³³ World Bank 2001a; 2002; 2003b.

early 1990s to the present. For example, the breadth and pervasiveness of the Chilean model concept is well illustrated by a plethora of World Bank research documents that point to Chilean models in such diverse realms as community internet provision, water resource management, electricity provision, and fighting corruption in pharmaceutical purchasing.³⁴ Moreover, the FOSIS anti-poverty programme provided a clear template for future World Bank development practise in terms of its decentralised and participatory design. Consequently, in an era where the formation of national social policy in the global South is being progressively shaped by the Bank's comprehensive approach to structural reform, it is important to both examine the reasons for this elevation to "model" status, the wider role of social policy reform within the trajectory of accumulation in Chile, and the subsequent limits to this aspect of the growth with equity strategy.

4. The Concertación and Social Policy

In response to the social pressures that underlay the collapse of the dictatorship, the Concertación staked a significant portion of its political legitimacy upon a commitment to comprehensively increase social expenditure. Between 1989 and 2000 public social expenditure was almost doubled and the increases have been targeted in a fairly effective manner towards the lower-earning quintiles of the population. It should be noted, however, that these increases follow years of expenditure reduction by the military government and that public services in the late 1980s were generally recognised to be bordering on a state of crisis. Furthermore, although expenditures have been increased with positive ramifications throughout the social services, there

³⁴ <http://wbIn0018.worldbank.org/lac/lacinfoclient.nsf/By+Country%2Fchile+inf+pubs?OpenView>

remain acute structural problems owing to the internalised dual system of private and public service provision.

Sustained increases in social expenditure have been at the heart of what the Concertación has labelled its neoliberal development trajectory that gives due consideration to social issues. A 'responsible' social strategy of this nature is contrasted to the older forms of Chilean populism as it rigidly grounds the expansion of social expenditure within the constraints of embedded neoliberal macro-economic management. Increased social expenditure in this manner is often cited as an example of how the state retains considerable room for manoeuvre within the confines of globalisation even in the realm of welfare provision, an area that is often presented as an anachronism in face of increasing global competitiveness.³⁵ Nonetheless, such optimism needs to be partially qualified by an understanding of the concrete conditions that allowed the aforementioned development.

In this respect, the decade-long expenditure increases were tightly correlated to the primary material export boom that lay behind the posting of an average GDP growth rate of almost eight percent between 1990 and 1997. This period of expansion, as examined in the following chapter, was predicated on massive inflows of foreign capital, high prices for Chilean primary exports, and the continued suppression of labour through pervasive flexibilisation processes. Whilst recession at the end of the decade brought the average rate of expansion for 1989-2000 down to 6.3 percent, this figure for economic expansion is greater than that of total state expenditure (5.5 percent) within which social spending was increased at a greater rate, the average annual increase being 7.1 percent. In short, the growth of social expenditure within the

³⁵ e.g. Teeple 1995.

threshold of fiscal responsibility is heavily dependent upon a continued trajectory of sustained accumulation. The latter, in turn rests upon the maintenance of labour in a highly flexibilized and precarious position, one that accentuates vast discrepancies in income and leaves a substantial majority of the population below or within one minimum wage of the poverty line.

Table 7:2: Index of Social Expenditure 1974-2000 (yearly average, 1970=100)³⁶

1974-1981	1982-1984	1985-1989	1990-2000
78.3	97.2	86.4	115.6

Placed within the larger structural conjuncture, which must be traced back to the recasting of these sectors under the Pinochet regime, it is possible to comprehend why, despite the sizeable increases in public spending, it was still common at the turn of the millennium for analysts to talk of manifest problems within the social sector. Despite the reforms to social security, pension provision remains the major component of state social spending, amounting in 1998 to 40.8% of public social spending, a figure that corresponds to 6.11% of GDP (refer to table 7:3). It is pertinent to note, therefore, that the largest increase in absolute state social spending went towards raising the value of the state emergency pension, and therein to compensate those that were marginalized from the private system by raising the value of the state pension above the subsistence line, although not above the poverty threshold.³⁷ Similarly, the most dramatic increases were in health and education, whose annual resources were increased by 135.4 percent and one 165 percent respectively between 1990 and 2000. This augmentation, however, is tempered when it is recognised that the base rate for comparison was that of the dictatorship that, as detailed above, had drastically cut all types of social expenditure and particularly that of health and education.

³⁶ Figures from Stallings 2001: 51.

³⁷ A comprehensive critique of the privatisation of the pension system can be found in Taylor 2003.

Table 7:3: Public Social Expenditure by Sector, 1989-2000.³⁸

	Average Annual Increase (%)	Cumulative Increase (%)	% of total Public Social Expenditure (1998)
Health	8.1	135.4	17.9
Housing	3.9	52.7	7.4
Social Security	5.7	84.8	40.8
Education	9.3	165.0	24.5
Monetary Subsidies	5.9	87.3	4.0
Others ³⁹	11.7	238.7	5.5
Total	7.1	112.4	100.0

To this end, the chapter will briefly outline the continuing transition of education and health provision during the 1990s, examining the effects of the increases in social expenditure within the largely unmodified framework of service provision inherited from the dictatorship. Subsequently, the chapter ends by looking at the lynchpin of the Concertación's anti-poverty policy, the FOSIS programme.⁴⁰

a) Education and Health Reforms

In contrast to the dictatorship, the Concertación repeatedly championed the role of education as an integral aspect of improving the country's productive structure and in providing for greater equality between citizens. However, despite the overall increases in state education funding, the most important structural reform undertaken by the Concertación has been to allow privately owned yet state subsidised schools to charge a supplementary 'co-payment' for each attending student.⁴¹ Whilst this reform has allowed these private yet state subsidised entities to increase their resources and pedagogic quality, it has been at the cost of increasing the polarisation of the various

³⁸ MIDEPLAN 2001b; MIDEPLAN 1998.

³⁹ Others includes social inversion targeted a priority groups and executed through institutions such as FOSIS.

⁴⁰ The issue of the Concertación's housing policy is not considered here. Refer to Ducci 2000 for a thorough review.

⁴¹ Raczynski 1999.

sectors of education provision. In short, the Concertación's reforms have taken the commodification of education a step further than that accomplished under the dictatorship. Whilst in theory, any school is allowed to levy a co-payment, the tendency has been for a polarisation of schools according to spatial differentiations primarily along class lines. Those schools that have been able to levy greater extra charges are those that are located in middle or upper class areas and service a clientele that is able to afford the increased costs. With greater resources, these schools are then able to ride a virtuous circle of increased student attraction, leading to greater revenues. Conversely, schools in primarily working class neighbourhoods are commonly state schools or privatised schools that suffer from a lack of resources and risk becoming "waste-basket" schools.⁴² For these schools, the circle is a vicious one, and a common way of maintaining the school within the competitive environment of the semi-privatised system has been to borrow money. Jaime Gajardo suggests that, in order to keep schools solvent, certain municipal education authorities have been forced to borrow money leading to 45,000 million pesos of municipal debt.⁴³ As Gustavo Rayo and Gonzalo de la Maza indicate:

*Poor municipalities face serious difficulties in maintaining significant social programmes, not only because of structural financial restrictions, but also for the deficit in programme financing inherited from the previous decade.*⁴⁴

Consequently, in reinforcing the dualised education system, sharp distinctions in quality between private and public education continue to permeate the entire spectrum

⁴² Haagh 2002c: 28; Helgø 2002.

⁴³ Gajardo 2002.

⁴⁴ Rayo and de la Maza 1998: 431 (author's translation).

of educational provision, therein consolidating rather than undermining the educational stratification of Chilean society. Such polarisation is clearly displayed in the following tables. Not only does table 7:4 reveal that the percentage of students receiving the various levels of education remains highly stratified according to income, but the table 7:5 demonstrates that the quality of education varies greatly according to the same income factor. Under the dual system the class dimension of educational achievement is reinforced as lower-class children attend lesser quality schools whereas the children of the richest families monopolise the highest achieving schools.

Table 7:4 - Percentage of Educational Coverage by Income Quintile, 1996.⁴⁵

Education (child age)	Quintile I	Quintile II	Quintile III	Quintile IV	Quintile V
Pre-School (2-5)	22,3	26,8	30,0	36,8	48,4
Primary (5-13)	96,5	98,4	98,0	99,4	99,7
Secondary (14-17)	75,3	81,0	89,3	95,3	97,2
Further (18+)	8,5	15,1	21,5	34,7	59,7

Table 7:5 - Percentage of Income Quintile in Schools Ranked in Quintiles According to Success in State Mathematics Tests (Metropolitan Region, 1996).⁴⁶

Per Capita Income Quintile	Quintiles of School Performance (ranked according to Simce Results)				
	I	II	III	IV	V
I	32,9	27,3	22,0	14,0	3,8
II	23,2	22,3	24,9	20,2	9,4
III	18,9	20,6	20,2	23,1	17,2
IV	8,7	14,1	18,3	31,0	28,0
V	3,7	8,3	10,8	16,2	61,0

In contrast to the suggestion that a quality education would be available to all Chileans by introducing market incentives and the element of choice into the reformed education system, it is clear that considerable inequalities exist in the provision of education. These both reflect and reproduce the general polarisation of Chilean society. Some authors suggest that the failures of semi-privatised education relate to failures of information resulting from the unfamiliarity of low-income parents with the new

⁴⁵ FNPS, 2000.

⁴⁶ From FNPS 2000.

system, and therein their inability to make rational decisions in relation to the education of their children.⁴⁷ However, to posit such an argument over twenty years since its introduction and in disregard of the manifest structural problems associated with the dual system is hardly sustainable. Other studies strongly indicate that the higher achieving schools deliberately seek to discourage less educated, working class parents from enrolling their children in the belief that this might lower standards and compromise profit maximisation.⁴⁸ In short, the element of choice and quality within the education system remains significantly reliant on income. This necessarily entails that those that have gained most from the improvements in educational provision are precisely those who are able to pay for their children to attend the better schools, a factor that throws considerable doubt on the government's claim of the role of education as a great equaliser.

Similar problems also remain in the health system owing to the structural contradictions introduced by the dictatorship's privatisation processes. Having pledged in the transition period to reinvigorate the deteriorated health system, the new government set out to solve some of the problems of health provision through sustained increases in the resources destined to the public sector (FONASA). However, the overall structure of the health system has been left predominantly unchanged and increased expenditure has proved unable to mitigate the systemic failures. The major problem is that dualised healthcare provision has created a strong structural bias against the state system. Entrance into the private health-care system is structured upon class, gender and age lines. Older women and men, and particularly women who fall in the age range deemed statistically probable to become pregnant are faced with prohibitively increased

⁴⁷ e.g. Beyer 2000.

⁴⁸ Carnoy and McEwan 2000: 14.

premiums or, in some cases, are just rejected by the private companies (ISAPREs). On the other hand, middle age high-income (and low risk) males are prime ISAPRE material. The fiscal implication of this is that, despite incorporating only a minority of the population into private healthcare, the elevated economic position of ISAPRE members means that ISAPREs absorb the majority of total health-insurance contributions. In this way, the profit-making private health funds are able to siphon off the population statistically less likely to need health services alongside the greater part of mandatory contributions, whilst the state sector with less resources must provide for the majority of the population including those sections most likely to require sustained health services.

To compound this situation, observers note that many ISAPRE system members prefer to use the public health system for most non-serious medical treatment in order to protect their 'no-claim bonuses'. Also, many of the lower-income entrants to the ISAPRE system enjoy only partial coverage and once again must revert to the public system for the more costly forms of medical attention (Cid, 2001: 5). As such, the public system operates as a pressure valve that absorbs many costs of the private system and therein –despite the costs in terms of equity and effectiveness – serves to augment the profitability of that sector. By 2000, ISAPRES accounted for 23 percent of the population yet this section of the population provided for two-thirds of the total mandatory health-programme contributions. Even when the Concertación's direct funding of the public health sector is taken into account, the ISAPRE system still monopolises 46 percent of total health resources.⁴⁹ Unsurprisingly, the standard of care within the private system is still considered to be vastly superior and, moreover, the

⁴⁹ Cid Pedraza 2001: 6.

higher salaries paid within this sector continues to attract the better-qualified medical staff.

Whilst such extreme structural biases may seem irrational outcomes, they are actually the entirely logical result of the neoliberal dualisation of health provision that the Concertación has not fundamentally challenged. Public-private partnership in healthcare provision, contrary to its proclaimed benefits in terms of efficient private sector involvement, downsizing of state action and an increasing freedom of choice for users, continues to prejudice the health care of the majority and place an increasing burden on the state in order that a small percentage of the population may indeed enjoy the benefits of high quality health care. This is not to dismiss the effects of the Concertación's expansion of healthcare spending. It is evident that the introduction of more resources has aided the public system's partial recovery from the calamitous effects of the dictatorship's retrenchment. Nevertheless, even in September of 2002, *The Economist* judged that despite the threefold increase in health expenditure since 1990, the public system had not overcome two decades of under-investment and suffered from considerable overstretch.⁵⁰ The results of the Concertación's increased funding, therefore, have been well below what had been hoped for in terms of improvements in the quantity and quality of services offered by the public sector.⁵¹

b) FOSIS and Anti-Poverty

The Fondo de Solidaridad y Inversión Social (FOSIS) was the lynchpin of a series of measures introduced by the Concertación that had the objective of transferring

⁵⁰ *The Economist*, "A New Prescription", September 14th 2002, London.

⁵¹ Raczynski, 1999: 139.

resources to the poorest sections of Chilean society. Established in 1990, it came into full operation in 1991 under the direction of the Ministry for Planning and Cooperation (MIDEPLAN). The first notable aspect of FOSIS is that, despite its claim to be the “child of democracy”, it was actually designed according to the experience of community organised survival strategies and non-governmental organisations that had been formed during the dictatorship in order to cope with the effects of the crisis in terms of mass unemployment and impoverishment. The guiding principles of FOSIS were those common to social funds seen elsewhere in Latin America, i.e. targeting, decentralisation, cost-efficiency, complementing but not duplicating traditional social policies, and involving the public sector, private sector, NGOs, and communities in partnerships.⁵² Certain aspects of FOSIS’s general design, however, were more specific to the Chilean venture.

Firstly, FOSIS operates on the tenet that poverty should be tackled through integrating the income generation strategies of the poor to the mainstream of the Chilean economy. In this respect, FOSIS projects are not aimed at merely redistributing resources in the form of direct cash transfers, but rather look to foment the productive and social capabilities of the poor, preferably through community based and participatory projects.⁵³ This mirrored a conception that many amongst the very lowest deciles of income earning are self-employed or involved in certain informal activities with little integration with the formal economy owing to a lack of infrastructure of skills. The latter goal was intended to dovetail with the regime’s desire to integrate what it

⁵² As discussed in chapter five; also cf. Tendler 2000 and Sotolli 2000.

⁵³ The type of projects that FOSIS money is directed towards are fourfold: 1) capacity generation assumes 30.1% of the budget, with 8.5% of that aimed exclusively at rural areas; 2) supporting micro-enterprises takes 22.9%; 3) FOSIS has a Youth Program division that accounts for 13.3% of budgeting in order to facilitate training schemes (*Chile Joven*); and 4) 19.3% of the budget is allocated to support groups that are considered vulnerable, such as neighbourhood women’s groups. The remaining 13.5% is spent on management and overheads, including the wages of the four hundred staff involved in FOSIS.

considered marginal communities with the rest of Chilean society. Secondly, FOSIS was not to be a temporary measure but rather was estimated to become a permanent fixture in the government's poverty alleviation strategy. Thirdly, FOSIS was not to be solely reliant on state funding but the projects should seek to mobilise funds from other sources, principally the recipient communities themselves and the network of NGOs established in the dictatorship period. Finally, the primary method for selecting both the projects to be financed and the intermediaries to undertake them is through public bidding, i.e. FOSIS operates through a competition system in which communities and/or individuals and NGOs put forward their projects and those adjudged to be the best are awarded the resources.

There is a small but detailed literature on the technical problems with FOSIS in a problem-solving vein.⁵⁴ Whilst fixing technical problems within FOSIS is clearly an important concern for those involved in the programme, the following paragraphs highlight two key dimensions of a wider critique of FOSIS as an "anti-poverty" strategy. It is undeniable that, over the decade of the 1990s, the resources provided by FOSIS programmes have indeed helped many individuals and communities mired below the extreme poverty line in Chile improve their material circumstances.⁵⁵ However, when more abstract concerns are raised concerning both the form of FOSIS as a means of regulating poverty, it can be seen how FOSIS fits within the wider neoliberal paradigm of disciplinary societal restructuring and, therefore, is one moment of a political strategy aimed to promote social discipline in order to sustain the conditions for expanded accumulation.

⁵⁴ Barrientos 1999 provides an account of many of these debates; also cf. Parker et al. 1999.

⁵⁵ The FOSIS website, at www.fosis.cl includes plentiful accounts of successful projects.

Firstly, at a technical level, it is important to note the limits of the FOSIS as an ‘anti-poverty’ programme. Despite this label, FOSIS is not designed or intended to impact upon the wage poverty that, even after a decade of economic growth, afflicts over twenty percent of Chilean workers. In contrast, FOSIS is actually targeted at the population living in conditions of indigence (extreme poverty) that are generally marginalized from what could be called “formal” economic structures.⁵⁶ In this sense, similar to other smaller initiatives by the Chilean state, FOSIS is best conceptualised not as an anti-poverty programme but as a programme that aims to raise the extreme poor up to the level of poor. It attempts, therefore, to provide the means through which the most isolated and marginalized communities can rejoin the category of employable wage labour and reinsert themselves in the hyper-flexibilised Chilean labour markets.

In this manner, the forms of social provision provided by FOSIS are in no way a form of decommodification in the manner suggested by authors such as Gøsta Esping-Andersen: namely, a mediation between individual and market that reduces the dependence of the former on the latter.⁵⁷ In contrast, FOSIS aims to provide the physical and human infrastructure to remove barriers from market participation as a means of development. As such, FOSIS, like the current World Bank development prescription examined in chapters five and nine, aims precisely to link marginalized populations more fully into capitalist social relations and, simultaneously, the integration of the extreme poor more closely into the abstract disciplines of market relations – particularly that of capitalist work. The contradictory dimension of this

⁵⁶ The distinction between non-poverty, poverty and indigence is inherently subjective and open to statistical manipulation (cf. Székely 2001). However, in this respect the chapter follows the designations of the Chilean government, with the poverty-line defined as a household income level necessary to be able to satisfy the basic needs of the household. Indigence is a situation whereby basic nutritional needs cannot be satisfied (cf. Chacón 1999: 183). In this respect, FOSIS cannot be satisfactorily considered an anti-poverty programme according to the government’s own categories.

⁵⁷ cf. Esping-Anderson 1990.

process, however, is the inability of capitalist social relations to guarantee the social reproduction of the working class and, specifically, the tendencies to create a fractured working class from which a significant portion is constantly marginalized from the work relation. Whilst in the early 1990s, the dramatic expansion of accumulation and rapid labour market growth appeared to negate such considerations, the return to crisis and a sudden expansion of the reserve labour army in the later 1990s – as discussed in the following chapter – has highlighted clear limits to the FOSIS strategy.

In spite of its ‘anti-poverty’ label, therefore, FOSIS is more accurately understood as part of a framework of institutions intended to regulate poverty. As confirmed in interviews with the state social development ministry, the only “anti-poverty” programme per se is the government’s macro-economic policy.⁵⁸ Indeed, the levels of funding through FOSIS are limited and account for fewer than five percent of the social spending budget (refer to table 7:3 above). These limited material resources mitigate the possibility of FOSIS programmes having a large-scale impact that could influence the greater structural trends of inequality and impoverishment (both relative and absolute).⁵⁹ In fact, following the period of rapid economic growth in the 1990 to 1996 period, the percentage of the targeted population in conditions of indigence has remained static, with even a small increase in the late 1990s, therein confirming the limited material ability of the state to ameliorate the poverty associated with the structuring of the working class under capitalist social relations.

Secondly, on a political level, the form of the FOSIS programme selection process, which obliges potential recipient communities to compete for resources by subjecting

⁵⁸ Interview with MIDEPLAN directorate, May 2002.

⁵⁹ More cynical critics suggest that its primary function is to provide a series of showcase projects; cf. Petras and Leiva 1994.

their project proposals to a regional competition, involves a strong disciplinary mechanism. The process of allocating resources starts at the centralised level, with the programme directors in MIDEPLAN distributing the available funds proportionally to the regions they feel are most in need of programmes. They then indicate to the regional authorities what they feel are the specific communities within these regions that should be targeted. Subsequently, the regional government establishes a working committee that includes municipal authorities and other public service groups who disseminate the information concerning the sums of FOSIS money available to the communities. The latter then are encouraged to design projects within the threshold of the stipulated aims of the FOSIS programme. Subsequently, these proposals are submitted to the working committee, which selects the ‘winning’ proposals at an open meeting. This process of successive decentralisation was considered as essential to responding to the specific needs of the poor in particular locales and to facilitating their greater participation within the formulation, design and undertaking of projects.⁶⁰ In this respect, FOSIS is once again an important forerunner of World Bank participatory development projects that aim to make sizeable gains in efficiency and legitimacy as compared to centrally created programmes. Moreover, once the projects to be funded are established, bidding between service providers (private firms or NGO) for contracts can take place if a specific provider was not stipulated in the project blueprints.

The competition form of FOSIS anti-poverty delivery clearly undercuts any notion of universal welfare or social rights. For example, close to a third of the FOSIS budget is directed towards “capacity building” to enable poor communities to implement projects to improve their local living infrastructure. That communities have to compete to receive funds for make basic infrastructural improvements, including the installation of

⁶⁰ Raczynski 2000; Barrientos 1999; Angell et al. 2001.

street paving, lighting and drainage, runs against the political articulation of the popular movements that emerged in the dictatorship period, which claimed the universal right for communities to receive these basic services.⁶¹ Activists and analysts have suggested that because communities now have to compete against each other for access to FOSIS resources to undertake basic infrastructure initiatives trans-movement and community solidarity has been fragmented, therein undercutting the basic proposition of the popular social movements fashioned in the 1980s that all communities had rights to these services/amenities.⁶² In this respect, FOSIS can be suggested to have contributed to the reformulation of community social movements, a process that Ton Salman highlights as characterised by “disintegration, withdrawal from the public realm, and individualistic strategies for integration.”⁶³

Similarly, if the unbending acceptance of the limits to politics within capitalist social relations could be successfully imposed, the Concertación saw the possibility of transforming the swathes of grassroots movements that combined political opposition to the dictatorship with communal self-help into willing technical facilitators of social programmes such as FOSIS. The institutional form of FOSIS required both communal social movements and wider non-governmental organisations to play the leading role in project design and, often, implementation.⁶⁴ As Joe Foweraker has ably demonstrated, social movements have been largely displaced by or transformed into generally apolitical NGOs that are often financially and technologically dependent upon, and therefore increasingly influenced by, specific foreign agencies. The original aims of grassroots movements to act as a significant motor of social change, therefore, have

⁶¹ On the ‘pobladores’, see Salman 1994, Oxhorn 1995.

⁶² Taylor 1998: 210; Rayo and de la Maza 1998.

⁶³ Salman 1994: 85.

⁶⁴ Barrientos 1999. Parker et al. 1999 theorise this as a process of “building social capital”. cf. Fine 2001a for a trenchant critique of the weak theoretical basis of this concept.

been considerably marginalized by this process. Where they have chosen to interact with the state, they have been commonly subordinated as instruments of state policy with limited political influence beyond the technical issues of project implementation. Concurrently, where avoiding interaction has often led to marginalisation and ineffectiveness.⁶⁵

In this manner, when considered in its wider socio-political context, the character of FOSIS as one moment of a larger disciplinary social restructuring project becomes more evident. This is not to suggest that FOSIS is a static instrument employed to secure the legitimation of the Chilean status quo, although it does have a significant ideological role as evidenced by the amount of publicity given to the project. On the contrary, the creation of FOSIS accords primarily to the extent of popular mobilisation of the popular sectors in the dictatorship period and the desire both to build upon this mobilisation as well as set institutional limits to its potential directions. Resultantly, as a form of regulating poverty, FOSIS marks a considerable improvement in both technical content and substantive process from the authoritarian programmes that characterised the dictatorship period. As Gustavo Rayo and Gonzalo de la Maza indicate, beyond their material aims, social funds such as FOSIS:

*Operate as a linkage and structure of dialogue between state and grassroots social movements.*⁶⁶

In this manner, social funds, like all other institutionalised forms of state-relations, are an object of struggle and open to continual challenge and pressures for reform from

⁶⁵ Foweraker 2001: 845-9.

⁶⁶ Rayo and de la Maza 1998: 431 (author's translation).

actors on both sides of the relationship. Nonetheless, given the institutional form created within the confines of the immediate post-authoritarian period, FOSIS closely reflects the Concertación's strategy of diverting the social expectations of the population into the realm of social policy where it envisaged being able to exercise a greater control. Although FOSIS indeed necessitates a specific degree of social mobilisation from recipient communities, the form of this mobilisation is one of intra-community competition and requires communities to focus on performing technical tasks to further their insertion into the market mainstream. It therefore displays significant tensions between, on the one hand, social mobilisation and the attempt to depoliticise; and, on the other, community expectations of empowerment to material betterment and the peculiar character of capitalist development.⁶⁷ These important themes are re-addressed in the conclusion when we return to the World Bank and its reinvention of social development at the turn of the millennium that borrows heavily from programmes such as FOSIS.

⁶⁷ With regard to the Chilean experience, however, more independently undertaken case studies are needed to chart how the tensions have tended to work out in practise, cf. (e.g.) Rayo and de la Maza 1998.

CHAPTER 8: CAPITAL ACCUMULATION AND CLASS STRUGGLE IN THE POST-DICTATORSHIP PERIOD

The present chapter concludes the examination of capitalist development in Chile by bringing together the major lines of analysis present in this thesis to explain the trajectory of accumulation in Chile in the 1990s. In so doing, it provides an account of Chilean capitalist development over the 1990s that differs greatly from those, such as the IMF and World Bank, that stress the impact of Chile's adherence to correct policies within a 'good governance' framework.¹ The chapter not only offers a considerably different explanation of the productive boom that occurred between 1990 and 1997 by emphasising the particular (global) social relations that underscored the expanded reproduction of capital; but it also highlights and explains the many contradictory social tendencies that are generally ignored by neoliberal advocates, including inequality and unemployment trends, labour flexibilisation, the prevalence of wage poverty and the limits to social policies. To this end, the chapter charts the principal macro-economic policy directions of the Concertación and examines the trajectory of Chilean accumulation during the 1990s. It therefore highlights the nature of the economic boom that occurred between 1990 and 1997 and the subsequent crisis, erupting between 1998 and the end of the decade. Within this, close attention is paid to the relationship between capital and labour vis-à-vis employment, wages and conditions of work during the boom and bust cycle, therein linking with the discussion of the previous chapter. This permits an examination of how the political limits imposed on the collective organisation of labour were reflected in the course of capital accumulation and how, by the end of the decade, they had become a primary object of struggle for a newly combative worker's movement. Given the proximity between Chilean labour and

¹ cf. (e.g.) Jadresic and Zahler 2000: 12; Aninat 2000.

social policies and World Bank best practice models, this section provides a more concrete critique of these institutional reforms.

1. State, Capital Accumulation and ‘Growth with Equity’

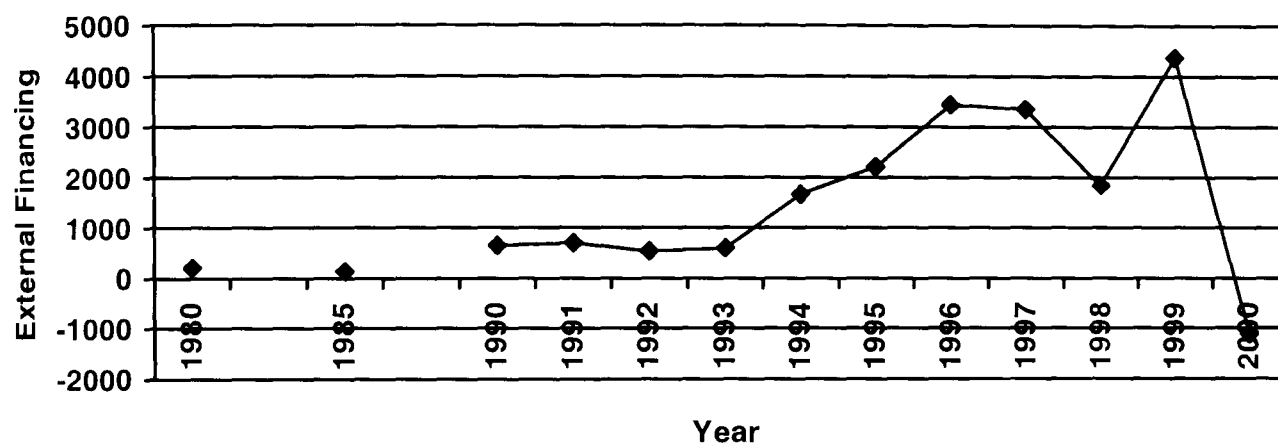
Given the robust conditions for capital accumulation present in the final years of the dictatorship, the Concertación acceded to power at a relatively auspicious moment. Not only had the restructuring processes – abetted by heavy state intervention – recreated the conditions for strong accumulation predicated upon high levels of exploitation and the centralisation of indigenous capital; changing world market conditions simultaneously altered the pattern of capital investment on a global scale and conspired to turn Chile into a favoured site for international financial investment. With a generalised crisis of overaccumulation manifesting itself in the capitalist core through an abundance of capital without sufficient profitable investment opportunities, the 1990s were marked by a renewed proliferation of financial flows to preferred locations in the global South.² Within this context Chile appeared as a particularly favourable option owing to political stability, a well-disciplined labour force, a government that offered benefits to foreign capital operating within its borders, and a wide range of investment opportunities afforded by Chile’s uniquely rich natural resources. As such, Chile experienced huge inflows of foreign direct investment (FDI) in the early and mid-1990s (refer to figure 8:1), investment that particularly targeted the dynamic and profitable sectors of the Chilean export economy. Some fifty-seven percent of foreign investment went directly into the primary sector, with copper extraction leading the way.³ Concurrently, financial flows of a more short-term and speculative nature also

² Lemco and MacDonald 2001: 86.

³ Morguillansky 2001: 187.

increased, although remaining below the levels of FDI. Such was the mass of capital flowing into Chile that the Aylwin government, faced with a rapidly appreciating exchange rate that threatened the viability of Chilean exports, felt compelled to implement a minor capital control (the Unremunerated Reserve Requirement, URR) to moderate the entry of foreign capital.⁴

Figure 8:1 - External Financing – Net Direct Investment in millions of dollars.⁵



Both FDI and portfolio inflows were encouraged by the actions of the Concertación, which actively fomented the attractiveness of Chile as a site for global capital. Given that export expansion linked to foreign direct investment had been the engine of accumulation during the final years of the dictatorship, accentuating the integration of domestic accumulation processes within international capital circuits was a primary goal of the Concertación. Trade policy constituted a significant tool in this regard. Consequently, the first two Concertación governments of Aylwin and Frei successively cut remaining import tariffs to below the levels of the Pinochet regime, resulting in a flat rate of 7 percent by 2002, and have sought and completed the signing of several bilateral and multilateral trade agreements. This process has served to make Chile the most open country in Latin American in terms of the movement of goods. Although differing in their precise terms, free trade agreements now cover relations with the

⁴ cf. Soederberg 2002b.

⁵ From CEPAL 1999: 502-3.

NAFTA countries, the MERCOSUR and the European Union. Both of the post-1994 governments have pushed for full entry into the NAFTA and, whilst this aim remains currently unfulfilled, the most recent agreement in 2002 has been a further bilateral trade pact with the United States.⁶

Reducing tariffs and promoting free trade agreements has served two primary purposes in Chilean accumulation strategies. On the one hand, successive agreements with various countries and trading blocks during the decade have permitted the expansion of markets for Chilean exports, particularly in respect of the European Union and NAFTA block that maintained punitive duties on many of Chile's key exports, such as wine and salmon. Contrary to a previous concentration of exports to North America and Europe, by the mid-1990s Chile export destinations were substantially diversified, and East Asia consumed a greater quantity than either the NAFTA or EU blocks. With legally binding trade agreements, the Concertación regime sought to ensure a varied set of international options for the realisation of value within Chilean products. Secondly, the inverse side of the free trade agenda was the opening of Chilean markets to foreign products, particularly consumption commodities. Whilst the domestic agricultural sphere and consumer goods sectors would have to contend with competition from more efficient foreign producers,⁷ the overall effect of integration with these global capital circuits would be a reduction in the price of consumption items and, therein, a lowering of the value of labour-power within the national ambit thereby increasing the rate of surplus value production.

⁶ Stiglitz 2003: 1.

⁷ It should be noted that all Concertación governments have employed additional variable duties on several agricultural products, including wheat and vegetable oil, which continue to protect some domestic producers.

Concurrent to this deepening of the free-trade policy, the Concertación has continued to court foreign capital by using the state apparatus to help secure the conditions for profitable investment. A renewed commitment to fiscal restraint, heralded by neoclassical economics as a sine qua non of business confidence, has been a primary aim of successive Concertación governments. For example, the current Lagos administration, suspected as the least likely of the Concertación administrations to conform to fiscal discipline owing to its socialist heritage, has adopted a strategy of strictly linking government budget levels to macroeconomic indicators in order to submit to the discipline of monetary movements.⁸ Tight fiscality in this manner, alongside the imposition of market discipline on wages, brought inflation down to extremely low levels relative to historical levels. Between 1992 and 2001 the weighted average annual rate of inflation was maintained at an extremely low 3.72 percent.⁹ Likewise, the Concertación has also attempted to mediate the downward pressures on the real exchange rate in order to benefit the exporting sector, despite the cost of incurring a significant current account deficit, which reached 6.3 percent of GDP in 1998.¹⁰

Outside of macro-economic management, the Concertación continued the process of privatisation initiated by the authoritarian regime. However, whilst it has been noted that the latter provided a significant subsidy to capital by underselling public companies, the Concertación has operated a policy of open, competitive bidding. Over the course of the decade a combination of the privatisation of state-owned companies and the leasing out of state service provision to the private sector earned the state some

⁸ CEPAL 2001b: 135.

⁹ Heritage Foundation 2003: 140.

¹⁰ Escobar 1999a: 18.

\$2.5 billion.¹¹ The privatisation of water treatment, telecommunications, electricity, transport, and infrastructure creation and maintenance, are prime examples. Proceeding beyond the privatisation of state owned productive enterprises and social services, the Concertación approach has involved opening new areas and forms of investment to domestic and foreign capitals, including techniques of semi-privatisation through concessionary and associational forms of public-private partnership.¹² Notably, partnership in this sense has fomented a particular increase in opening new copper deposits to exploitation through joint extraction by the state copper industry and foreign companies. New forms of semi-privatisation have also contributed to the attractiveness of fresh sites for foreign investment. For example, transnational capital in the construction sector has grown from minimal levels at the end of the 1980s to a situation in which fifty percent of investment is foreign and, moreover, where companies backed by foreign capitals take some seventy-two percent of public-works contracts.¹³ These initiatives increased the prospects of foreign investment and offered the state considerable, albeit short-term, income. However, a second strong motivation behind the new privatising wave was to jettison public companies that were performing inefficiently and in which the government preferred to avoid undertaking restructuring. Given the unavoidable confrontations with labour that restructuring would entail, the state preferred to avoid direct political ramifications. Specific examples are the privatisation of major water treatment companies, such as Essel and Essal, both of which were subjected to harsh rationalisation following private takeover, as discussed below.

¹¹ Aninat 2000: 2.

¹² Hachette 2000: 125.

¹³ Fazio 2000: 36.

Outside of the financial sector, the five hundred firms that comprise the Chilean corporate sector retained their heavily concentrated ownership characteristics. In addition to the influx of foreign capital into mining, electricity and telecommunications, the IMF notes that the forty large economic groups that consolidated in the late 1980s hold the vast majority of the equity of these incorporated firms.¹⁴ Not only has governmental privatisation opened new areas for foreign investment, but also continuing processes of tax incentives and deregulation throughout the decade helped promote foreign investment. An exemplary example is the booming copper sector, where FDI investment at the beginning of the 1990s was profoundly superior to all other sectors of the economy, partially owing to the initiation of several “mega-projects” that explored rich new reserves through the deployment of new technology. Moreover, the attractiveness of investment in copper extraction was also influenced by the high price of copper alongside significant tax breaks offered to transnational capital.¹⁵ In offering significant tax deductions to foreign capital entering mineral extraction sectors, the regime even placed the relative profitability of the state-owned copper sector at a sustained relative disadvantage. Tax breaks, however, have not been the only incentive offered by state intervention. Foreign firms, faced with declining rates of profit owing to global copper overproduction since the mid-1990s, have taken advantage of governmental de-regulation to begin exporting unrefined copper in bulk to South East Asia.¹⁶ The motivation behind this strategy is quite simply to take advantage of cheaper processing through lower Asian labour costs that more than compensate for increased transportation expenditure. The removal of some of the most labour-intensive aspects of the mining process, a trend facilitated by governmental de-

¹⁴ IMF 2002a: 81.

¹⁵ Lagos 1999: 32.

¹⁶ Lagos 1999: 30.

regulation, has contributed towards the ejection of living labour from the Chilean mining sector, as discussed below.

2. Employment, Wages and the Changing Composition of Capital

A conjuncture of factors during the period 1990 to 1997, including the heightened level of exploitation,¹⁷ escalating foreign investment and favourable global markets, created the conditions for the largest economic boom experienced in Chile. Growth in gross capital formation between 1990 and 1996 averaged 8.3 percent¹⁸, and GDP grew by 7.8 percent over the same seven-year span (refer to table 8:2). Whereas economic expansion in the late 1980s involved the re-absorption into production of the cheap and disciplined reserve labour army alongside the re-utilisation of unused capacity, the early 1990s were marked by heavy investment in technology in conditions of increasingly tight labour markets. These processes thereby served to alter the organic composition of capital, although at a time when the absolute mass of capital was still undergoing rapid expansion. Resulting from these two processes, several trends can be discerned. On the one hand, processes of sustained technological improvements would dramatically increase productivity in key branches of production, culminating in tendencies towards overproduction and the partial replenishment of the reserve labour army. On the other, the increased demand for labour resulted in rising wages, threatening the competitiveness of Chilean exports on global markets. These points are addressed in turn, before examining the emergence of crisis in more detail in the final section.

¹⁷ Notably, average weekly work hours would remain high, with a 48 hour working week still the average in 1996, and with over 35 percent of the population working above this norm; MIDEPLAN 1998: 35.

¹⁸ Escobar 1999b: 24.

Table 8:1 - Chilean GDP growth (percent), 1990-1999.¹⁹

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP	3.7	8.0	12.3	7.0	5.7	10.6	7.4	7.4	3.4	-1.1
GDP per capita	1.5	6.2	10.4	5.2	4.0	8.9	5.9	5.9	2.0	-2.4

To begin with, the large inflows of foreign capital and the availability of domestic credit were used to implement technological improvements that increased productivity alongside increasing the mass of capital. Productivity increases were considerable. Whereas in the 1984-89 period productivity per worker grew by 1.4 percent annually, the 1990-5 period saw this ratio increase threefold to 4.3 percent.²⁰ Productivity transformation in this manner was most prolific in the core regions of the export sectors, particularly mining but also agro-export, and lumber and seafood processing. Likewise, financial services and, to a lesser degree, commerce and transport also witnessed large increases in productivity over the 1990-96 period.²¹ Given that the introduction of productivity-increasing technology can often lead to an expulsion of living labour from the production process, the continued increases in employment between 1990 and 1996 were related to the continued expansion of the mass of capital that served to reincorporate the reserve army created during the crisis and restructuring period, including the growth of servicing firms that tended to various needs of the primary production sector. However, from 1997 onwards, the expanded reproduction of capital in Chile encountered problems of overproduction coupled to deteriorating global circumstances. A depreciation in the mass of capital owing to capital flight and the continuing introduction of new technologies and rationalisation strategies rapidly pushed unemployment rates upwards. The latter hit ten percent at a national level in 2000 and has remained around this figure into 2003 despite the reintroduction of emergency work programmes for the first time since the 1980s. The latter have been

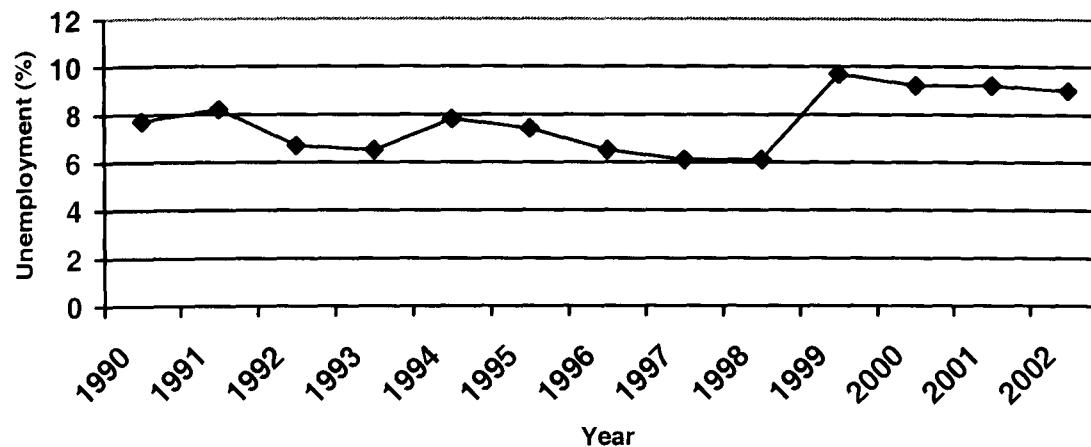
¹⁹ CEPAL 2001a: 492.

²⁰ Rosales 1998: 219.

²¹ Ossandón 2002; Rosales 1998: 218.

introduced by the Concertación and provide direct employment for 100,000 people anytime unemployment exceeds nine percent.²²

Figure 8:2: National Unemployment Rate (percent of economically active population).²³



Unemployment, although manifesting sizeable variations within the course of a given year owing to the seasonal nature of work in the agro-export sector, subsided from the high of 29 percent in the early 1980s to 6.4 percent in 1994, thereby returning to a level just above its historical average of around six percent in the post-war period.²⁴ Similar to trends of the late 1980s, a considerable portion of the new employment resulted from the expansion of light manufacturing, concentrated on low value-added transformations of primary extracts, and construction. Owing to increases in employment in these two areas, primary employment had increased from under twenty-two percent of total urban employment in 1986 to twenty-seven percent by 1994. It should be noted that, although the share of manufacturing in GDP grew at a sustained rate during the boom period, this did not represent the initiation of a second “phase” of the export-promotion industrialisation strategy, as proclaimed by the Concertación governments since 1991. Achievement of the latter was suggested to necessitate a strong diversification of exports into non-traditional goods involving labour-intensive production with higher

²² CEPAL 2001b: 140.

²³ Banco Central de Chile, <http://si2.bcentral.cl/basededatoseconomicos/900base.asp?usuidioma=e> accessed May 2003.

²⁴ Stallings 2001: 51.

value added.²⁵ Additionally, such a transition was projected to require a relatively strong role for the state, both through an industrial policy that would provide incentives for the creation of new industry, and in the reproduction of an educated and disciplined labour force. In basing production on higher levels of human capital and technology, and therein by increasing exports of finished products, it was believed that Chilean accumulation could overcome its strong dependence on finite primary exports and initiate a virtuous circle of investment in workers leading to stronger exports.

Nonetheless, the promised transition has been muted. On the one hand, the 1990s saw an increasing number of vertically linked industries involved in the light processing of Chilean raw materials. As discussed below, these industries were neither labour intensive and have often involved particularly flexibilized forms of labour relations, with marginal productivity gains over the decade that belie the idea of a transition to high value added production reliant on increasingly skilled labour.²⁶ On the other, in certain instances, such as that of copper as discussed above, the Concertación has responded to deteriorating global conditions for products by certifying the export of increasingly unprocessed primary materials in order to maintain investment. Given these circumstances, the impact of “second phase” export-promotion industrialisation has not been to recreate a version of the East Asian NICs and its influence on Chilean export character has been less important than initial expectations. In 1997 brute raw materials still constituted 44 percent of exports; moderately processed raw materials, such as fishmeal, processed frozen fish, wood chips, pulp and planks, accounted for 26 percent; and fully manufactured goods constituted only 10 percent.²⁷

²⁵ Seinen 1996: 153.

²⁶ Ossandón 2002: 12.

²⁷ Castillo 1997: 44.

In this manner, characteristic of the 1990s export boom was the continued proliferation of small and medium firms that, through subcontracting, provided services and decentralised product processing to the immediate primary extraction industries. Concurrent to the expansion of primary extraction and secondary processing, the other principal growth area in terms of employment was the producer-services sector. Micro-enterprises, employing fewer than five workers, accounted for 40.6 percent of total employment in 1996, and this figure rises to 46 percent if enterprises of five to nine workers are included.²⁸ Informalised work relations predominated within these enterprises, with only 30 percent of micro-enterprise workers having a fixed contract. As such, high levels of precarious employment characterise this sector, entailing that workers confront unstable employment relations with a short-term horizon owing to substantial risk of ejection.²⁹ This is a situation compounded by the technique of vertical disintegration of large export-orientated firms, with the latter increasingly engaged in subcontracting practices that enable an indirect relationship with a workforce through the mediation of these small firms. As detailed below, subcontracting aids in the consolidation of a heavily flexibilized relationship with labour by facilitating the relatively unproblematic ejection of living labour from the production process according to the dictates of the enterprise.

In spite of the unstable conditions of employment prevalent in many branches of production and the maintenance of heavily restrictive labour legislation, the significant increase in the demand for labour nonetheless helped to push wages upwards in a sustained manner. In 1992 real wages recovered to their pre-debt crisis level and then rose consistently by around four percent annually in the boom years of the mid 1990s,

²⁸ Escobar 1999b: 30, 31.

²⁹ González 1999: 99.

slowing only with the global crisis of 1997-1998 (refer to table 8:1). Concurrently, labour shortages in peak months in certain export industries forced some employers to offer improved conditions of labour in order to attract the necessary quantity of casual workers.³⁰ The process of rising wages was also bolstered by the political decision of the Concertación consistently to make small raises in the level of the minimum wage, although the impact of the latter political decision has been far less dramatic than the accusations of organised business would suggest. Only in 1997 did the minimum wage regain its 1982 level, and still lagged below that of 1970.³¹

Table 8:2 - Index of real wages (1970=100).³²

<i>Year</i>	1986	1988	1990	1992	1994	1996	1998	2000
<i>Index</i>	83.8	89.1	92.4	101.3	110.3	119.0	124.0	128.0

The effect of rising wages can be examined in two manners: firstly, according to their impact on capital-labour relations and the international competitiveness of Chilean exports; and secondly in terms of the stratification of the working class. With respect to the former, the large exporting conglomerates have made clear their discomfort with the rate of wage increase, a sentiment that intensified after the contraction of profit rates first began to manifest itself prior to the Asian Crisis. Wage increases of four percent annually between 1990 and 1998 translated into rising costs of production of commodities whose global value was decreasing owing to overproduction.³³ Unable to contest the highly market-driven trends in domestic wages, capital has pursued a mix of political and economic strategies in an attempt to compensate.

³⁰ Schurman 2001: 20; Barrett et al. 2002: 1957.

³¹ Coloma and Rojas 2000: 511.

³² Fazio 2001: 217.

³³ Notably, however, real wage increases slowed to an average of 1.65 percent annually between 2000 and 2003 following the slackening of labour markets in the post-1998 crisis period; Banco de Chile 2003a: online.

Firstly, on the political front, the wage issue is one factor underlying the increasingly confrontational position adopted by organised business vis-à-vis proposed changes to the labour code, as detailed in the succeeding sections. Secondly, replacement of living labour by machinery continues, with Chilean firms going into increasing levels of debt to achieve this. Rachel Schurman identified such processes as endemic in the seafood processing industries throughout the decade, and Barrett et al. suggests that mechanisation of salmon feeding since 1998 has cut the labourers involved in this branch of production by forty percent.³⁴ Thirdly, the tension between the steady diminution of comparative advantages on international markets and rising domestic labour costs has also prompted increased investment by large Chilean firms in other parts of Latin America, rising from insignificant amounts to US\$4.3 billion a year in 1996.³⁵ Indigenous capitals have thereby fled rising labour costs by moving money capital to encounter cheaper labour in alternative spatial locales. Indeed, in response to rising labour costs and escalating overproduction in key Chilean industries, the large economic groups responded by borrowing huge amounts of foreign capital in order to continue the process of technological upgrades and to acquire assets in other parts of South America. Even the IMF has expressed concern over the soaring level of private debt in Chile, which doubled between 1995 and 1999 and now amounts to fifty percent of annual GDP (refer to figure 8:3).³⁶

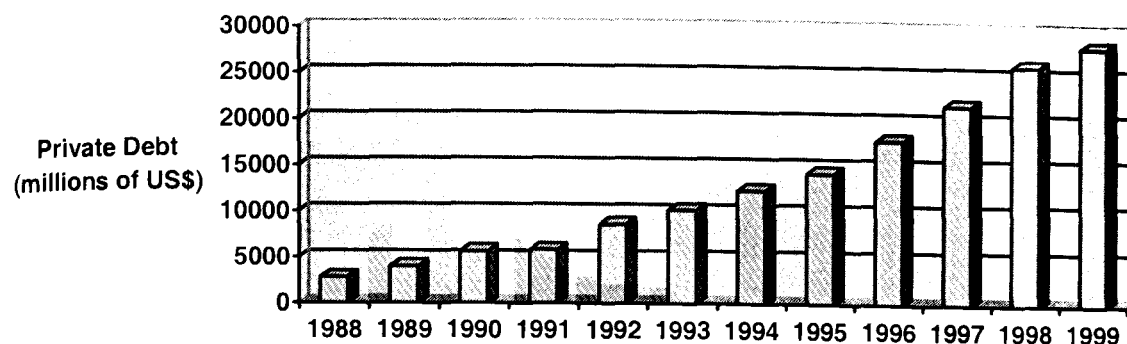
Figure 8:3: Private External Debt.³⁷

³⁴ Schurman 2001: 26; Barrett et al 2002: 1956.

³⁵ Díaz 1997: 162.

³⁶ IMF 2000a: 98.

³⁷ From figures in Fazio 2000: 26.



Finally, enterprises have concentrated upon increasing the flexibility of their relationship with the labour force, therein finding alternative methods by which to compensate for the rise in the price of labour-power. It is perhaps no surprise that flexibilisation practices, as identified in the theoretical chapter as strategies that attempt to remove restrictions to the usage of labour-power as a total commodity, have been an increasingly common strategy of capital in many branches of production. This trend has been particularly explicit in the key export sectors, where subcontracting strategies have been pervasively adopted in order to maximise exploitation and to maintain the rationalisation of enterprises. The forestry sector is archetypal in this respect. Subcontracting practices have become increasingly common and have allowed larger economic units to contract out tasks to small firms, sometimes organised at the level of the family. This allows the larger firms to cut their labour costs, avoid many regulatory aspects of formal sector employment and also to avoid dealing with organised labour, hence skirting the responsibilities that they would have to assume were the employees hired directly by the company. Concurrently, it also permits an easy shedding of unusable labour in times of economic slowdown. As a consequence, the Chilean forestry sector has become characterised by levelled practises of subcontracting whereby the first level of subcontracted firms continue to pass specialised tasks out to their own subcontractors.³⁸ In this fashion, pyramids of hierarchicalised subcontracting

³⁸ Escobar and López 1996: 102.

practises, resting on relations of dependency running from the central contractor down each level, form an “economic mattress” that cushions the central levels from adverse shocks by allowing them to transfer costs further down the structure. Precarious forms of employment have created a situation in which the reserve army in the forestry sector is both sizeable and in a state of constant flux. Notably, the provinces where the forestry sector is most present are characterised by high levels of unemployment and poverty.³⁹

Similar trends are also prevalent in the agro-export sector, one of the much-championed “dynamic poles” of the new economy. In this sector employment is both highly precarious and lowly remunerated. For close to forty percent of the rural labour force – largely female in its composition⁴⁰ – work is typically categorised by three modes of temporary employment: work paid by piece (e.g. price per volume picked); work paid by task; and work paid per harvest. This enables agro-industries to absorb large quantities of labour-power in the summer and autumn picking seasons and eject it for the winter and spring. Concurrent with the flexibilisation of the labour market, there is little labour regulation in terms of working conditions and levels of pay, and there are no social security contributions by employers.⁴¹ After completing individual jobs workers are perpetually uncertain of future employment and must move between agro-enterprises within the region in order to find successive contracts. Furthermore, with the impermanent and mobile nature of the work, there can be little unionisation, a situation reinforced by the Concertación’s reluctance for the entire decade to undertake any initiative, such as trade union legislation, that might endanger the continuing

³⁹ Escobar 1999.

⁴⁰ Cid 2001: 11.

⁴¹ cf. Fazio and Riesco 1997; Cid 2001.

growth of agro-forestry exports.⁴² The labour legislation enacted by the Lagos administration in 2001, as discussed below, finally provides seasonal workers with the legal right to form unions, although the structural impediments still mean that union activity in such sectors is low.⁴³

The mining sector, an area of considerable union activity that even the Pinochet regime could not repress, has seen a different flexibilisation strategy attempted by capitals. This has involved the shedding of labour employed by the main mining enterprise and its replacement with subcontracted labour. As the government 'preinforme' to advise the 2001 labour legislation discussions indicates, the percentage of subcontracted workers has risen dramatically. The percentage of subcontracted employees in the mining industry rose from 4.6% to 40% between 1985 and 1996.⁴⁴ Agacino, González and Rojas, in their seminal study of the Chilean mining industry in the post-authoritarian period, demonstrate that this subcontracting practise has resulted in "extended working days, illegal introduction of continuous work systems, higher vulnerability of the worker, lack of legal protection, temporality of work and income, etc".⁴⁵ Such a strategy has been complemented by the transnational relocation of labour intensive stages of the production process with an increasing amount of ores extracted in brute form in Chile and transported to South East Asia for refining. The latter is a process sanctioned by the Chilean government, which has preferred to keep the sector vastly unregulated rather than risk losing investment.⁴⁶ As such, the increasing capital-intensive nature of mining, alongside the migration of labour-intensive processes to other parts of the international division of labour, has caused a

⁴² Gwynne and Kay 1997: 9.

⁴³ Interview with agrarian union directorship, Santiago April 2002.

⁴⁴ Preinforme 2001.

⁴⁵ Agacino et al. 1998: 216.

⁴⁶ Lagos 1999: 31.

substantial ejection of living-labour from the production process. Despite huge foreign investment and the opening of new 'mega-projects', the number of jobs in the Chilean copper industry during the 1990s declined from 104,000 to 92,000.⁴⁷ Ironically, owing to these processes, poverty has also risen amongst those working in the mining sector. Whereas the mining sector previously offered some of the highest wages amongst the working class, subcontracting and the emergence of a reserve mining labour force ejected from the transnational sector yet able to use its skills to mine small, low quality ores, has led to a situation in which between 1990 and 1995, the number of miners whose households were below the poverty line rose from none to 16 percent.⁴⁸

Although the above paragraphs have concentrated on flexibilisation processes in key export sectors, these transformations are not exclusive to those areas. For example, the above mentioned government *preinforme* report notes the prevalence of practises undertaken by such firms as water-treatment giant Essel which, following privatisation in 1999, took advantage of the laxities of the labour code to sack a substantial number of employees only for the new owners to rehire them as subcontractors under markedly worse conditions.⁴⁹ Concurrently, Wormald and Ruiz-Tagle highlight that for important tasks within the construction sector – which accounted for the third largest increase in employment between 1990 and 1998⁵⁰ – the majority of labour now is performed via subcontracting practises to micro-firms, creating a growing tendency towards precarious labour in this key employment sector.⁵¹

3. The Asian Crisis and the Spectre of Overproduction, 1997-2001.

⁴⁷ cf. Agacino et al. 1998: 215.

⁴⁸ León and Martínez 1998: 301.

⁴⁹ Preinforme 2001: 4, fn. 5.

⁵⁰ Escobar 1999: 25.

⁵¹ Wormald and Ruiz-Tagle 1996: 67.

As we have seen, processes involving the transnationalisation of capital circuits were fundamental in the expansion of accumulation between 1990 and 1997. However, the inverse moment of this mode of integration into the world market was a reliance on fickle and volatile capital flows for sustained investment and credit. Regime ideologues were confident that the possibility of crisis owing to this manner of external dependence was minimal. They championed the pragmatic use of capital controls and the seeming immunity of Chile to the ‘Tequila Effect’ that spread contagion across Latin America following the 1994 Mexican Peso Crisis. Nonetheless, significant vulnerabilities of Chilean accumulation within the new mode of transnational integration were starkly revealed in 1998 following the financial crisis that erupted in East Asian and spread to Russia and Brazil. On the one hand, export industries were faced with the temporary collapse of Asian markets that had grown to absorb one-third of Chilean goods by the mid-1990s. Concurrently, in conditions of spreading financial panic, investors balked at the prospect of financial collapse in the global South and some US\$2.1 billion of capital fled from Chile.⁵² Together, these factors rapidly plunged the economy into recession, with negative growth registered in 1999 for the first time since the debt crisis (refer to table 8:2). Somewhat ironically, given the Concertación’s previous position, the state response was to remove rapidly the existing capital control and other remaining impediments to the free movement of capital in order to try and encourage capital to return. In circumstances of crisis, installing confidence in investors by facilitating their ability to exit under any future adverse circumstances took precedence over instruments of financial management.⁵³

⁵² IMF 2000: 99.

⁵³ As a postscript, in return for a 2002 free trade agreement signed with the US, the Lagos administration has legally committed itself to maintaining a fully open capital account, thereby foregoing the possibility of implementing any future capital controls; Stiglitz 2003: 2.

Table 8:3: Annual GDP increase (percentage).⁵⁴

Year	1998	1999	2000	2001	2002
GDP change	3.2	-0.9	4.4	2.8	1.8

Much as economists are keen to relate every unforeseen negative occurrence to exogenous factors and “external shocks”,⁵⁵ the crisis of 1998 and the subsequent ongoing stagnation also represented serious contradictions emergent within the trajectory of Chilean accumulation. Signs of tension were already visible before the crisis hit, as manifested by a fall in the rate of growth of manufactured exports from 32 percent in 1991 to 8.2 percent in 1997.⁵⁶ The most important issue is the emergence of global overproduction and subsequent heightening competition within the branches of primary production upon which Chilean accumulation relies so heavily. This process is twofold. On the one hand, the advantageous conditions of production within the dynamic export poles combined with favourable opportunities for value-realisation on global markets encouraged the rapid formation of a multiplicity of competing capitals within export sectors. Likewise, the other dimension of overproduction has been the changing composition of the international division of labour. The global propagation of export-oriented development strategies has increased opportunities for firms aiming at similar western consumption markets to exploit new competitive advantages in alternative countries in the global South. As such, during the 1990s, global capital moved to exploit market opportunities by investment in these same branches of production in other spatial locations within the global division of labour.

⁵⁴ Banco de Chile 2003b: online.

⁵⁵ For example, in an attempt to reassert the soundness of neoliberal policy prescription despite a decade of poor economic performance in the restructured Global South, the World Bank explained away the discrepancy between theory and practice as the result of “large external shocks”; World Bank 2001a: 64.

⁵⁶ Weyland 1999: 81.

Unlike the projections of neoclassical theory, increased competition does not lead to the smooth elimination of inefficient producers and the return of equilibrium. On the contrary, as elaborated in chapter two, each individual capital tends to react to increased competition by introducing technological improvements, often funded through credit, and by intensifying the exploitation of labour. The tighter the market gets, the more pressure upon capitals to reduce production costs and to increase the mass of products produced in order to adjust to falling prices, therein further accentuating overproduction.⁵⁷ This process of escalating overproduction is particularly clear in the copper industry. In terms of a percentage of world copper exports, Chile soared from 26.1 percent in 1990 to 39.6 percent in 1998 owing to the expansion of mines and technological enhancement.⁵⁸ With respect to volume, total copper exports more than doubled between 1990 and 1998. This represented an 11.1 percent average annual increase whereas the US\$ value of those exports only increased by 6.4 percent yearly, therein highlighting the decreasing price of copper on global markets.⁵⁹ By 1999, moreover, overproduction combined with recession in key importing countries meant that copper prices hit their lowest level in forty years and have remained stagnant thereafter.⁶⁰ Accounting for some forty percent of export earnings, crisis in the copper industry threatens particularly grave ramifications for accumulation in Chile. Concurrently, however, similar processes were manifesting themselves in other sectors. In the fishing sector, for example, six of the eight principal marine fishes of commercial value are currently between full and over-exploitation owing to overcapitalisation, therein threatening the very reproduction of the industry.⁶¹

⁵⁷ By expanding production without regard for the limit of the market, as is inherent in the social form of capitalist production, overproduction is often accentuated until crisis imposes restructuring through the destruction of overextended capitals and the concentration of remaining capital; cf. Clarke 1990b.

⁵⁸ Lagos 1999: 28.

⁵⁹ Lagos 1999: 29, 31.

⁶⁰ IMF 2000: 105.

⁶¹ Aguilar Ibarra et al 2000: 510.

In this way, other key export industries such as salmon, cellulose, grapes and wine have been marked by decreasing rates of profit through a combination of Chilean overproduction and the arrival of new competitors on the world market.⁶²

The emergence of this longer-term stagnation, and not any substantial change in Concertación policies, is one of the primary reasons that organised business has been relatively hostile towards the current Lagos administration and incredibly belligerent in its campaign against any substantial changes in the labour code. Notably, business interests decried even the decisively pro-business compromise of relatively minor amendments in 2001 as a “grave danger to the Chilean economy”.⁶³ Inversely, the growing crisis of export-orientated accumulation also threatens to undermine the ability of the state to make the kinds of material compromises through the “growth with equity” formula that formed the lynchpin of its political and social strategy in the 1990s. The principal question that these trends raise is that of the political contradictions that they impart and this theme is addressed in the final section on Chile through an examination of the course of political struggle at the turn of the millennium.

4. Social Struggle, Political Turbulence and the New Labour Reforms

In spite of the weaknesses of organised labour in Chile and an oft-cited political apathy manifested in low election turnouts in the mid-1990s, the existing pattern of labour relations and the correlated polarisation of income distribution were not passively accepted. Political tension began to escalate in the latter half of the Frei administration as the bitter winds of the Asian typhoon whipped Chile and turned the employment

⁶² *La Otra Economía*, Santiago de Chile, April 2002.

⁶³ *El Mostrador* 2001, Santiago de Chile, April 14th.

generating boom of the previous seven years into negative growth, increased unemployment and mounting social disquiet. The immediate result was the first significant shift of popular support away from the Concertación, as displayed by the momentum gathered by Joaquín Lavín's right-wing pseudo-populist campaign for the 2000 presidential elections. Lavín's campaign was run in an anti-politics, anti-politician style, presenting himself as an ideal president owing to his "supra-political" position. Armed with a massive campaign budget (up to US\$30 million), he combined economic liberalism with conservative morals in a campaign that promoted overcoming the divisions of the past in order to make Chile prosperous again.⁶⁴ The solutions promoted by Lavín were heavily technocratic, offering to bring technical expertise to bear on all social issues, yet were infused with a strong Catholicism.

Acting in political expediency, and in direct response to Lavín's anti-politics overtures, president Eduardo Frei Tagle's Concertación administration attempted to recapture popular support by reactivating labour code legislation that had been languishing in congress for the previous five years. Concertación strategists hoped the initiative would give a boost to Concertación candidate Ricardo Lagos' presidential campaign by manoeuvring the parties of the right into an overtly anti-worker position and, therein, stripping them of their populist mask. The proposal included a motion to strengthen unions by strengthening the mechanisms that would allow bargaining to proceed above the level of the individual firm. Additionally the proposal would restrain the practise of importing replacement, non-unionised, labour in the event of a strike.⁶⁵ The attempt, however, backfired with business groups quickly mobilising to make a strenuous attack on the proposed changes, arguing that it would be bad for business at a time when the

⁶⁴ cf. Silva 2001: 33-5.

⁶⁵ Angell and Pollack 2000: 369.

course of Chilean accumulation was looking extremely fragile. Ultimately, the government encountered considerable problems in forcing even its own senators to vote for the measure, and proved unable to win the necessary independent votes in the senate. Accordingly, the legislation was not passed.

Despite this failure, the Concertación were able to secure an extremely narrow election victory in December 1999. Ricardo Lagos became the first Chilean president to come from the Socialist Party since Salvador Allende, raising the expectations of some labour activists that a more sympathetic government had arrived. Moreover, whilst the Aylwin and, to a lesser extent, Frei administrations had seen their respective labour reforms moderated as they passed through the post-transition institutional system designed by the military regime, the balance of institutional power had shifted by 2000 and some of the constitutional quirks served to benefit the Concertación, including a new balance of political power in the senate. As Lagos recently noted in an interview with the Financial Times, the government initiatives to make constitutional amendments are much closer to realisation simply because the political right has realised that the constitution served the Concertación.⁶⁶ Notwithstanding the hopes of many, by the summer of Lagos' first year some labour leaders expressed disappointment over a lack of any marked change in the administration's attitude and were frustrated with a perceived lack of receptive ears within the government.⁶⁷ The government itself was dealing with continued troubles following the Asian crisis fallout and was undertaking closed meetings with business leaders over how to reactivate the economy.

⁶⁶ Financial Times, "Chile's Leader Takes Careful Path to Reform", London, 1 October 2001.

⁶⁷ Interviews conducted with union leaders in Santiago, Chile, June 2000 and April 2002.

Intransigence towards the popular constituency, however, was not an option for the new administration. Lagos had placed labour reform high on his election manifesto agenda and the December 2001 parliamentary elections offered a stern test for the Concertación facing the rejuvenated political right. Alongside the spectre of a difficult election battle ahead, the emergence of increased labour and social activism alongside mounting denunciations of labour abuses by both large and small firms from a multitude of domestic and international sources pushed the administration into activity. Of particular note are the May 1st 2001 protests in which some 30,000 workers gathered in Santiago calling for, amongst other things, a general strike to pressure the government into labour reforms. Furthermore, with the government seeking fast-track trade association with NAFTA and free-trade agreements with the European Union, there was alarm over opposition from Western governments and labour organisations concerning the lack of worker rights in Chile. In particular, Canada demanded change as a condition for signing free trade agreements. Lagos himself has been unequivocal that reform was necessary in order to attain social peace:

You have to be competitive and efficient [but] you also have to have a society organised in such a way that it does not have permanent divisions.⁶⁸

The Lagos administration intended to send out a clear message to capitals operating in Chile that the worst abuses would have to stop in order to assure social stability and to continue the momentum of Chile's integration with western trading blocks.

⁶⁸ Financial Times, "Chile's Leader Takes Careful Path to Reform", London, 1 October 2001.

Business leaders in the CPC and the political right, however, did not accept the government's stance and have bitterly decried the initiative. Arguing along standard neoclassical lines, they asserted that reform was not just against the interest of capitals but also that of workers because a more rigid labour market would be reflected in fewer jobs and lower wages.⁶⁹ Such criticisms, however, appeared exaggerated in view of the distinctly moderate tenor of the reforms. From the perspective of the Chilean working class, the 2001 reforms constitute an improvement to the labour code as they offer greater protection against employer abuses by increasing the size of the *Dirección de Trabajo* to better process worker complaints and by raising the monetary fines imposed upon firms involved in illegal labour practises. Moreover, they require employers to create contracts even for part-time workers and extend the coverage of the new code to include previously excluded sectors such as notaries, archivists and conservationists. Nevertheless, the reforms continue to ignore the primary demands of the labour movement that aimed at a fundamental change in the nature of production relations; namely, the unimpeded right to strike and collective negotiation. As such, the reforms represent a continuation and not a break in the regime's labour policy.

In more detail, the new amendments were primarily of a defensive nature, operating on an individualistic and juridical framework rather than through the support and promotion of collective action. They gave individual workers more access to protective mechanisms if their rights are abused, but do not provide the institutional grounds for effective collective action nor for organised labour to become a serious counterweight to the power of employers either at the level of the firm or in the national political ambit. The sole positive measure of the reforms in this latter respect was the lowering

⁶⁹ El Mostrador. "Crece tensión entre Gobierno y empresarios por reforma laboral", 1 September 2001, Santiago de Chile.

of the initial quorums necessary for workers to establish unions within a firm. Nevertheless, the absence of reform in two particular areas is more conspicuous. On the one hand, the continued practise of allowing firms to hire “*rompehuelgas*” (replacement labourers in the event of a strike) severely compromises the potency of industrial action. Furthermore, there is little to stop firms insisting on individual contracts with workers at the moment of employment, contracts which stipulate that striking is not permissible. On the other hand, such factors in turn indicate the weaknesses in the right to collective bargaining, with the locus of collective bargaining confined entirely to the level of the individual firm. The latter is particularly onerous for workers in small firms of fewer than twenty employees who often do not have the strength to challenge the individual firm but enjoy no recourse to sectoral or national level bargaining. More generally, it frustrates the ability of regional and national level labour federations to build stronger organisations and overcome their current political marginality.

Finally, for those in the labour movement and certain members of the Concertación parties hoping to use these reforms as a stepping-stone towards more extensive measures within the Lagos sexenio, Labour Minister Ricardo Solari had a strong rebuttal:

*I believe that at the end of this process we will have a code that will close the discussion and enjoy legitimacy.*⁷⁰

⁷⁰ El Mostrador. “Gobierno presentó 15 indicaciones a la reforma laboral”, 5 September 2001, Santiago de Chile.

Nevertheless, the deliberate boycott of both labour and business leaders from the ceremony marking the passing of the new laws suggested that the issue is far from resolved. Militancy within the CUT continued to gain strength, and culminated in the successful undertaking of Chile's first mass workers' protest in seventeen years on August 13, 2003. The action took the form of a general strike in the public sector, with teachers, health workers and transport workers being the largest groups to participate. Specifically aimed at protesting the poor conditions and low wages throughout the public sector and highlighting the continuing abuses of worker rights under the existing labour code, the CUT claimed that eighty percent of business activity had been stopped in the capital.⁷¹ Although the Lagos administration claimed that the strike was an unproductive anachronism, many within the Socialist party expressed sympathy towards the strike, suggesting that the growing social tension could unravel the increasingly tenuous Concertación coalition.

5. The Social Geography of Growth With Equity

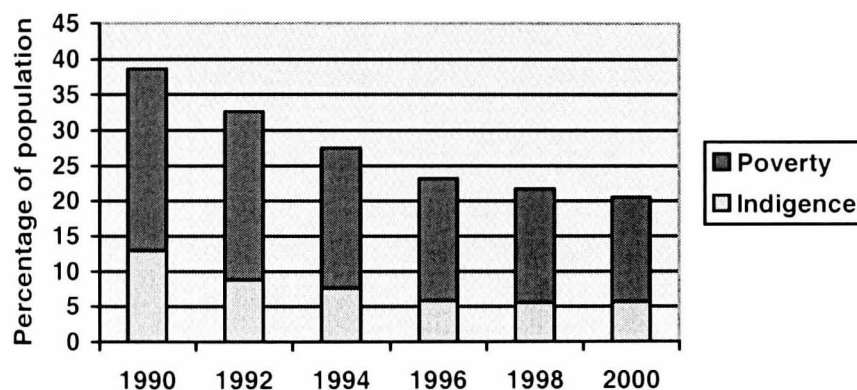
Given the Concertación's role in reaffirming the larger restructuring project of the dictatorship by continuing to integrate state and society into the global circuits and abstract disciplines of capitalist social relations, is not overly surprising that many of the tendencies inherent to the latter have increasingly begun to reassert themselves. Before examining elements of income polarisation and the relative effectiveness of social policies in mediating these tendencies, it is important to address what champions of Chilean neoliberalism have heralded as one of its most marked successes: namely, the reduction of poverty.⁷² With the re-integration of the massively expanded reserve

⁷¹ Financial Times, "Chile Prepares for General Strike", 12 August 2003, London.

⁷² e.g. Aninat 2000.

labour army into the relationship of capitalist work, official poverty levels have declined from the 1990 level of 38.6 percent to just over 20.3 percent in 2000, with extreme poverty declining from 12.9 percent to 5.7 percent over the same period (refer to figure 8:4). This seemingly dramatic reduction, however, represents a return to levels consistent with the longer trend of absolute poverty reduction in Chile over the second half of the twentieth century.⁷³ In this respect poverty reduction during the 1990s represents a success only in respect to the drastically increased levels of poverty induced by the brutal capitalist restructuring process implemented between 1975 and 1985.

Figure 8:4 - Evolution of the Incidences of Poverty and Indigence, 1990-2000.⁷⁴



Moreover, the status of the population immediately above the poverty line is markedly tenuous. As Guillermo Wormald and Jaime Ruíz-Tagle indicate, even in 1996 at the height of the economic boom, 43 percent of the working population earned fewer than two minimum wages, which meant that in addition to the twenty three percent living under the poverty line, a further twenty percent were only tentatively on the 'right' side of the line.⁷⁵ This represents the dependence of the Chilean working class on lowly remunerated employment in the context of a juridical system that structures power relations strongly in the favour of capital. Finally, given that the sharp trend towards

⁷³ cf. Raczynski 1999.

⁷⁴ MIDEPLAN 2001b: 4.

⁷⁵ Wormald and Ruíz-Tagle 1999: 35-6.

poverty reduction occurred only within the boom years of 1990 to 1996, the prevalence of wage poverty of this nature has not improved. By the end of the 1990s, poverty reduction had reached a plateau, indicating the structurally ingrained nature of poverty within Chilean capitalist development.⁷⁶

A further primary element of the Chilean social geography has been the continued and growing polarisation of income distribution. The latter has occurred alongside the positive effects of the Chilean boom in terms of rising aggregate real wages and the re-incorporation of the unemployed masses into the Chilean workforce. It is common for advocates of the Chilean model to present the figures for rising real wages as proof of the virtues of the development strategy (refer to table 8:2).⁷⁷ However, presenting merely the aggregated trends of real wage changes in an undifferentiated fashion clouds the asymmetrical composition of changing wage levels amongst the working class. Over the boom period, the highest wage rises went to professionals and technicians, with the majority unskilled elements of the working class receiving below average wage increases.⁷⁸ This served to increase the stratification of the working class, with considerable divergence in wages related to both the branch of production and position within the vertical division of labour. Such factors led to a consolidation and slight deepening of income inequality within Chile, which remains highly polarised even by the unenviable standards of Latin America. As such, and notwithstanding the Concertación's repeated motif of 'growth with equity', the outcome of the export-led boom was growth coupled with growing income inequality (refer to table 8:4). The

⁷⁶ Also see Fazio 2001 for an analysis of wage poverty and struggles over the value of the minimum wage.

⁷⁷ cf. Chacón 1999: 222.

⁷⁸ Escobar 1999b: 43, 44.

latter is testament to the pervasiveness of the new degree of social polarisation forged within the medium-term restructuring project.

Table 8:4 - Distribution of income by decile, 1990-2000.⁷⁹

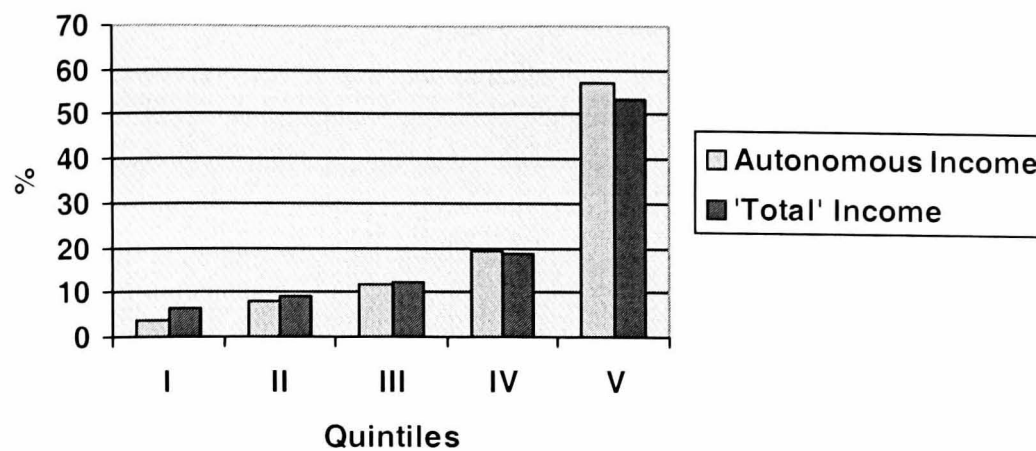
Decile	1990	1992	1994	1996	1998	2000
I	1.4	1.5	1.3	1.3	1.2	1.1
II	2.7	2.8	2.7	2.6	2.5	2.6
III	3.6	3.7	3.5	3.5	3.5	3.7
IV	4.5	4.6	4.6	4.5	4.5	4.5
V	5.4	5.6	5.5	5.4	5.3	5.7
VI	6.9	6.6	6.4	6.3	6.4	6.5
VII	7.8	8.1	8.1	8.2	8.3	7.9
VIII	10.3	10.4	10.6	11.1	11.0	10.5
IX	15.2	14.8	15.4	15.5	16.0	15.2
X	42.2	41.9	41.9	41.6	41.3	42.3

Unsurprisingly, in view of its pledge to fashion a more equitable Chile, the accentuated degree of social polarisation has resulted in political problems for the Concertación. As is discussed in the previous chapter, one of the primary challenges facing the Concertación within its ‘Growth with Equity’ strategy was to try and mediate the implications of social stratification and the persistence of poverty through social policy initiatives. The targeting of social expenditure within this process has certainly been to the benefit of the bottom four deciles of income earners. As MIDEPLAN (Ministry of Social Planning) vigorously specifies, if the distribution of social expenditure is quantified in pesos and added to household’s autonomous incomes according to quintiles of wage earners, average household in the bottom quintile of wage earners receives a social service value equivalent to almost 85 percent of its conventional income (refer to figure 8:5).

Figure 8:5 - Distribution of Autonomous and ‘Total’ Income by Quintile, 1998.⁸⁰

⁷⁹ MIDEPLAN 2001a: 23.

⁸⁰ MIDEPLAN 2000: 52. Whilst ‘autonomous’ income is market gained, ‘total’ income includes the peso value of education, health and monetary transfer services received from the state.



Even leaving aside the issues raised in the previous chapter, which indicated how the poorest sections of society benefited most from government health and education spending by default owing to their inability to join the vastly superior systems of private provision, there is an immediate problem with the rosy picture of targeted social spending that MIDEPLAN presents. This is related to the precise expenditures that the Concertación has chosen to include and exclude from the exercise. Specifically, the figures are fundamentally prejudiced by the removal of pension expenditure. While the provided statistics include the state assistance pension, which predominantly benefits the bottom two quintiles owing to their systematic exclusion from the privatised system, the state's expenditure in topping up private pensions that fall below the subsistence minimum and its still substantial provision of public pensions is not included. Given that pension provision still accounts for forty percent of state social spending, including these more regressive forms of expenditure that result from the irrationalities of the privatised pension system would have radically altered the progressive description of expenditure presented above.

To end, one further justification and projection of the Concertación's greater social expenditure was that new productive activities should be encouraged that promoted labour processes with greater value added and, hence, necessitating a more skilled and

able workforce. The result of such transformation could be a structural change in Chilean employment to a more productive and highly remunerated position within the international division of labour. In this way, investments in basic services were heralded as a positive step in fomenting a better skilled labour force with increased human and social capital that in turn would enable the shifting of the productive structure of the economy, hence mediating the dependence of the majority of the working class on low-skilled, low paying employment.⁸¹ As detailed above, however, whilst the Concertación has consistently endorsed a switch to a second phase export strategy that would have less dependence on unmodified primary materials, capital – domestic and foreign – has been far less willing to follow suit. The long-term implications of this failure to create new competitive advantages within the global division of labour are considerable given the trends towards deteriorating terms of trade for Chilean products, not to mention the potentially devastating environmental impacts and non-sustainable nature of primary product reliance.⁸² Whilst during the period of productive boom, between 1990 and 1997, such gloomy prognoses were easily ignored; the emergence of sustained crisis and relative stagnation since 1998, however, has made them of paramount political import.

6. The ‘Chilean Model’ and Future of Capitalist Development in Chile

Within the context of a dramatic expansion in the mass of capital, until the mid-1990s the Concertación was relatively successful in its political strategy of leaving production relations to follow the trajectory forged in the Pinochet period whilst championing its activities in the sphere of distribution. This involved a struggle-driven consolidation of

⁸¹ Raczynski 2000: 131.

⁸² cf. Claude 1999.

the institutional forms of regulating the capital-labour relation into a heavily 'flexibilised' form that closely approximate the World Bank's best-practise model and which the Financial Times labels as Latin America's "most modern labour code".⁸³ Common to both the Concertación and the World Bank, therefore, is the priority to fashion the institutional parameters of capital-labour relations in a form that facilitates the flexibility of capital to exploit on national and global scales. Although this facet of reform is often obscured in the discourse of both institutions that prefer to place attention upon the active mediation of the state through social policies, it is nonetheless a fundamental aspect of these strategies in an era of overaccumulation on both national and global scales. However, whereas the ideological strength of neoclassical theories of labour flexibilisation rest upon the notion of the harmonious interaction of individuals with different factors of production, the direct experience of deepened exploitation within Chilean production relations has sharpened conflicts between workers and employers within firms and also between the organised working class and the state.

Concurrently, the emphasis placed upon the Concertación's expansion of social expenditures masks deep-rooted structural problems within service provision that and calls into question the World Bank's enthusiastic promotion of partial privatisation linked to decentralisation, targeting and anti-poverty policy. These factors emerge with respect to both anti-poverty policy and wider forms of social provision. As returned to in the following chapter, the form of anti-poverty policy encompasses a complex interaction between the imposition of social disciplines and the amelioration of the conditions of social reproduction. The FOSIS anti-poverty programme ultimately seeks

⁸³ Financial Times, "Chile Prepares for General Strike", 12 August 2003, London.

to consolidate the material conditions of the extreme poor in order that they can become part of the working poor involved in a hyper-flexibilised labour relation with capital.

Secondly, the dualization of service provision in health and education has served to reinforce the role of the cash nexus in social reproduction, therein reinforcing the polarisation of Chilean society. Whilst the increased expenditures made available by the Concertación have provided distinct improvements in the quality of certain services as compared to the Pinochet era, the resources for this limited distributive strategy have become increasingly tight with the Chilean boom of the early and mid-1990s giving way to a recession and relative stagnation at the turn of the millennium. This has been reflected in growing pressure upon the Concertación regime to shirk its commitment to fiscal responsibility and to continue expanding social programmes despite budgetary constraints. It has also been reflected, however, in a rising popular awareness of the limits to distributive mediation within the confines of the present development trajectory and a strong movement aimed at a more fundamental reform of production relations. Such awareness manifested itself, as detailed above, in increasing political pressure upon the Concertación to initiate further reforms to the Labour Code, alongside an increasingly active and vocal labour movement. The motion to establish a form of “politics within limits” that lay at the heart of Growth with Equity is increasingly being faced with a populace that is less willing to accept the limits of the current form of social relations.

In reaction to these tensions, in 2002 the Concertación government – despite internal fissures within the constituent parties – declared itself to be firmly on the side of fiscal responsibility, with President Ricardo Lagos recently rebuffing the calls for greater social expenditure and announcing the fallacy of such proposed increases as a recipe

for “bread today, hunger tomorrow”.⁸⁴ Nonetheless, the prospect of continued economic stagnation, shrinking electoral support, the growth of the populist right, disjunctures within the Concertación coalition, and increasing social discontent all promise a stern test for the Concertación’s attempt to sustain their particular brand of neoliberalism. One possible scenario is a leftwards movement within the coalition towards an attempted deepening of the “growth with equity” strategy, perhaps consolidating around a pre-election attempt at a more thorough labour reform. A second real possibility, however, is the breakdown of the coalition and the election of a government from the political right for the first time since the downfall of the Pinochet dictatorship.

Within the World Bank, however, escalating contradictions at a global level have prompted, amongst other responses, a deepening of its engagement with the notions of participation and empowerment explicit in, for example, the FOSIS programme. This transformation is the subject of the following, and final, chapter.

⁸⁴ El Mostrador, “Reformas Sociales”, Santiago de Chile, 15th April 2002.

CHAPTER 9: IN CONCLUSION – THE CRISIS OF RESTRUCTURING AND THE EMERGENCE OF “COMPREHENSIVE DEVELOPMENT”

1. The Rise of ‘Comprehensive Development’

The results of rapid and widespread social restructuring across the South disappointed the expectations of World Bank staff and client governments alike, many of which had imposed reforms through political authoritarianism and widespread repression of adversely affected interests. The destructive side of the experiment was apparent enough in the “lost decade” of development and the enormous human costs of adjustment.¹ Less evident in this period, however, was any stable or sustained improvement in economic or social indicators in most of the global South, a factor reluctantly conceded by the World Bank.²

Moreover, with the emergence of ever-more sophisticated financial infrastructures in the 1980s and 1990s that facilitate the rent-seeking activities of money-capital to operate at a distance far-removed from productive capital (the apparent de-linking of the productive and financial realms) the power of money, as alienated labour in its most fetishised and dominating form, has been ever deepened. During the 1980s an expansive infrastructure for the global movement of finance capital was forged, therein heightening the ease of global capital mobility and the pressures upon national states inherent in the threat of the escape of capital in its money form from unsatisfactory conditions.³ The institutionally facilitated global movement of money capital tightens the pressures upon states to subordinate various forms of intervention to the logic of

¹ e.g. Chossudovsky 1996; Altimir 1998.

² World Bank 2001a: 64.

³ Holloway 1995b; Soederberg 2002a.

investment profitability whilst concurrently developing new forms of intervention to actively promote the conditions for accumulation. Moreover, the requirements to establish “international” standards for business are given tangible form by the lists of directives for realising good corporate governance offered by the World Bank, IMF, World Trade Organisation and other international organisations.⁴ As the Bank elaborates:

*Private capital flows now dominate official flows in the world, but they reinforce positive economic developments, either neglecting or punishing countries with weak economic conditions.*⁵

However, despite the belief that global monetary disciplines would secure an era of harmonious prosperity, the 1990s were instead marked by the spectre of intense financial volatility that brought drastic economic and social devastation to many of the Bank’s most acclaimed success stories (e.g. Mexico 1995, S.E. Asia 1997, Argentina 2001). Elsewhere in the global South, the promised rewards of structural adjustment largely failed to materialise. In contrast to the world of prosperity under the tutelage of liberated market forces, as predicted by the ideologues of the Washington Consensus, two decades of neoliberal restructuring were widely recognised as being characterised by profoundly uneven development, including increased poverty and inequality at the global level.⁶ This included the stagnation of Latin America and regression of sub-Saharan Africa, two regions that most dramatically implemented neoliberal forms of

⁴ Soederberg 2003c.

⁵ World Bank 2001b.

⁶ Moreover, the number of people in the world living in conditions of extreme poverty rose considerably in the 1980s and continued a more moderate upward trend in the 1990s. The relative proportion of the population in extreme poverty also rose during the 1980s, but fell moderately in the 1990s, largely due to the influence of China and India; World Bank 2001a; Milankovic 2003.

restructuring, on a wide spectrum of development indicators.⁷ Unsurprisingly, the failure of structural adjustment to realise generalised and sustained growth, alongside successive and devastating financial crises in the 1990s, severely dented the legitimacy of the Washington based institutions and the neoliberal paradigm of structural adjustment, with the former increasingly denigrated by a range of social actors. The latter include former insiders and emergent global social movements, but also the forces of the political right in the US, including the constant propositions to downscale, disband or privatise the Bank.⁸

Under these circumstances, the latter half of the 1990s was one of pronounced change in the discourse and policy prescription of the World Bank. In a series of speeches and publications the Bank began to outline a new development philosophy that, in contrast to the previous focus on freeing markets to achieve rapid and sustained economic growth, posits a “holistic approach” to development that balances macroeconomic with structural, human and physical development needs.⁹ In order to realise this vision, the World Bank claimed, not only would the aims of development practise have to be revised, but a substantial overhaul of the relationships between international development agencies, client governments, civil societies, and the development community at large would also be necessary. In short, the existing form of the

⁷ Pender 2001. Inequality both between North and South and within Southern countries has escalated dramatically, thereby undermining the neoclassical prediction of a general convergence of wages and wealth amongst national states in conditions of open trade. cf. Sutcliffe 2001; Nederveen Pieterse 2002; Weeks 2001.

⁸ Such discussions were given tangible form by the Meltzer Commission at the close of the 1990s. For an excellent examination of different notions to reform the Bank, cf. Pincus and Winters 2003. In this respect, the Bush administrations creation of the ‘Millennium Challenge Account’ and its reformulation of lending to heavily indebted poor countries is of significant importance; cf. Soederberg 2003b.

⁹ Wolfensohn (1999) contains the initial proposal for the Comprehensive Development Framework. The World Development Reports of 1999/2000, 2000/2001 and 2002 (World Bank 2000a, 2001a, 2002) elaborate in greater detail the substantive content of development practises that are to occur within this framework.

international governance of capitalist development in the global South would have to be refashioned.

To this end, in 1999 Bank President James Wolfensohn unveiled a new and holistic development agenda known as the “Comprehensive Development Framework” (CDF). Three immediate transformations from previous Bank practice were made explicit. Firstly, the basis of the CDF’s holistic approach is a broadening of the Bank’s development agenda to ensure that all country-level borrowing agreements cover a wide and systematically elaborated range of concerns. Consistent with the ontological foundations of the new paradigm, a whole range of social and institutional reforms need to be realised in order to complement existing macroeconomic adjustments. Secondly, the CDF envisages a series of procedural changes to Bank operations. These include national government ownership of programmes alongside participatory forms of producing development strategies at the national and subnational levels. Under the provisions of the CDF, the involvement of all relevant stakeholders is required in the deliberation and creation of World Bank sponsored development policies and programmes.¹⁰ Third and finally, the implementation of programmes must involve the active participation of the recipients.¹¹ Provocatively, the World Bank now professes a development mandate to *empower* poor people in order that they are able to lift themselves out of poverty. In the words of James Wolfensohn, development is no longer to be done *to* poor people but *by* them.¹²

In this respect, the emergence in the late 1990s of “Comprehensive Development” and associated policy changes is best understood as driven by a combination of lost

¹⁰ IMF / IDA 1999.

¹¹ World Bank 2001a.

¹² Wolfensohn 2001: 4.

legitimacy and the tangible need to address the failure of development programmes in the South. Without doubt, the CDF rests on a heavy degree of populist rhetoric, including the invocation of catchwords such as “empowerment”, “partnership” and “ownership”, which are aimed to disarm critique from antagonistic global social movements and internal dissenters. Likewise, the shift in emphasis to poverty-reduction is clearly a central axis in the global legitimation of the IMF and World Bank at the turn of the millennium.¹³ At one level, the promise of ridding the world of poverty is endowed with greater legitimising potential than the mission of promulgating an increasingly questioned array of neoliberal economic fundamentals, even if the prescription to achieve the former still involves a heavy dose of the latter. At another, the pledge to do so through participatory and country-owned procedures also seems to address a second primary criticism of combative international social movements that emphasised the externally imposed nature of structural adjustment programmes.

Comprehensive development, however, represents far more than an instrumentally designed ideological gambit. That the Bank is actively attempting to find ways to reinvent its practices is an indication of the degree to which alternative policy packages need to be developed in face of growing contradictions in the global South and the political repercussions that these instil.¹⁴ Market-driven restructuring brought a heightening of the conflictual tendencies inherent to capitalist social relations and, in contrast to the projected death of conscious development strategy in face of abstract market forces, has induced strong pressures upon national states to actively intervene in the relations of social reproduction. In this manner, from the late 1980s governments

¹³ The degree to which the discourse of poverty reduction has pervaded the day-to-day operations of the leading international financial institutions is aptly captured by one World Bank researcher who suggested that: “The poverty issue is so red-hot that IMF and World Bank staff began to feel that every action inside these organizations, from reviewing public expenditure to vacuuming the office carpet, should be justified by its effect on poverty reduction”, Easterly 2001: 4.

¹⁴ Petras et al. 1997 presents a range of struggles raised by structural adjustment in Latin America.

across the global South have faced the recurrent necessity of reinventing structural adjustment policies in order to address issues of governability in a period of escalating social polarisation. A major trend in Latin America, for example, has been to introduce various forms of “neoliberalism with a human face”, many of which foreshadow the World Bank’s current discourse by almost a decade, including the Chilean “Growth with Equity” strategy.¹⁵ Such strategies have involved increasingly innovative attempts at modifying social policy and institutional forms in order to mediate the social struggles engendered in the conflict-ridden project of societal restructuring.

In short, it is precisely the failure of restructuring to achieve the cohesion necessary for the sustained reproduction of capital by dissolving the basis of struggle that has prompted states in the South to readdress their forms of intervention. Concurrently, it is in no small measure as a response to the struggle-driven course of policy change in the South that the Bank, alongside the IMF, has been hurried into a prudent strategic realignment. To a great extent, therefore, the World Bank is seeking to reinvent its role in the governance of global capitalist development in accordance with contemporary changes in the global development of class relations. This has involved a change in the operating practises of the Bank in order to project a renewed relevance of Bank doctrines to the concrete problems faced by governments in the South, a process that has culminated in the adoption of the principals of comprehensive development, the renewed emphasis on poverty reduction as the central aim of all Bank activities, and the production of guidelines on the restructuring and regulation of an ever-wider array of social relations.

¹⁵ Social policy restructuring in Mexico (PRONASOL, PROGRESA) and Chile (FOSIS) are prime examples of innovative social programmes designed to disarm social struggle and more effectively manage social polarisation initiated alongside retrenchment of traditional welfare programmes.

2. Comprehensive Development within the Aegis of the Poverty Reduction Strategy Papers

The introduction of the Comprehensive Development Framework as a model of development practice has been achieved through remodelling of structural adjustment lending by the IMF and World Bank under the new motif of “Poverty Reduction Strategy Papers” (PRSPs). According to the IMF, these new policy documents have replaced the older Structural Adjustment Facility (SAF) as the primary means of organising borrowing agreements to low-income countries in order to promote broad-based growth and reduce poverty.¹⁶ They envision a clear yet complementary division of labour between the IMF and World Bank, a relationship that World Bank President James Wolfensohn referred to as “breathing in and breathing out”.¹⁷ For its part, the IMF has proclaimed its need to “focus conditionality on those policies that are critical to achieving the macroeconomic objectives of the programs supported by the Fund” whilst engaging with a “clearer division of labor with other international institutions, especially the World Bank”.¹⁸ This new formulation of conditionality and task-division is a reaction to criticism of the ineffectiveness of conditionality that had been growing during the 1980s and 1990s.¹⁹ Within this division of labour, therefore, the practice of cross-conditionality that emerged in the debt crisis period has been given a tangible and more clearly formulated existence. Whilst the IMF will concentrate on a familiar range of macroeconomic policies and objectives, albeit with each reform rationalised in terms of its projected effect on poverty reduction, the World Bank is now responsible for overseeing the “social and structural” policies of participating countries. It is for

¹⁶ IMF 2002b.

¹⁷ Wolfensohn 1999: 2.

¹⁸ IMF 2001.

¹⁹ cf. Killick 1995.

performing these functions within the formation of national PRSPs that the World Bank has unveiled the CDF.

The CDF represents an operational guide, or management tool, for this purpose. On the one hand, it offers four guiding principals for all development practice. On the other, it stipulates fourteen areas of “social and structural” policy that must be addressed in all national development programmes. The four stated operational pillars are: 1) an emphasis on long-term vision and strategy, 2) enhanced country ownership of development goals and actions, 3) more strategic partnership amongst stakeholders, and, 4) accountability for development results.²⁰ Substantively, “social and structural” policies are to be formed with respect to the World Bank’s new development ‘matrix’ that identifies and delineates all the policy areas that must be addressed. To this end, the matrix specifies fourteen areas that the Bank suggests comprise the hitherto undervalued institutional, human and physical dimensions of development strategy. These areas range from “good governance” and the rule of law, through to social safety nets, education, health, rural and urban strategies, and environmental and cultural dimensions.²¹ Together, they form an ambitious policy agenda covering a holistic range of issues that broadens the scope of policy and institutional reform well beyond the original locus of state fiscality, interest and exchange rates, and trade liberalisation. As such, the CDF reflects a comprehensive delineation of World Bank priorities regarding the course of social development strategy. The frontrunners in this new Bank strategy were thirteen diverse but heavily indebted countries that produced PRSPs along CDF guidelines in 1999 in order to receive debt relief from the Bank. By January 2002, however, at least forty-two countries were either implementing or

²⁰ cf. World Bank 2000b.

²¹ Wolfensohn 1999: 5-10.

formulating PRSPs and it is the stated objective of the IMF and World Bank to make all lending agreements follow the PRSP/CDF template.²²

3. Empowerment and Country Ownership: Conditionality Reformed?

As noted above, one of the principal pillars of the CDF is the concept of enhanced country ownership. According to Bank president James Wolfensohn, in contrast to former development programmes that were crafted by international agencies such as the Bank and IMF, ownership entails that:

*Countries must be in the driving seat and set the course. They must determine the goals and the phasing, timing and sequencing of programmes.*²³

Furthermore, ownership is suggested to mean that the policies formed within the framework of the PRSP must find their initiative in the country itself, through a partnership between elements of the government, civil society, private sector and international development community, and not solely in the World Bank. For this second generation of reforms to be truly effective, the Bank argues, reforms must not be centrally imposed but require the support of all affected social groups. Hence, although the World Bank has taken the lead in forming the Comprehensive Development Framework, it insists that the design and ownership of the policies formed within its matrix by the participating country is essential for success.

²² Craig and Porter 2003: 54.

²³ Wolfensohn 1999: 5.

However, given the emergence of the CDF/PRSPs as part of an effort to readdress the effectiveness of conditionality agreements, the bold assertion that each participant country needs to 'own' its programme, and the implications of autonomy that this connotes, appears as a particularly incongruous aspect of the Comprehensive Development Framework. The notion of "ownership" is taken directly from business-management science where it has been developed to improve the commitment of employees to firm projects.²⁴ In short, the practises associated with "ownership" are constituted within complex power relationships, in this case between international finance provider and national governments. On the one hand, ownership explicitly aims at improving the efficiency of programme designs through a specialisation of functions. As noted above, the elaboration of a PRSP necessarily involves acceptance of the larger framework of economic liberalisation established by the Washington institutions. Beyond this, however, ownership provides the grounds for national governments to take the lead in establishing social and structural programmes with respect to local conditions and idiosyncrasies that they would be in a privileged position to understand.

On the other hand, the concept of ownership also belies a transformation and, feasibly, an extension of conditionality. Since both the IMF and World Bank directorships must vet all development programmes before funding is approved, it is highly improbable that the broad trends of the development strategy will be allowed to diverge far from Bank and Fund orthodoxy. On the contrary, given the wide propagation of what the Bank considers to be "best development practise", national governments are expected

²⁴ Cooke 2003.

to internalise these lessons in order to receive funding.²⁵ In this manner, ownership could be considered as a kind of “Trojan horse” through which Bank inspired doctrines are adopted by countries without need of direct tutelage and with a greater room for their creative adaptation to local circumstances.

Behind the World Bank’s emphatic pronouncements of ownership, participation and shared responsibilities, however, there is an essential and very real manner in which country ownership is genuine. This is the manner by which governments are to proceed with implementation at a pace in accordance with the generation of compliance and participation from civil society and private sector groups. In effect, the national government has to ensure that the political conditions for implementation exist, and, as such, the onus of ownership falls upon the leadership role of the national government. In the terminology of the Bank’s Operations Evaluation Department, national governments must seize the “locus of initiative” to ensure that key policy makers are intellectually convinced and that there is evident public support.²⁶ Specifically, the World Bank suggests that policies formed within the ambit of the Comprehensive Development Framework must be subjected to a process of national dialogue between all relevant stakeholders. These not only include the World Bank, IMF and national government, but private sector and civil society organisations as well.²⁷ This “hands off” approach to the implementation of programmes by the Bank presents national governments with the obligation to discipline both themselves and various component interest groups in order to receive development finance. Whilst the Bank remains at

²⁵ Consider, for example, the New Partnership for African Development (NEPAD) initiative to attract G8 financing. Although ostensibly an autonomous product of African nations, it was nonetheless systematically couched in World Bank buzzwords and best-practise models, and pledged a full commitment to continue the forms of macroeconomic restructuring that have delivered no reprieve from stagnation for the continent in twenty years; cf. Sender 2002.

²⁶ World Bank 2003c.

²⁷ Wolfensohn 1999.

arms length, able to provide specific guidelines to best practise and the funds to carry out operations, this new division of labour places the functions of consensus generating in the hands of the domestic government. As the Bank affirms:

The whole framework rests on the premise that the Bank need not lead – or even be involved – as long as the process produces the desired results.²⁸

In the World Bank's vision of the PRSP formation process, the private sector, civil society, national and regional governments and the international agencies would all have an equal opportunity to put forward their particular views on different aspects of the system. The projected *raison d'être* for this participatory form of deliberation is one of efficiency, which relates to the division of expertise that, as noted above, frames the concept of ownership. A shift towards more participatory development projects had begun in the 1980s as a response to recognition that externally imposed and technocrat-orientated forms of research and implementation showed serious shortcomings.²⁹ Participatory development, therefore, is based on the principle that recipient groups and poor communities are in a privileged position to know their own needs, allowing accurate information regarding the kind of micro-projects necessary to promote capitalist development to float upwards through the deliberation process. This is intended to lead to better-targeted projects that will have greater chances for success. Moreover, given their common role as equal participants in the programme design process, the Bank intends that recipient groups will view projects as having greater legitimacy and will also act in order to facilitate programme realisation.

²⁸ World Bank 2000b: 1.

²⁹ Cooke and Kothari 2001: 5.

Like many Bank conceptualisations, however, this vision is shrouded in a model of harmony that, as noted by Else Øyen, is “seducing in all its good will and buzzwords of partnership, sharing of social capital, equality and acceptance”.³⁰ The latter masks the problematic nature of power relations that permeate the process. On the one hand, the assumed equality of voices ignores the vast inequalities in material and political power that enable privileged groups to exercise a profound influence over deliberations and implementation. Alongside its own power vis-à-vis client countries, the World Bank’s discourse conveniently ignores deeply imbedded national power structures that profoundly condition the process of political decision-making. Secondly, even within these curtailed possibilities for political pluralism, as in all good management practises derived from business studies, the realm of influence of subordinate groups is clearly and precisely delineated to particular micro levels. The modes in which subordinate groups can participate are all shaped at the level of the World Bank and national policy elites and they enter the “national dialogues” that are intended to precede PRSP formation on these terms. Within the framework of the PRSPs, which separate the IMF’s focus on macro-economic policy from the World Bank’s social and structural policies undertaken within the CDF, fundamental issues such as trade liberalisation, privatisation and other macro and structural policies are partitioned off from pluralist deliberation at a prior level. This follows the trend witnessed throughout the neoliberal period of removing key decisions (monetary policy aimed at price-stability is in example par excellence) from the ambit of politics and placing them in the realm of technocratic decision making, such as an independent central bank. At issue is the containment of inherently political issues behind a façade of rationally-grounded neutrality.

³⁰ Øyen 2001: 3.

Emerging empirical case studies provide support for an interpretation of ownership and partnership as a contradictory attempt at incorporating diverse social groups into a tightly constrained realm of decision making in order to promote both efficiency and legitimacy. One report made at the request of the IMF and World Bank in Bolivia – an initial test case for the PRSPs and CDF – suggests that in the political process of debating the CDF programmes, the poor were represented through proxy by sympathetic figures from the established political system, rather than by democratically selected community groups or figures. Moreover, the latter were not permitted to address the issues of economic and political reforms, but were merely invited to express opinions on technical aspects of social programme form and implementation. Many participants, however, expected that they would not just have a voice in the process, but a vote too. As one official put it, “the public could become frustrated and highly sceptical of this type of consultation”.³¹ Similarly, the “Partnership for Governance Reform in Indonesia”, initiated through the World Bank, United Nations Development Program, and the Asian Development Bank in October 2000, was also meant to operate according to the principals of partnership between all stakeholders. However, civil society groups were marginalized within the reform process, with strong governmental and private sector representation concretising existing power structures within the deliberations. Of particular note is the systematic exclusion of any trade union voices despite the latter’s recognised role in the democratisation struggles of the late 1990s.³²

Such accounts reinforce the critique of the Bank’s usage of participation offered by M. Aycrigg, who states that:

³¹ Cavero et al. 2002.

³² Crawford 2003.

*Many project examples could be cited in which primary stakeholders were consulted as to project components or implementation strategy, but did not participate in the identification / selection of project components. Yet these projects are still referred to as participatory.*³³

The extremely constrained nature of pluralism in the operational form of the CDF/PRSPS is indicative of a wider political unwillingness and theoretical inability to conceive of power relations in the framework of the Bank's worldview. Presently, however, the chapter moves away from analysing the *form* of World Bank relations with client countries to examine the substantive *content* of the new development philosophy and some of its practical policy implications.

4. Freeing the Global Market

A critical assertion of the World Bank is that the range and breadth of the areas for reform in their CDF/PRSP approach to development represent a marked improvement on the prior "Washington Consensus" model.³⁴ According to the Bank's interpretation of its own history, the former focused too stringently upon macroeconomic issues and neglected other institutional and policy areas that are key for the achievement of sustained growth and poverty reduction. In this respect, the World Bank is tacitly acknowledging that its previous approach, resting upon an overriding concern for neoliberal macroeconomic management, has proved inadequate. In contrast, the new

³³ Aycrigg 1998: 19.

³⁴ cf. Gilbert and Vines 2000.

approach rests heavily on the theoretical basis of the “institutional turn” in neoclassical economics, as typified by Joe Stiglitz (chief economist at the Bank between 1997 and 2000) and others such as Douglas North.³⁵ From this perspective, property rights, sound money, fiscal solvency, market-oriented incentives remain necessary aspects of a growth strategy, but their sustained achievement involves a high degree of institutional development appropriate to local circumstance. In the words of Joe Stiglitz:

*Trying to get government better focused on fundamentals ... is a vital step. But focusing on the fundamentals is not a recipe for a minimalist government. The state has an important role to play in appropriate regulation, industrial policy, social protection and welfare.*³⁶

The theoretical basis for this reassessment of neoclassical principals is located in a modified interpretation of the underlying assumptions of the former. Recalling the quote from Milton Friedman in chapter one, all consensual exchanges under conditions of adequate information are mutually beneficial. Unlike the neoclassical tradition, however, Stiglitz and associated economists emphasize the imperfect nature of information as being a pervasive feature of market transactions:

*Incomplete information, incomplete markets, incomplete contracts are all inevitable features of the economy in general and the financial system in particular.*³⁷

³⁵ cf. Ankarloo 2002.

³⁶ Stiglitz 1998: 125.

³⁷ Stiglitz 1998: 14.

In practise, therefore, Stiglitz's reformulation of the Washington Consensus into the post-Washington Consensus that is savvy to the insights of information-theoretic economics involves a fuller role for the state in promoting efficient regulatory institutions that can prevent informational failures.³⁸ It is precisely the existence of imperfect information that necessitates state action – not to undertake the functions of markets, but to provide a sound regulatory environment that can mitigate informational imperfections. In this manner, as the World Bank echoes:

*The efficiency of markets, which are themselves institutions, depends on the strength of supporting institutions that help align the expectations of agents regarding the procedures that govern their transactions.*³⁹

Nonetheless, despite these revisions, the primary ontological assumptions of neoclassical economics remain. First and foremost, as Ben Fine has demonstrated, methodological individualism remains the assumption of the post-Washington Consensus formulation. Consequently, the new framework retains the basis of a perfectly competitive market composed of rational self-maximising individuals, yet charts how information imperfections impose deviations from this state. As such, the post-Washington Consensus model understands the capitalist economy as a “construct of imperfectly informed individuals, imperfectly co-ordinated through the market place”, a neat reduction which enables all other analytical principles to be ignored.⁴⁰ Even questions concerning explicit power relations, never mind the abstract forms of

³⁸ The most explicit statement of this influence in the Bank is the World Development Report 2002: “Building Institutions for Markets” (World Bank 2002).

³⁹ World Bank 2000a: 22.

⁴⁰ Fine 2001b: 7.

domination that structure capitalist society, remain absent. This leads to an overriding fundamental assumption – that if measures are taken to mitigate information imperfections, the heart of the liberal ideal of a world composed of rational utility-maximising individuals engaged in harmonious exchange relations can be retained.

To the extent that the Bank has embraced them, the post-Washington Consensus arguments provide not only a modified theoretical basis for policy formation, one that attempts to chart new ground in the state versus markets dichotomy integral to debates over neoliberalism, they can also serve as an rationalization of the dismal historical record of the Washington Consensus in achieving its projected aims. As Dani Rodrik quips, “sound economics has too often been delivered in an unsound form”.⁴¹ Indeed, if all “developing countries” were ordered according to economic performance and poverty reduction, then those countries with the strongest adherence to the major tenets of the Washington Consensus (many Latin American countries and some in Africa) would be placed far down the list. In contrast, those countries heading the list (East and South-East Asia, China and India) have, in different ways, deviated widely from the Washington approach.⁴² This divergence, however, can now be explained on the basis of information-theoretic economics as the failure of the former to provide an adequate institutional framework that would have allowed neoliberal-style reforms to succeed.

Consequently, the large discrepancy between theoretical projections of neoclassical economics and ugly reality of crisis and stagnation in the structurally adjusted South does not entail that Bank fundamentals or their ontological presuppositions are incorrect. On the contrary, as James Wolfensohn stipulates, neoliberal macroeconomic

⁴¹ Rodrik 2003: 12.

⁴² Rodrik 2003.

management still constitutes “one side of the development coin”.⁴³ In this way, the macro-economic fundamentals espoused by the Bretton Woods institutions throughout the 1980s and early 1990s, predicated on the imposition of the discipline of fiscal prudence onto the practises of the national state whilst removing political constraints to the external movement of capital and commodities (“free markets, sound money”), remain at the heart of the new development corpus. Hence, the Bank proclaims that its economic fundamentals remain correct:

*Some economic policies – such as openness to international trade, sound monetary and fiscal policies (reflected in moderate budget deficits and the absence of high inflation), a well-developed financial system, and a moderately sized government – are strongly conducive to economic growth.*⁴⁴

This remains the lynchpin of the Bank’s strategy as they stipulate that economic growth to be stimulated through market liberalisation is “systematically associated” with development and poverty reduction. To return to the basis of the Washington Consensus policy prescription, it is based on the neoclassical fable that all freely conducted economic exchanges, assuming full knowledge of all relevant information on both sides, will necessarily be mutually beneficial. By definition, therefore, any action that enlarges the realm of possible market exchanges is one that serves to promote the common good by expanding the mass of positive sum games. Hence, in the World Bank’s view, the effects of global liberalisation, in the form of globalisation,

⁴³ Wolfensohn 1999: 1.

⁴⁴ World Bank 2001a: 49. One of the key elements of this macroeconomic framework is the resolute adherence to capital account liberalisation, as laid down in detail in World Bank 2001b and critiqued in Soederberg 2002a.

offer unprecedented opportunities for both the South and the North.⁴⁵ Firstly, integration of Southern economies with the world market offers far wider range of potential exchange relationships. Secondly, it also holds the possibility of increased investment in the form of foreign capital. Both of the former are assumed to result in the development of productive capacity and, therein, material wealth, development and poverty reduction. Finally, integration also imposes further discipline upon governments to make correct policy choices. Insufficiently liberalised economies face neglect by international capital owing to the negative effects of restraints on economic activity. Good policy therefore involves the furnishing of 'sound investment environments' in order to attract capital for productive investment, and hence continue along the path of capitalist development.

For the World Bank, to facilitate the establishment of the full range of institutional prerequisites necessary for a sound investment environment, it is necessary to broaden the development agenda by way of the CDF. What is required is to proceed beyond liberalisation to ensure that the correct institutional forms facilitate the benign operation of market forces. In contrast to the former doctrine of the minimalist state, the new doctrine professes that states need to actively intervene to facilitate and regulate the conditions for free economic exchange, and to correct potential market failures caused by asymmetries of information. The latter are particularly prevalent within the developing world owing to the underdeveloped nature of capitalist relations, and therefore necessitate a much fuller role of the state in establishing institutions that channel information about market conditions, goods and participants than the anti-state bias of initial restructuring models suggested.⁴⁶

⁴⁵ cf. World Bank 2000a.

⁴⁶ World Bank 2002: 8.

As such, the substantive emphasis of comprehensive development is the refashioning of national and sub-national institutional forms in order to compliment and optimise the basic fundamentals of market relations. Subsequently, “good governance”, which in the World Bank’s presentation entails the creation of transparent and accountable institutional forms leading to market-enabling policy content, has become the primary goal of development initiatives in the twenty-first century. In this vein, the “social and structural” reforms that constitute the objective of comprehensive development are necessary in order to allow individuals, and particularly the impoverished sections of society, to take advantage of the opportunities offered by the first generation of macroeconomic reforms. Indeed, with respect to the overarching aim of poverty-reduction, the new strategy rests upon the hypothesis that numerous social and institutional factors obstruct poor people from effectively exchanging assets in markets.

It is not, therefore, market failures that induce poverty, but the failure of poor people to adequately access markets owing to institutional and social impediments such as corruption, discrimination, and political voicelessness. These market imperfections are the result of cumulative human, social and political failures. Consistent with the theoretical impetus of the CDF, any development strategy centred on poverty reduction must aim not only to expand economic opportunities through sound macroeconomic management, but also to refashion institutions and social practises in order to remove the imperfections that impair market exchanges.⁴⁷ In the words of the Bank:

⁴⁷ cf. World Bank 2001a: Chapter 4.

*Societies have to help poor people overcome the obstacles that prevent them from freely and fairly participating in markets.*⁴⁸

Hence, the World Bank's role through the CDF is to foster changes in the social and political frameworks that at current are preventing poor people from freely integrating themselves with markets. The prime factor that the Bank identifies as restraining market access is the relative lack of accountability and responsiveness of state institutions in the global South. Thus the state is to be made more responsive to the needs of the poor, which, as presupposed by the Bank, is free market access and, controversially, the poor are to be "empowered" to make this happen.⁴⁹

5. Good Governance and Empowerment

As a result, within the rubric of 'good governance', public administrations must become efficient, accountable and responsive to users, including the curtailment of corruption and 'harassment'. In this manner, the good governance agenda focuses on creating streamlined and decentralised public sectors that are efficient, accountable and focused on addressing social needs through market-promoting strategies, rather than acting as devices for elite rent creation.⁵⁰ The prominent buzzwords are 'performance incentives', 'rationalisation' and 'modernization'. It is suggested that in nearly every country the public sector often pursues activities that are not socially justified or that create rents for elites, a phenomenon that occurs in two manners. Firstly, the state bureaucracy has tendencies to inefficiency and corruption, features that not only

⁴⁸ World Bank 2001a: 61.

⁴⁹ The issue of empowerment has provoked serious conflicts within the Bank, and between the Bank and the United States; cf. Wade 2002.

⁵⁰ cf. World Bank 2001a, 2002.

undermine the common good but also disproportionately prejudice the poor. Secondly, within governance frameworks that do not provide transparency and pluralist form of participation, social elites are better able to mobilize the distributional functions of the state to reflect their interests, again primarily at the expense of the poor.

The solution within the CDF is a four-pronged good governance strategy that seeks to actively remove all institutional constraints upon market activity and to refashion institutions to facilitate more actively market exchanges. Firstly, liberal-democratic forms of selecting governments through free elections are to be promoted. Where public servants are un-elected, ensuring the existence of incentives to withhold tendencies towards corruption are necessary:

Key incentives include merit-based recruitment, clear specification of tasks, rewards for good performance, and insulation from excessive political pressure. Together with skilled technocrats and close collaboration with the business community, these make up what has been termed 'the developmental state'.⁵¹

Secondly, decentralisation is championed as bringing mechanisms for broad participation into the delivery of public services, and hence minimising the scope for capture by elites. As discussed in chapter five, the World Bank's idea that decentralisation removes service provision from established webs of patronage, however, is based more on hope than any substantial evidence as it ignores the multiple

⁵¹ World Bank 2001a: 100. It is interesting to note how the Bank seizes upon the concept of the "developmental state" but refashions it to remove the original emphasis on active intervention in key economic sectors and reduce it to an idealised vision of "good governance" in which public servants are provided incentives in order to act in a neutral and technocratic manner.

manners by which localised power relations permeate project implementation and service delivery. Given that decentralised and “owned” programmes commonly require local communities to draft their own projects and contribute labour and monetary resources, issues of community power relations are necessarily prominent within this process.⁵²

Thirdly, enforcing the rule of law is paramount within good governance. At first impression, the formal equality of all citizens before the law is clearly a progressive aspect of liberal doctrine, especially considering that poor people have often been victims of a lack of access to legal rights. Nevertheless, enforcing the rule of law – particularly the sanctity of private property – is concurrently a means to ensure the status quo of class relations constitutive of capitalism. This is not formulated as a problem within the World Bank’s theoretical construct of capitalist society, as the latter is premised upon a harmonious model of individual asset owners looking to maximise the benefits of their freely chosen economic exchanges with other individuals.

Methodological individualism, however, serves as a convenient abstraction away from the class nature of capitalist social relations in which the ‘free’ labourer meets the owner of capital, with the latter enjoying privileged control over the means of production through juridically sanctified ownership. The rule of law codifies the contractual relations that constitute the basis of social reproduction in capitalist society – the free and consensual exchange of labour power for wages. Whilst these exchange relations are legally constituted as relations of equivalence, their substance is one of substantive inequality through the extraction of surplus value in production and the appropriation of the material form of this surplus by the capitalist as a quantity of use-

⁵² For example, refer to the discussion in Tendler 2000.

values. In this way, through the defence of private property the rule of law protects both the rights of labour and capital to contract free from coercion, as emphasised by the World Bank. Simultaneously, and ignored by the Bank, however, it protects the claim of the capitalist to the yield of the production process.⁵³

In conjunction with the ‘good governance’ doctrine, comes “empowerment”. According to the World Bank, empowerment is a process whereby the poor are politically mobilised to aid the process of state and social institution reform in order to reduce the bureaucratic and social constraints on economic activity and upward mobility.⁵⁴ Pro-poor “coalitions” are to be encouraged, which involves the state providing the conditions under which the interests of the poor and non-poor can be linked in the form of political associations (or, in the World Bank’s formulation “enhancing the perception of common interests between the poor and the nonpoor”).⁵⁵ The manner by which this is to be achieved is threefold: first, through promoting democracy and the rule of law; second, through reducing informational asymmetries via education and ensuring the transparency of government actions and decision making; third, through technical assistance to civil society groups that can help form “pro-poor coalitions”.

Integrally entwined into the Bank’s empowerment, however, are a range of disciplines. In the Bank’s vision, poor people are encouraged to form pressure groups that can act as a countervailing power against corruption and elite rent seeking through state manipulation. Corruption is seen as a particular problem as it can serve to restrain the development of capitalist social relations as special interests either siphon off money or

⁵³ cf. Blanke, Jürgens and Kastendiek 1976.

⁵⁴ World Bank 2001a: 9.

⁵⁵ World Bank 2001a: 109.

block social change that would enable the proliferation of free market exchanges.⁵⁶ Collective action by the poor, therefore, is to be used for applying political pressure in order to guarantee the quality of state services and peer monitoring of their delivery, thereby mitigating the possibilities of development resource capture by elites. Collective action beyond ensuring accountability and a superior quality of service delivery, however, is not welcome. Political movements that might threaten the status quo as enshrined by property rights and the primacy of free markets are symptomatic of poor people who do not recognise their own best interests. In the words of the Genoa report produced by officials from the eight richest countries in the world yet speaking on behalf of the global poor:

*From the perspective of the poor, there are risks that justified concerns about their interests are manipulated to support a return to protectionism.*⁵⁷

A second example serves to illustrate the manner in which empowerment within the Comprehensive Development cannon is constituted within the limits of capital. Given the dependence of poor people upon wage labour – as noted by the World Bank who label the ability to work as poor people’s “most abundant asset”⁵⁸ – the realm of labour and production could be considered a primary area for poor people’s empowerment. However, as systematically elaborated in the 1995 World Development Report, this empowerment is circumscribed within the limits of market conforming behaviour. Building from the theoretical postulate that trade liberalization may not reallocate resources appropriately if the labour markets are insufficiently ‘flexible’, the World

⁵⁶ However, see Kahn 2002 for the limits of this perspective.

⁵⁷ G8 2001: 12.

⁵⁸ World Bank 1990: 15.

Bank suggests it is a policy priority to ensure that worker empowerment in no way interferes with the optimal mechanisms of the market. Hence, unionisation – historically a vitally important form of empowerment for those seeking to improve their life conditions – must be constrained within strict limits.⁵⁹

As examined in chapter five, the World Bank suggests that a tight correlation between the needs of the firm and its workforce must be forged by restricting any forms of collective negotiation above the level of the firm. Concurrently, free market reforms must create a framework of full competition between firms. By enforcing the discipline of the market upon each individual capital through the pressures of competition, it is intended that a symbiosis will form between workers and firm, as the former would restrict any demands to within the limits of market competitiveness for fear of enterprise collapse and job loss. In short, for the World Bank, market pressures levied upon the individual firm are to be internalised by the workforce, and unionisation must restrict itself to cooperative arrangements to improve efficiency and equity rather than challenge market outcomes. Worker empowerment, therefore, is to be achieved through the medium of the economic success of the firm at which they work, and therefore “empowerment” must be subordinate to the turbulent yet abstract domination of market forces.⁶⁰

Once again, we see that the World Bank wishes that the working class reconcile itself to – and even promote – its status as a commodity. If one of the reasons that labour markets do not operate according to the neoclassical models for other commodity

⁵⁹ In this respect, the Chilean experience is extremely pertinent.

⁶⁰ World Bank 1995: 83-6. As discussed previously, no antagonism between employer and worker is conceivable as wages are assumed to coalesce at an optimum level set by the invisible hand of the market.

markets (the market for frozen fish, for example), then it is necessary for workers to behave less like human beings with strong sentiments concerning the terms and conditions of the sale of labour-power and its subsequent expenditure, and to behave more like frozen fish. The latter, of course, undertakes no agency to alter its conditions of use once the sale has been made. The distinctiveness of labour-power as a commodity, however, is precisely the distinction that Marx made between labour and labour-power; that labour-power represents the capacity to work and the capitalist production process relies on the ability of the capitalist to ensure that the value produced by exertion of labour is more than that represented by the wage. It is this fundamental antagonism that underscores the volatility of labour markets and the production process. It also represents the fundamental tension of capitalist development.

World Bank empowerment, therefore, places responsibilities on the poor to act in accordance with the liberal designs of the Bank and to confine social aspirations within the limits of capital as manifested in the fetishised form of the market. In this way, empowerment is only permissible to the degree that it is market conforming and market facilitating. It is a euphemism for development practise that attempts, first, a fuller incorporation of poor people into market relations – or, to be more specific, to offer their labour-power on suitably flexibilised labour markets; and, second, to make those relations more efficiently owing to the removal of particular interests that impinge upon the abstract forms of capitalist domination. Empowerment is therefore the new means towards the familiar end of market exchanges. The latter, in turn, present themselves and are subsequently represented as a world of freedom, equilibrium and opportunity, not of asymmetrical power relationships, social imposition and exploitation.

6. Comprehensive Development and the Future of Restructuring?

In essence, the much-heralded novelty of Comprehensive Development, despite claims to the contrary, is not one of aims but rather one of means. At core, Comprehensive Development presents a vision of the extension of social engineering through policy and institutional reforms in order to achieve a projected market utopia in the global South. The Bank's conceptualisation of empowerment, therefore, rests on the notion that empowerment is the removal of obstructions to participation in market relations. More specifically, this means harnessing the agency of the poor to remove restraints upon the reproduction and sale of their labour-power. The telos of empowerment, therefore, is an unmediated relationship between global capital and global labour.

Consideration of markets as constituted within and constitutive of asymmetrical power relations that belie the appearance of free exchange, however, is entirely absent from the Bank's conceptual apparatus. When attention is focused upon exchange being not a neutral encounter between rational individuals but, rather, as one moment of the reproduction of capitalist social relations – and therefore of a process characterised by asymmetrical relations of domination mediated through the social power of money and sanctified by the rule of law – it becomes possible to perceive why the real world of capitalist development does not conform to the harmonious social relations predicted by neoclassical thought.

The major contradictions that surface within comprehensive development, therefore, are not in essence those of the World Bank's programme, which consistently advocates extending and deepening the discipline of market relations upon all social actors in order to maximise the expanded reproduction of capital, but those of capitalist social

relations. The latter, it has been suggested do not operate in the general equilibrium mould of neoclassical economics, as is the Bank's presupposition, but are predicated upon exploitation and have inherent tendencies towards unequal development and crisis. In short, market relations are not harmonious but antagonistic, and this is why the Bank needs to integrate its calls for pluralism and empowerment within structures of discipline and compulsion.

These tensions are likely to be the object of sustained social struggles between groups and classes within national social formations, and also at a global level, between the Bank, core states and emergent global social movements. In this respect, the new emphasis upon participation and empowerment should not be understood merely as an instrumental strategy to co-opt struggles over the course of capitalist development,⁶¹ but rather a sign of the continuing crisis of capitalist development at a global level that has manifested itself within the Bank. As with the discussion of "growth with equity" in Chile, the precise form and content of the category of empowerment as realised in development practise will be determined by struggle. With the World Bank and IMF keen to structure all forms of development lending into the Comprehensive Development template, its immanent contradictions are likely to be propagated at a wider level with unclear consequences.

Clearly, the World Bank and its national level clients enjoy considerable resources through which to attempt to impose strict limits upon the forms that empowerment can take. However, it is also clear that harnessing subordinate populations to facilitate their increased exploitation by global capital is a decisively paradoxical utopia. The task of progressive struggle will be to attempt to push empowerment beyond the limits

⁶¹ Cammack 2001, 2003.

prescribed by the Bank, both in terms of the substance of empowerment and the social realms in which empowerment can be articulated. Whilst the difficulties of such strategies cannot be understated, they do offer an opportunity to take advantage of how the World Bank has embedded this expression of the contradictions of capitalist restructuring within its policy prescription.

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