Neoliberalism and patterns of economic performance: 1980 to 2000

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Neoliberal discourse often produces the impression that the world has undergone a wholesale shift towards *laissez-faire*, and that this shift has produced economic prosperity. This chapter examines national economic data to discern the degree to which (1) governments have in fact retreated from the market, and (2) countries have enjoyed increasing economic prosperity over a period in which they have supposedly been liberalizing. The evidence is mixed on both counts. Although international interconnectedness appears to have grown over the past two decades, there is little evidence of a substantial scaling back of governments. Over the same period, countries have not experienced any appreciable improvement in growth, cross-national equality, employment or national debt loads, although there is some evidence of improved price stability near the end of the 1990s.

The basic premises of economic policy-making have undergone profound shifts over the past three decades. Between World War II and the economic crises of the 1970s, policy-makers relied on state power to ensure development and prosperity. Governments regulated markets tightly, where they did not directly control them. When a series of political and economic crises began to afflict the global economy, government interventionism was subject to a strong a intellectual and political backlash and a new ideological movement sought to resurrect an updated ethos of 19th century economic liberalism. This new liberalism – neoliberalism –mandated the removal of governments' hold over the economy and the reintroduction of open competition into economic life.

Although the world is far from returning to the degree of liberalism typical of 19th century capitalism, the market re-emerged as the central actor governing economic activity during the 1990s, and the ethos of neoliberalism progressively entrenched itself into law and public institutions throughout the world. This shift in "policy paradigms" implies a substantial

reorganization of domestic political economies as well as the international order. It promises many benefits, but also presents many concerns and risks many unintended consequences. The neoliberal transition is a high-stakes endeavor: market-oriented reforms involve tradeoffs, in which some of the societal ideals that were pursued, and to some degree achieved, during the postwar era (social security, consumer and worker protections, improving wealth and income equality) may ultimately be lost.

Discussions about the costs and benefits of market liberalism, and about how far to go with them, have been a central feature of political economic debates at the turn of the 20th century. One's attitude toward the debate depends on how strongly one believes that market liberalization will benefit one's own economic welfare and the welfare of those in other countries and occupational groups. *A priori* framings of this problem can influence observers' conclusions about these costs and benefits.

At one extreme, some of the economic literature has began with the assumption that markets allocate optimally, attributing free markets to developmental success stories and assuming market failure where development is lagging. For example, observers have criticized neoliberal theory as having been founded on the mistaken belief or false pretense that the Asian Miracles (like South Korea and Taiwan) were *laissez-faire* economies, and that their developmental success supports the view that market liberalization spurs development (Rodrik 1996; Bruton 1998). Many studies begin with the assumption that the market allocates societal resources optimally, and employ and analytical convention of (1) depicting how a fully free market could achieve some kind of optimal allocation of resources, (2) showing empirically how existing societies fall short of this optimal allocation, and (3) prescribing policies that rework

economies in ways that make them more closely approximate the free-market ideal. In many ways, however, such an analysis generates *a priori* answers to complex economic policy questions.

Nonetheless, it would be just as prejudiced to assume that market reforms are inherently detrimental to economic welfare. Much of the anti-globalization rhetoric, for example, condemns market mechanisms without providing a detailed alternative with which to evaluate economic policy. Criticisms can begin with a supposition that unfettered markets are harmful to the poor, but is this so different from beginning with a supposition that they are benevolent? We believe, therefore, that a first step in weighing the pluses and minuses of neoliberalism must be an empirical test of how economies have performed during earlier phases of worldwide market liberalization.

What do we stand to gain or lose by this resurrection of *laissez-faire?* A clearer understanding of the trade-offs involved in market reforms over the past thirty-plus years will help clarify what we can expect to gain and lose from these reforms in the future. Looking at the past may help us decide, as members of both a national and global society, whether we are happy with the path upon which current economic policy is traveling. The present work represents the first step in a larger project analyzing the last quarter century. As such, it is explicitly limited to a description of these transformations on a global scale; later work will focus on causal relationships. Details of the data and methods employed in this study are given in Appendix A. Specific operations will be discussed when analyses that use them are first presented.[1]

Our analysis proceeds in four parts. First, we provide an overview of the neoliberal transition. Second, we examine the degree to which various macroeconomic and government

financial statistics reflect this transition. Third, we consider macroeconomic implications of the neoliberal transition by looking at changes in patterns of output growth, inter-state income distribution, unemployment price stability and public indebtedness since 1980. Finally, we offer conclusions based on the foregoing analyses.

THE NEOLIBERAL TRANSITION

During the 1970s and 1980s, chronic societal crisis and economic stagnation spread across much of the world, and, most importantly, within many wealthy and powerful countries. This turmoil set off a wide-ranging and conflict-ridden discussion over the proper organization and role of economic institutions. Conservative social movements began to attack the state-market solutions that had been put in place during the immediate postwar period, in which governments assumed substantial control over domestic economic activity and maintained a variety of barriers to insulate national economies from foreign trade and capital flight. After a period of polarized conflict, much of the world settled into a new era in which those who favored abolishing the instruments of state intervention established hegemony, dominating the discipline of economics, national governments, and supra-national organizations such as the International Monetary Fund and the World Bank.

Most importantly, market advocates acquired a large degree of intellectual and political authority in the English-speaking world, which endowed them with tremendous influence in reworking the rules of international trade and finance. By the 1990s, the neoliberal regime had influenced economic policy-making in a great majority of the world's nations, and its legitimacy was solidified by a worldwide economic boom that appeared to offer nations great opportunities

for growth by attracting the massive amounts of capital that were then circulating through global financial markets. Although the neoliberal paradigm continues to be fought over today, it has nonetheless re-engineered much of the world economic system and has become substantially more ingrained in the fabric of our economic institutions.

Many factors contributed to the crisis of late-20th century capitalism, but not all were apparent to contemporary observers. What seemed clear to analysts during the 1970s and 1980s was that economic progress had been stalled by a political gridlock involving business, unions, political interest groups, and many observers began to comprehend this stagnation in more political terms (e.g., Olson 1982). The alarm over state intervention was only partly generated by the perception that governments' stronghold on economic activity was generating rent-seeking opportunities.

In the United States and United Kingdom, this alarm was compounded by a growing sense that their economies required a major overhaul to maintain competitiveness with other rapidly-developing economies in Western Europe and Japan (Portes 1997; Fourcade-Gourinchas and Babb 2002). During the late 1970s, these two nations began to liberalize their economies substantially and by the early 1980s the United States and a newly-upgraded United Kingdom, along with a few important success stories in the less-developed world (such as Chile), generated a momentum that would influence the rest of the world and induce them to undertake similar economic reforms.

Students of the contrast between the pre- and post-1970s economic regimes have identified several dimensions of difference between the postwar period of "embedded liberalism" (Ruggie 1982) and the post-crisis era of neoliberalism. Table 2.1 presents a schematic

representation of these differences (note that the adjectives used to describe each regime are relative to each other). Under embedded liberalism, trade barriers, and capital controls were high and the state wielded great power over the private sector and, particularly, international capital interests. Unions were strong and business highly regulated and taxed to provide resources for secure social spending. Publicly owned enterprises were common, and national leaders sought to promote economic growth by cultivating internal markets. Currency prices were set by multilateral agreements (most notably the Bretton Woods Accords) rather than global markets, and international policy-making focused on geopolitical issues arising from the Cold War.

TABLE 2.1 ABOUT HERE

All this changed with the rise of neoliberal policies in the years after 1980. Trade barriers were reduced, controls on capital were loosened, state-owned companies were privatized, regulatory regimes were dismantled, currencies were decontrolled, and taxes were lowered. The net effect of these policy changes was to reduce the power of the state relative to capital, undercut the influence of labor unions, and threaten the long-term security of social spending. State policies sought to promote growth through export industrialization and policy attention focused on economic competition rather than geopolitical conflict. Despite setbacks owing to the spread of terrorism, a sharp economic recession, and a rising tide of protest against trade and globalization, these structural reforms largely remain in place.

EFFECTS ON GOVERNMENT SPENDING

To what degree did the neoliberal paradigm shift actually mold economic reality in its own image? The effect of neoliberalism has been strong in government rhetoric, economic history and public commentary, but how much has actual economic policy or activity really

changed? If the actual, rather than theoretical, economy has made a neoliberal shift, we would expect to see less government intervention, lower taxes, fewer tariffs, open borders, smaller redistributive transfers, less regulation, and freer financial flows. Here we look for evidence of the neoliberal revolution by examining national macroeconomic and financial data. Specifically, we consider how government spending, international trade, and international capital flows have changed between the crisis years of the 1970s and the year 2000.

In general, available data suggest that the policy and macroeconomic changes realized under the neoliberal policy regime are more complex than is often assumed. The findings of this section are similar to others indicating that neoliberalism did not involve an unambiguous shift towards smaller government, more open borders, and freer markets in government policies (Kiser and Laing 2001). Neoliberalism was not a wholesale movement towards market-guided economies but more of a gradual reconfiguration of the state-market relationship (Campbell and Pedersen 2001). Although the neoliberal transition appears to have brought about a dismantling of trade barriers and capital controls, and a substantial increase in the volume of international capital flows, it is not clear that the shifts have brought about corresponding changes in the volume of global trade, government budgets, or social spending.

Level of Government Spending

In theory, neoliberalism's return to the market should have coincided with smaller government budgets and fewer redistributive transfers. We expect government spending to contract for several reasons. First, government expenditures serve as a proxy for the size of state operations. If government operations have scaled back since the 1970s, we naturally expect this to be reflected in reduced expenditure levels. Second, much government spending is dedicated to

redistributive transfers, which constitute non-market transactions (and hence market distortions in neoliberal thinking). If governments were dedicating themselves to promoting the market as a mechanism of allocation, we would expect these transfer payments, and, in turn, government expenditures to decline. Third, government spending also constitutes a form of Keynesian fiscal intervention. Government expenditures affect the circulation of money within an economy, and thus serve as a means by which governments can intervene to influence markets.

To test for reduced government spending we examined changes in (1) the ratio of final government expenditures to GDP and (2) the relative share of government expenditures dedicated to redistributive purposes. The former measure, which approximates total government spending, is plotted in Figure 2.1 for 95 different countries from 1980 through 1999 as a series of box plots (which graphically depict the median, inter-quartile range, and extreme values). As can be seen, this series displays no substantial downward trend. Although governments may have reduced their overall spending somewhat, they generally did not lower it by much.

FIGURE 2.1 ABOUT HERE

Table 2.2 compares average government spending relative to GDP for the same 95 nations in 1980 and 1998. The first column shows the overall average at both dates and the remaining columns break show changes in spending by percentile of government spending in 1980. As can be seen, there was a slight overall decline between 1980 and 1998, with government expenditures going from an average of 15.4% of GDP in the former year to 14.7% in the latter. Even this modest decline in government spending, however, was concentrated in a few high-spending nations. Indeed, among countries that were in the lowest 10% of the distribution in 1980, government spending actually increased, going from 8.6% to 9.2%. Moving up through the 25th

to the 50th and 75th percentiles, we see relative stability in government expenditures, with either no change or small downward movements. Only among nations in the 90th percentile of spenders in 1980 was there a significant downward movement, with relative government expenditures going from 23.0% to 21.7% of GDP.

TABLE 2.2 ABOUT HERE

Thus, spending reductions appeared only in the most free-spending nations—those countries that traditionally had very large budgets relative to domestic output. Overall, though, summary statistics suggest that relative government spending was quite stable during the 1980s and 1990s. This conclusion is reinforced when the data are broken down by region. Figure 2.2 shows trends in relative government spending levels in four world regions from 1975 to 1999. These data do not indicate a substantial decline in any region with the exception of North Africa and the Middle East, an oil-exporting region that established unusually lavish social programs during the early years of the boom when they were awash in petrodollars. This spending was progressively reduced over the years, a trend that was reinforced by a a decline in military spending by belligerents in the regional wars of the 1970s (e.g., Israel, Egypt, Syria, Jordan) and 1980s (Iran and Iraq). The data for the OECD, in particular, are remarkably stable and no downward trend at all. Although Latin American spending went down during the 1980s it rose again during the 1990s to regain lost ground.

FIGURE 2.2 ABOUT HERE

Overall, these data cast serous doubt on the notion that there was a significant change in government spending because of neoliberalism. Among the 95 countries for which we have expenditure data for the entire period, the mean annual rate of change in the ratio of spending to

GDP was 0.57% with a standard deviation of 2.4%, and the mean rate of change in government spending did not significantly vary between the 1980s and 1990s. Very few countries had an annual rate of government expenditure to GDP change that exceeded ∀1%, and the great majority of countries whose average rate of budget size changes exceeded this ∀1% band were less-developed countries that had experienced military conflict or a windfall of oil revenues during or near the period under study. Overall, a strong neoliberal story is not evident in aggregate government spending statistics.

As a final test, we estimated a fixed-effects model of government spending over time. The data and estimation procedure are described in Appendix A, and the results are presented in Table 2.3. This analysis suggests that there has been a slow government scale-back since 1980, although the small coefficient indicates that the average decline over the 1980 and 2000 was marginal. On average, the decline was only around five hundredths of a percentage point per year. At this rate, it would take a country at the 75th percentile of spending over 100 years to reach the spending level of countries at the 50th percentile. Looking at government cutbacks by decade, the regressions suggest a general movement toward government budget reductiond during the 1990s, but the rate of decline was still very slow: only 0.13 percentage points per year. These are very small declines, and the model fit is very poor, with R^2 values hovering perilously close to zero.

TABLE 2.3 ABOUT HERE

In sum, when we look at the world as a whole, we find no appreciable change in government spending relative to GDP except in North Africa and the Middle East, no sustained pattern of government movement away from social spending, and only a very modest average rate

of annual spending reduction. The reductions we do observe are less impressive when we consider that the 1990s were a period of worldwide economic growth, and that this growth likely eased some of the burdens to push government spending upwards. In conclusion, we find little evidence for a major overhaul of the size government budgets during the 1980s and 1990s as neoliberal programs were applied throughout the world.

Structure of Government Spending

Another possibility is that government spending did not recede since 1980, but changed the areas to which funds were allocated. Governments may have reduced expenditures dedicated to social spending and domestic market regulation, but increased spending to skew international markets in their favor (e.g., through subsidies, government services dedicated to export firms, and other measures). Present-day students of economic development note that governments can at times successfully intervene in domestic economic activity by bolstering exports or cultivating high value-added industries (Evans 1995; Brohman 1996). Such a development might be seen as a shift in a neoliberal direction if we understand government intervention to be limited to supplementing private firms that are deeply engaged with international market forces. This section reveals that this did not happen.

Figure 2.3 shows changes in the proportion of government budgets dedicated to selected functions.[2] Within the countries examined, most budget items did not change markedly. There is some evidence of slow and sustained declines in defense spending, government wages, and economic subsidies since 1980, but regression analyses performed to see if these declines were statistically significant generally had a poor fit. The fixed-effects models shown in Table 2.4 accounts for no more than 2% of the temporal variation in spending, indicating that the passage of

time alone does not explain much. Although the coefficients are statistically significant, they predict rather moderate reductions: just 1 percentage point every five years. Though statistically significant, these declines are not particularly rapid. If we project these results forward, at this rate defense, public service and subsidy expenditures would be eliminated from budgets in around 35, 75 and 20 years, respectively, in the average country. Clearly, these items would hit floors beyond which they would not be reduced further, but the exercise provides a sense of how quickly the cutbacks are being made.

FIGURE 2.3 AND TABLE 2.4 ABOUT HERE

If the structure of government spending were substantially influenced by neoliberal doctrine, we especially would expect to observe falling support for traditional populist interventions in the economy—redistributive transfers, economic subsidies, and public services. However, a glance at Figure 2.3 suggests that government payments for such redistributive programs generally did not decline. The validity of this impression is confirmed by fixed-effects models that we estimated to predict spending on public order, health, education, and welfare from the passage of time. All the models show zero or very minute changes. Moreover, whenever a statistically significant change is observed, the effect of time is positive, meaning that if there is any discernable trend at all, it is that governments dedicate more of their budgets to redistribution during the imposition of neoliberal policies. Although government resource allocations were reduced in some cases, the sifts were confined to a particular subset of areas: defense, wages and subsidies. Other forms of social spending generally remained constant or increased slightly, even if they did not increase as a percentage of national budgets.

TABLE 2.5 ABOUT HERE

PRIVATIZATION

Much of the image of neoliberalism as decimating government programs comes from the extensive publicity given to the privatization of state enterprises. Clearly, privatization was extremely important and led to dramatic changes in the quality and accessibility of services for citizens in some countries; and obviously it had significant consequences for employees in many state-owned firms. According to one estimate, privatizations form 1970 to 1995 produced $132 billion in revenues and liquidated at least 47,456 firms, though half of the revenues and 40% of the firms came from a single region: Latin America (Bouton and Sumlinski 1996). The privatization boom appeared to peak in 1997, and closer to end of the decade, another study estimates that the total proceeds were $735 billion and involved 75,000 enterprises (Privatisation International 1998). Until we obtain more systematic data, however, we cannot use privatization to indicate "less government" (see http://www.privatization.org/database/trendsandstatistics.html).

EFFECTS ON INTERNATIONAL TRADE

In addition to limiting government spending, neoliberalism was also supposed to have dismantled barriers to trade. Government intervention and economic controls are believed to be less tenable in the globalized world, where nations compete for highly mobile capital and multinational corporations are free to move operations to capital-hungry, compliant countries in the less-developed world. Some observers argue that governments thus forced to lower taxes and tariffs to attract foreign investment and to prevent domestic capital from fleeing (Kaiser and Laing 2001).

Unfortunately, the increase in international trade has been described as both a reason for implementing neoliberalism and a consequence of it, so the direction of causality is not completely clear. During the neoliberal era, currencies and public debt instruments did grow increasingly dependent on "hot" (highly mobile) capital that was increasingly traded within international markets. In this context, investors and traders demanded economic liberalization as a signal of credit- or investment-worthiness. Nations had to open their borders to avoid market failures, cultivate competitiveness, discourage corruption, and forestall indolence.

To test whether the post-1980 period was more open to trade, we examined changes in government policy with respect to two factors: trade insularity, operationalized by import and export tariff levels, and the actual volume of trade, measured by the ratio of imports and exports to GDP). We indeed find a dramatic change in tariff levels. After 1980, export tariffs were virtually eliminated from the policy repertoires of national governments. Although import tariffs remained strong through 1989 (and in some cases even increased), they clearly declined between 1990 and 2000.

In contrast, changes in the volume of trade after 1980 were more complex. On average, trade increased slowly under neoliberalism. In much of the world, trade levels remained stable or even declined between 1980 and 1990 and then only rose after 1990. Nonetheless, the latter increase was generally not dramatic; only the small club of "Asian Tigers" (South Korea, Taiwan, Hong Kong, and Singapore) experienced a rapid growth of trade throughout the period, and one might even question whether this increase can be attributed solely or even primarily to the imposition of neoliberal trade policies.

Tariffs

The era of embedded liberalism institutionalized a variety of impediments to trade, but these barriers lost credibility and were dismantled in the wake of the 1970s crises. Import substitution was discredited and the Uruguay round of the GATT finally moved trading nations towards the establishment of the World Trade Organization. The WTO reflected a new economic philosophy that was much more intolerant of trade barriers, and paradigms emphasizing the use of trade taxation as an instrument of economic policy began to lose political legitimacy. In this section, we attempt to chart these shifts by looking at shifts in trade tariffs. The analyses reveal a clear decline in tariff levels.

Figures 2.4 and 2.5 depict changes in the world distribution of import tariffs, as a proportion of government tax revenues and as a proportion of export values, respectively. The former graph indicates the degree to which governments depended on tariffs as a source of revenue, and the latter states the level at which imports were taxed. Since 1987, the world distribution of import duties, either as a proportion of tax revenues or of import value, has been decreasing. By the late 1990s, the sample countries collectively displayed substantially smaller import tariffs. Figures 2.6 and 2.7 show the same two statistical series, except for export duties. These results are even more dramatic: they suggest that the export duty approached extinction as a policy instrument in the 1990s.

FIGURES 2.4-2.7 ABOUT HERE

Total Trade

Thus, taxes on trade have been steadily declining across the world since 1980. Export duties have nearly been eliminated as a policy instrument and tariffs have been decreasing at a steady rate. An increase in the volume of international trade does not follow axiomatically,

however. If nations are increasingly engaged in international trade, we expect to observe growth in the total value of imports and exports relative to GDP. We term this ratio "trade intensity" and in Figure 2.8 graph it using boxplots for 90 countries from 1975 through 1999. As these data show, trade intensity experienced a slight contraction during the 1980s and then grew at a fair pace during the 1990s.

FIGURE 2.8 ABOUT HERE

Nonetheless, the graph does not demonstrate clear, substantial changes in the worldwide distribution of trade intensity until around 1993, after which trade the dispersion in volumes spread out. Table 2.6 compares the level of trade intensity in 1980 versus 1999 at different percentile points the distribution of trade in 1980. This tabulation shows that trade expanded over most of the distribution. Only nations at the 25^{th} and 90^{th} percentiles registered declines, and they were small. In general, therefore, we discern a slight increase in trade over the neoliberal period, which Table 2.7 verifies statistically using fixed-effects models. The right-hand columns estimate two models to explain change in trade intensity over the entire 1980-1999 period. One model controls for change in GDP whereas the other does not. No matter how specified, the coefficient for time is positive and significant, indicating that trade increased over the period. Nonetheless the fit of the model is relatively poor, with only 4%-5% of the variation in trade intensity being associated with the passage of time.

TABLES 2.6 AND 2.7 ABOUT HERE

Corresponding to this poor fit, the coefficients suggest that trad increased, on average, by just one percentage point every two years. Though significant statistically this effect is substantively small. At this pace, it would take countries at the median of trade intensity 38 years

to reach the trade level of countries at the 75th percentile. Given such a slow rate of increase, one might well argue that the shifts have less to do with the spread of liberalism than with exogenous factors, such as advances in telecommunications technology, improvements in transportation infrastructure, or the accumulation of capital by multinational firms.

The left-hand columns of the table present fixed effects models estimated separately for the 1980s and the 1990s. This disaggregation suggests that trade intensity experienced two distinct phases: a period of contraction during the 1980s (with an average decline in trade intensity of one half of a percentage point per year) and one of expansion in the 1990s (with an average increase of one percentage point annually). This contrast could mean that trade levels were tied to cyclical factors—declining during the stagnant 1980s and booming during the expansionary 1990s—but this does not appear to be the case. Even though the growth of trade is strongly associated with changes in GDP, controlling for the latter does not affect time trends. Holding shifts in GDP constant, between 1980 and 1989, trade intensity still exhibits a general pattern of decline and between 1990 and 1999 one of increase.

Trends in median trade intensity are graphed by region in Figure 2.9. These statistics show that the growth of trade was substantial in Asia, grew more slowly in OECD nations, and hit a ceiling after 1995 in Latin America and the rest of the world. One possible interpretation is that neoliberalism has had an effect, but that its effect has been restricted to a limited subset of countries: China and the Asian Tigers, whose trade intensity rose rapidly and durably over the entire period.

FIGURE 2.9 ABOUT HERE

EFFECTS ON INTERNATIONAL FINANCIAL FLOWS

In addition to lowering trade barriers, neoliberalism also sought to reduce barriers to international capital mobility. During the era of embedded liberalism, much of the world imposed a regime of relatively heavy financial regulation and controls on the movement of capital (Dombrowski 1998). Economic turmoil during the1970s discredited these policies, which were eventually discarded along with trade taxes. Although this change comprised an important part of the package of market liberalization, the degree to which capital flows actually increased is an empirical one. In this section, we examine whether the volume of international investment has changed since 1980 by looking at changes in the ratio of gross foreign direct investment (FDI) to national GDP.

Figure 2.10 presents boxplots showing trends in the distribution of this ratio among 64 nations from 1980 to the year 2000, and Figure 2.11 shows trends in the median ratio of foreign direct investment (FDI) to gross domestic product (GDP) by region over the same period. These graphs provide clear evidence of the increasing mobility of foreign direct investment during the last decades of the 20th century. FDI levels show a clear pattern of acceleration after 1980 at the global level. This acceleration hit a plateau during the late 1990s outside of the OECD, but continued through 2000 among nations in that organization. In general, FDI picked up momentum in the mid-1980s and rapidly accelerated during the 1990s. By 2000, the median level of gross FDI was 5.5 times greater than the 1980 median, a proportional increase that is observable across all percentiles of the 1980 investment distribution (data not shown). Thus, the empirical data offer a clear testament to the degree to which capital flows favored the OECD.

FIGURES 2.10 AND 2.11 ABOUT HERE

FDI began to stagnate in the rest of the world at some point during the 1990s. FDI in emerging Asian nations dropped in 1994 and appears to have stagnated since then; and investment in both Latin America and the Warsaw Pact reached a plateau around 1998 or 1999. FDI ballooned in the OECD in the wake of the Third World economic crises that cut investment in developing markets, indicating the accumulation of a very large stock of mobile capital and its flight to the safety of developed nations at the end of the 20th century.

EFFECTS ON ECONOMIC PERFORMANCE

In the previous section, we examined the degree to which government policy and economic activity reflect a greater market orientation since the spread of the neoliberal policy paradigm. Government interventions undertaken in the mid-20th century appear to have progressively receded since the crisis years of the 1970s, and some argue that this trend will continue into the foreseeable future. The neoliberal future promises societal benefits, although these benefits are not necessarily clear. Liberalization has promised society a lot of things.

Just how many problems can market liberalization alone solve? What specific benefits can be realized in an economically-liberalized world? In this section, we examine the economic advances realized between 1980 and 2000 in terms of output growth, income distribution, price volatility, employment, and national debt.

Economic Growth

In this section, economic growth is measured by the annual rate of change in real GDP (measured in 1995 US dollars). Figure 2.12 presents box plots showing changes in the distribution of GDP growth between 1976 and 2000. This figure suggests a long, worldwide recession from 1976 to around 1982. Since then there has been a stabilization in growth rates

(with the exception of 1991 and 1992). Across nations, rates of GDP growth appear to have hovered between 0% to 5% until roughly 1993.

FIGURE 2.12 ABOUT HERE

Table 2.8 shows changes in percentile values for five-year intervals between 1976 and 2000. The table depicts the high degree of variance in economic growth before 1980, and the degree of stability-within-contraction until the mid-1990s. During the economic boom of the 1990s, the lower parts of the distribution of GDP growth improved and most of the world experienced growth in the 2% to 5% per annum range. How strong was this growth? Overall, it is difficult to appraise the performance of economic growth in different historical periods because there are so many factors that determine what the maximum rate of GDP growth could be. Crouzet (2001:206, 215) reports that during their "golden years" Western Europe and the USSR had growth rates of 4.6 and 4.8%, respectively, compared with 2.5% per annum in OECD countries generally.

TABLE 2.8 ABOUT HERE

Post-1980 growth has been inferior to growth during the period1945 to 1975 in most areas of the world, except, of course, for the emerging markets of Asia. Nonetheless, GDP growth has generally outpaced population growth. Whereas national populations grew at an average annual rate of 1.79%, GDP rose at a real average rate 2.47% per year between 1980 and 1998. These averages hide considerable underlying variability, however. Indeed, a majority of the world's countries (some 56%) experienced an average rate of population growth that exceeded their average rate of economic growth.

GDP growth rates under neoliberalism are thus far from the century's best, and, in most nations are being outpaced by population growth. Figure 2.13 compares median levels of GDP growth across regions. Since 1980, China and the Asian Tigers have clearly led the world in economic growth. Growth rates in Latin America, Sub-Saharan Africa and the former Warsaw Pact have been chronically poor, although Sub-Saharan Africa did appear to perform fairly well after the mid-1990s. The correlation between real GDP in 1980 and 1997 is 0.98, suggesting little change in the rank ordering of countries by wealth. The Asian Tigers, China and the OECD are the only regions to enjoy absolute real gains in per capita GDP, and parts of Asia have grown much faster than the OECD as a whole. Latin America lagged behind the OECD, and several regions have contracted since 1980.

FIGURE 2.13 ABOUT HERE

Distributional Equality

Neoliberalism has been predicted to influence distributional equality in two ways. First, some have argued that neoliberal policies increase inter-societal inequality; and second, others have predicted that market liberalization exacerbates the distribution of wealth and incomes within nations. The most direct way to measure wealth inequality between nations is to compare real per capita GDP across countries. If neoliberal reforms that have reduced inequality between countries, then we should see smaller differences between the world's rich and poor countries.

To examine such changes, we developed a "Distance from Rich" (DFR) ratio. This measure uses the United States as a benchmark against which all other countries' income levels are compared as depicted in the following formula:

$$GDP(pc)_{DFR} = \frac{GDP(pc)_{Local}}{GDP(pc)_{USA}}$$

Following Firebaugh's (1999) insistence on the need to control for purchasing power in studies of international income inequality, all GDP figures are expressed as U.S. dollars adjusted for purchasing power parity (PPP).

Table 2.9 depicts the average distance-from-rich ratio by region for the period from 1975 to 1999. If economies were gaining on the United States in terms of national income, the DFR ratio would move closer to 1.0 over the period. As can be seen, however, most of the regional mean ratios did not increase, but fell. Whereas income growth in the OECD generally maintained parity with that in the United States (the ratio was 0.73 and 0.72 in 1995), it lagged behind in the nations of OPEC, the Warsaw Pact, Latin America, the Middle East outside of OPEC, and the rest of the world (all of which experienced declining DFR ratios). Only China and the Asian Tigers gained ground on the United States.

TABLE 2.9 ABOUT HERE

In other words, after 1980 people in most of the world's nations came to earn less compared to citizens of the United States. One problem with the foregoing DFR is that it uses a single country as the benchmark. It is thus possible that an exceptional burst of US growth caused the measure to artificially inflate inter-country inequality. The right-hand columns of Table 2.9 therefore re-scale the DFR measure by taking average per capita GDP in the OECD as the benchmark. Even with this re-scaling, however, the data still show that inequality is

increasing. As before, with the exception of the emerging Asian markets, the non-OECD world fell further behind the OECD in terms of per capita GDP.

Price Stability

Neoliberalism emerged as an alternative policy paradigm in the midst of the chronic stagnation and inflation that prevailed after the dissolution of the Breton Woods fixed exchange rate system. Financial instability was a root of the economic crises of the 1970s (Block 1977), and market liberalization was identified as a means of settling price problems (Stiglitz 2002). In this section, we examine the degree to which prices and currency exchange rates have stabilized by measuring the frequency with which countries have experienced years with high price inflation or major changes in their exchange rates.

Inflation is measured by annual changes in the GDP deflator and consumer price indices. Figure 2.14 presents box plots showing annual changes in the GDP deflator between 1975 to 1999 in 72 non-OECD countries. Figure 2.15 presents a box plot of annual changes in the consumer price index for a sample of 81 countries. Both figures show increasing variation in the distribution of inflation over the period studied. During the 1970s, the world distribution of inflation rates was tightly distributed at very high levels (>10% per annum), which means that most of the world's countries were experiencing rapid increases in general price levels. As market liberalization proliferated across the world, countries' price stability appeared to diverge – price increases became more controlled in some parts of the world while they stayed high in others. Again, the outside values were suppressed in these graphs, but the most extreme spells of price increases that were suppressed occurred between 1984 and 1992, not during the more interventionist years of the 1970s. Inflation, however, appears to have been nearing containment

across the world as the 1990s approached its end.

FIGURES 2.14 AND 2.15 ABOUT HERE

Figure 2.16 depicts changes in the regional median rate of inflation as measured by the consumer price index. This graph suggests that price growth has generally declined with the spread of neoliberalism. However, two regions experienced notable spells chronically high inflation: Latin America during the 1980s and the Warsaw Pact countries during and after the collapse of the Soviet Union. With the onset of the economic boom of the 1990s, however, inflation generally declined. The control of inflation first occurred in the OECD around 1980, and the rest of the world appears only to have caught up and began to approach price stability during the late 1990s.

FIGURE 2.16 ABOUT HERE

Employment

This section examines changes in employment rates since 1980. Only 29 countries had unemployment data for the entire period between 1980 and 1999. Figure 2.17 depicts the annual average unemployment rate for this set of nations. The figure suggests that there has been no substantial, sustainable reduction in unemployment over the neoliberal period. Figure 2.18 shows changes in the standard deviation of unemployment over the same period to reveal that between-country variance has been diminishing. There does not appear to have been an increase in employment levels in our sample since 1980, and the between-country variation in employment levels have decreased. Insofar as this necessarily selected sample can be used to make general statements about neoliberalism, therefore, market liberalization does not appear to have substantially affected unemployment levels, although it may have cultivated a convergence of

cross-national differences in rates of unemployment.

FIGURE 2.17 AND 2.18 ABOUT HERE

National Debt

During the 1970s, states throughout the world incurred large amounts of debt, which created a variety of macroeconomic problems and pushed many states to the brink of bankruptcy (Sachs 1989a). In this section, we consider whether the burden of public debt has eased since the spread of neoliberalism. Data on public debt are much more abundant after 1993, but trends in debt performance between 1980 and 1993 are perhaps more germane to our discussion. To cope with this missing data problem, we examined two different sub-samples: a limited sample of nations from 1980 to 2000, and a larger sample from 1993 to 2000.

Figure 2.19 presents box plots for the limited sample of nations between 1980 and 2000. This figure shows that public debt grew rapidly from 1980 to 1986 and again from 1991 to 1995, suggesting that states did not manage to pay down large debts accrued during the crises of the 1970s. Box plots for the expanded sample are presented in Figure 2.20. This figure also shows growing levels of public debt up to 1995, a slight contraction in 1996 and 1996, followed by a continued debt in growth after 1997. Figure 2.21 compares changes in debt levels within the OECD and three major emerging markets. The graph shows that the median level of debt dropped in the OECD after 1993, but that debt levels in the emerging markets began to rise after 1995. This trend of declining OECD debt and increasing non-OECD debt is reinforced by Figure 2.22, which compares box plots of debt levels for both groups.

FIGURES 2.19-2.22 ABOUT HERE

CONCLUSION

The economic crises set off by the OPEC Oil Boycott of late 1973 spawned a transformation of the global economy and the states within it. Globally, the postwar system of fixed exchange rates and limited capital mobility was abandoned, and domestically under the banner of "the Washington consensus" nations were pushed toward the liberalization of markets. Led by the United States and multilateral institutions such as the International Monetary Fund and the World Bank, after 1980 developing nations were pushed toward a package of "neoliberal" reforms that included a reduction of total government spending, restricted social spending, privatization of state enterprises, lowering tariff and trade barriers, and decontrolling capital markets. By "freeing" national and international markets from the heavy hand of the state, neoliberal reformers believed that numerous economic benefits would follow: greater economic growth, reduced inflation, lower unemployment, and falling national debt.

In this chapter we have marshaled available data to assess to what extent the package of reforms envisioned by neoliberal theorists was implemented, and to measure their economic consequences in different nations. As is often the case when one moves from the ideal world of policy prescriptions grounded in economic theory to their implementation and performance in practice, we found quite a variable record of success. The degree to which the package of reforms was actually applied varied depending on period, region, and the specific reform under consideration, and the economic consequences of these inconsistently and at times incompletely applied reforms varied depending on the period, region, and outcome considered.

In theory, neoliberal reforms were supposed to lower total government spending, but we found no compelling evidence of a meaningful downward trend in government spending relative to GDP during the final decades of the 20th century. Countries that reduced government spending

did not do so by much and most of the reductions occurred in nations that were the most profligate spenders in the first place, notably oil-exporting nations in the Middle East that had erected lavish spending programs when they were suddenly awash in petrodollars and later had to scale back from these unrealistic levels.

Moreover, although neoliberal reformers called for limitations on government social spending and critics of neoliberalism accept as an article of faith that reductions in social spending must have occurred, we found very limited evidence to support these expectations. Although spending on defense, government salaries, and economic subsidies did appear to decline in accordance with neoliberal doctrine, many redistributive state transfers—such as housing, health, welfare and education—did not. In the sample of countries we examined, these categories of social spending were, if anything, increasing as a proportion of national budgets. Thus, despite the pointed rhetoric of its adherents and critics, neoliberalism did not bring about a massive downsizing of government or a decimation of social spending. In the end, shifts in the level and pattern of state spending were modest and often opposite the predicted direction.

One area in which the implementation of neoliberal reforms did bring about expected changes was with respect to international trade. Among the sample of nations we considered, trade generally increased as a share of GDP for most countries, although the rate of growth was rather slow and it is not at all clear whether all or part of it can be attributed to the spread of neoliberal doctrine and policies. Nonetheless tariffs did fall dramatically, both as a share of government tax revenues and relative to total trade value. Moreover, the shift away from taxing trade was observed both for imports and exports, but was especially pronounced for the latter. By the end of the century, export tariffs had largely disappeared from the policy repertoires of all

national governments.

The privatization of state-owned enterprises also appeared to follow in expected fashion from the adoption of neoliberal policies. Between 1970 and 1995 more than 47,000 public firms were sold to private investors raising revenues of $132 billion. However, half of the revenues and 40% of the firms were Latin American, suggesting the implementation of this policy prescription was regionally limited. Moreover, the wave of privatization appeared to crest around 1997 and was drawing to a close by century's end.

Another key structural reform recommended by the architects of neoliberalism was the decontrol of capital markets to spur international investment. Under neoliberalism we therefore expect to observe rising capital mobility, and when we considered trends in foreign direct investment we did find a sustained increase over the last two decades of the 20th century. The degree to which capital mobility accelerated, however, varied by region. Foreign direct investment increased most consistently in OECD nations, and rose exponentially during the 1990s. Within emerging markets, however, foreign direct investment slowed during the latter half of the 1990s and reached a plateau as "hot" (mobile) investment funds sought refuge from economic turmoil in developing regions by investing in the world's more developed economies.

In sum, the extent to which neoliberal policies were actually implemented to transform the structure of national economies depends on which policy domain and region one considers. Government spending was not significantly reduced during the neoliberal era, nor shifted decisively away from social programs; and although capital mobility increased in nations throughout the world, the resulting volatility in global capital markets caused foreign direct investment to level off in most countries by the mid 1990s, surging ahead only in the OECD.

Likewise, the 1980s and 1990s did witness tens of thousands of privatizations, but the transfer of assets from public to private hands was disproportionately concentrated in Latin America and had largely ended by 1999. The only neoliberal policy that nations appeared universally to implement was a reduction of tariffs on trade, yielding a widespread, though rather modest, annual increases in the volume of trade from 1980 to 2000.

Thus the implementation of neoliberal policies was rather uneven around the world, but what about the presumed economic benefits? In general, neoliberalism did not deliver on its promises of economic growth. In general, the two decades following 1980 were not stellar periods of GDP expansion. Rates of economic growth were, on average, about half those prevalent at mid-century and in much of the Third World growth has stagnated. The principal exceptions to this pessimistic assessment are the emerging Asian markets, which have led the world in growth and maintained rates of expansion surpassing those of Western Europe during its "Golden Years" of 1950 to 1970. In a majority of the world's nations, rates of growth in GDP have not even exceeded rates of population growth, yielding an decline in living standards.

Neoliberalism also appears to be associated with growth in economic inequality between nations. After 1980 people in most nations came to earn less compared either to citizens of the United States or to the residents of OECD nations. Only the emerging markets of the Asian Tigers and China gained ground from 1980 to 2000 on OECD nations in terms of per capital GDP. Moreover, levels of national debt generally increased in response to neoliberalism. Public debt grew consistently in all nations through 1993, but thereafter levels of national debt fell within the OECD, leaving most developing nations to surge ahead. Our analysis also showed no substantial reduction in unemployment during the neoliberal period, though inter-country

variation generally fell suggesting a convergence of cross-national differences in jobless rates.

Aside from the expansion of global trade, neoliberalism's only other unambiguous success is the control of inflation. Although two regions experienced notable spells of high inflation—Latin America during the 1980s and Warsaw Pact nations during the early 1990s—the economic boom of the late 1990s brought inflation down throughout the world. The legacy of the neoliberal period thus appears to be stable prices and a greater orientation of nations toward trade and international investment, but little job creation, rising inequality, and a declining standard of living in most nations outside the OECD, with the notable exception of the China, Singapore, Taiwan, and South Korea.

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Table 2.1. A comparison of embedded liberalism and neoliberalism.

Characteristic	Embedded Liberalism 1945-1980	Neoliberalism 1980-2004
Trade Barriers	High	Low
Capitol Control	High	Low
Power of State Relative to Capital	High	Lower
Strength of Unions	Strong	Weakening
Business Regulation	Strong	Weakening
Status of Social Spending	Secure	Less Secure
State-Owned Enterprises	Prevalent	Disappearing
Development Strategy	Domestically-Generated	Export-Oriented
Focus of Government Policy	Geopolitical Conflict	Economic Competition
Currency Markets	Prices Set by Multilateral Agreements	Prices Set by Global Markets

Table 2.2. Summary distributional of government expenditures relative to GDP for 102 countries in 1980, 1990 and 2000.

Year	Mean	Percentile					Standard Deviation
		10^{th}	25^{th}	50^{th}	75^{th}	90^{th}	
1980	15.7	9.0	10.4	14.1	19.7	23.0	6.7
1990	15.6	8.6	10.6	14.1	19.0	24.4	7.1
2000	14.8	8.6	10.5	13.9	18.7	22.7	5.6

Source: World Development Indicators

UPDATED

Table 2.3. Fixed-effects model estimated to predict trend in government spending

	1980-2000	1980-1989	1990-2000
Year	-0.080***	-0.052*	-0.127***
	(0.011)	(0.025)	(0.026)
Constant	16.248***	16.096***	15.713***
	(0.133)	(0.133)	(0.155)
rho	0.76	0.88	0.82
sigma_u	5.71	6.11	5.95
sigma_e	3.18	2.28	2.77
R^2	0.02	0.00	0.02
N	2,121	1,010	1,111
N_g	101	101	101

*** p<.001, *p<0.05
Standard errors in parentheses under coefficients

UPDATED

Table 2.4. Fixed effects models estimated to predict government spending in selected areas.

	Defense		Wages		Subsidies	
Variable	B	SE	B	SE	B	SE
Year	-0.002***	0.000	-0.002***	0.000	-0.002***	0.000
Constant	3.972***	0.447	3.504***	0.612	3.881***	0.658
Rho	0.86		0.86		0.96	
Sigma U	0.08		0.10		0.10	
Sigma E	0.03		0.04		0.02	
R^2 Within	0.12		0.06		0.05	
R^2 Between	0.01		0.05		0.22	
R^2 Overall	0.02		0.01		0.00	
N of Cases	564		499		221	
N of Groups	27		24		20	

*** p<.001

Table 2.5. Fixed Effects models of change in selected budget allocations over time 1975-1999.

	Public Order	Health	Education	Welfare	Housing
Year	0.045***	0.001***	0.000	0.002***	0.001***
	(0.010)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	-86.789***	-1.547***	-0.330	-3.936***	-1.270***
	(19.214)	(0.309)	(0.315)	(0.522)	(0.211)
Goodness of Fit					
Rho	0.85	0.81	0.83	0.94	0.52
R^2 (Within)	0.06	0.04	0.00	0.11	0.04
R^2 (Between)	0.18	0.05	0.01	0.01	0.02
R^2 (Overall)	0.08	0.01	0.00	0.01	0.03
Number Cases					
Years	379	626	626	538	863
Groups	29	29	29	25	47

*** p<.001

Table 2.6. Summary distributional statistics of trade intensity in 1980, 1990 and 2000, 102 countries.

Year	Mean	Percentile					Standard Deviation
		10^{th}	25^{th}	50^{th}	75^{th}	90^{th}	
1980	62.8	28.2	43.2	54.8	80.0	106.5	31.8
1990	60.9	30.9	40.6	53.6	72.7	104.8	31.3
2000	72.7	34.1	49.1	66.7	89.1	116.8	35.6

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Table 2.7. Fixed effects model predicting trend in trade intensity 1980-1999.

	Period 1980-2000	Period 1980-1989	Period 1990-2000
Year	0.596***	-0.404***	1.141***
	(0.043)	(0.094)	(0.094)
Constant	55.840***	60.127***	59.267***
	(0.501)	(0.501)	(0.558)
rho	0.86	0.92	0.91
sigma_u	29.80	29.70	31.51
sigma_e	11.89	8.53	9.89
r2_w	0.09	0.02	0.13
N	2,100	1,000	1,100
N_g	100	100	100

*** p<.001

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Table 2.8. Summary statistics for real GDP (PPP) growth 1980-2000, 102 countries.

Years	Mean	Percentile					Standard Deviation
		10^{th}	25^{th}	50^{th}	75^{th}	90^{th}	
1981 to 1985	0.67	-6.05	-1.82	1.26	3.56	6.02	5.11
1986 to 1990	1.16	-4.56	-1.30	1.66	3.83	6.42	4.76
1991 to 1995	0.93	-5.28	-1.40	1.51	3.79	6.54	6.40
1996 to 2000	1.80	-2.31	0.11	2.19	3.80	5.97	4.25
2001 to 2004	2.18	-1.95	0.11	1.71	3.70	6.70	5.92
Total	**1.31**	**-4.28**	**-0.80**	**1.69**	**3.74**	**6.29**	**5.34**

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Table 2.9. Average distance-from-rich ratios computed by region for selected dates and periods.

Region	1975-1999	Raw Values 1980	Raw Values 1995	Scaled to OECD 1980	Scaled to OECD 1995
OECD	.72	.73	.72	--	--
OPEC	.36	.57	.31	.78	.43
Asian Tigers	.31	.25	.42	.34	.58
Ex-Warsaw Pact	.24	.33	.19	.46	.26
Latin America	.20	.23	.18	.31	.25
Rest of World	.18	.30	.15	.41	.20
Non-OPEC Middle East	.13	.15	.11	.20	.16
Sub-Saharan Africa	.07	.07	.07	.10	.09
China	.06	.04	.10	.05	.13
South Asia	.06	.05	.06	.07	.09
Total	**.27**	**.32**	**.24**	**.28**	**.21**

Figure 2.1. Government expenditures as a ratio of GDP in 100 countries 1980-2000.

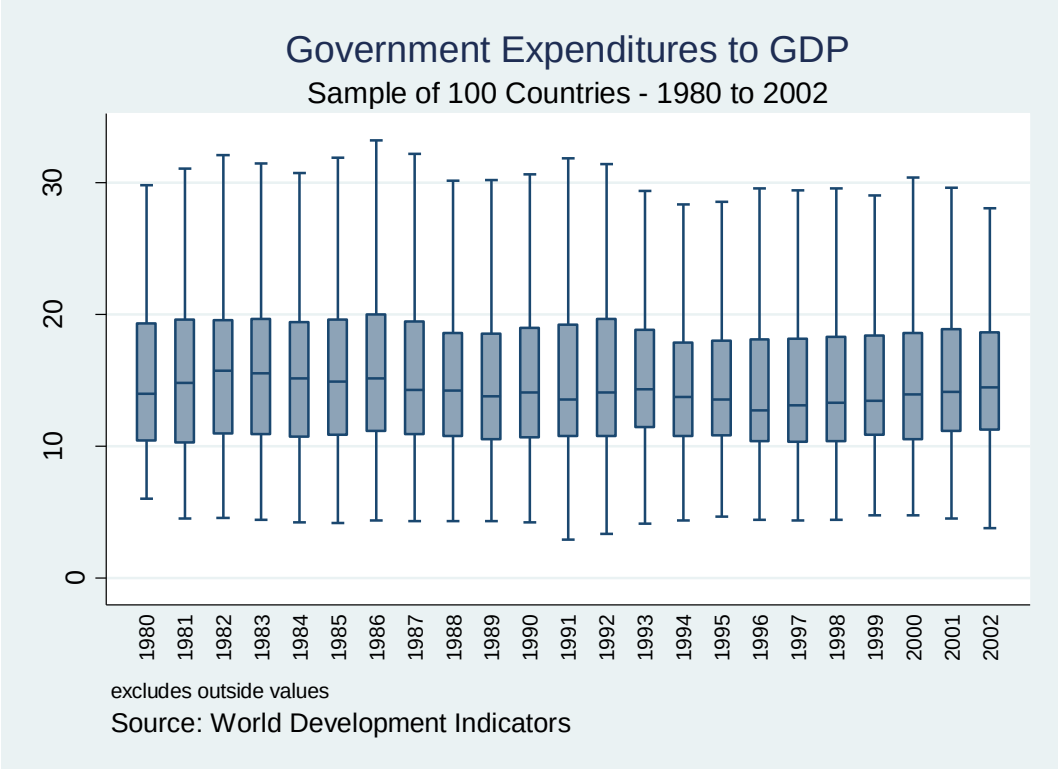

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Figure 2.2 Medians ratio of government expenditures relative to GDP for 95 countries in selected world regions 1975-1999.

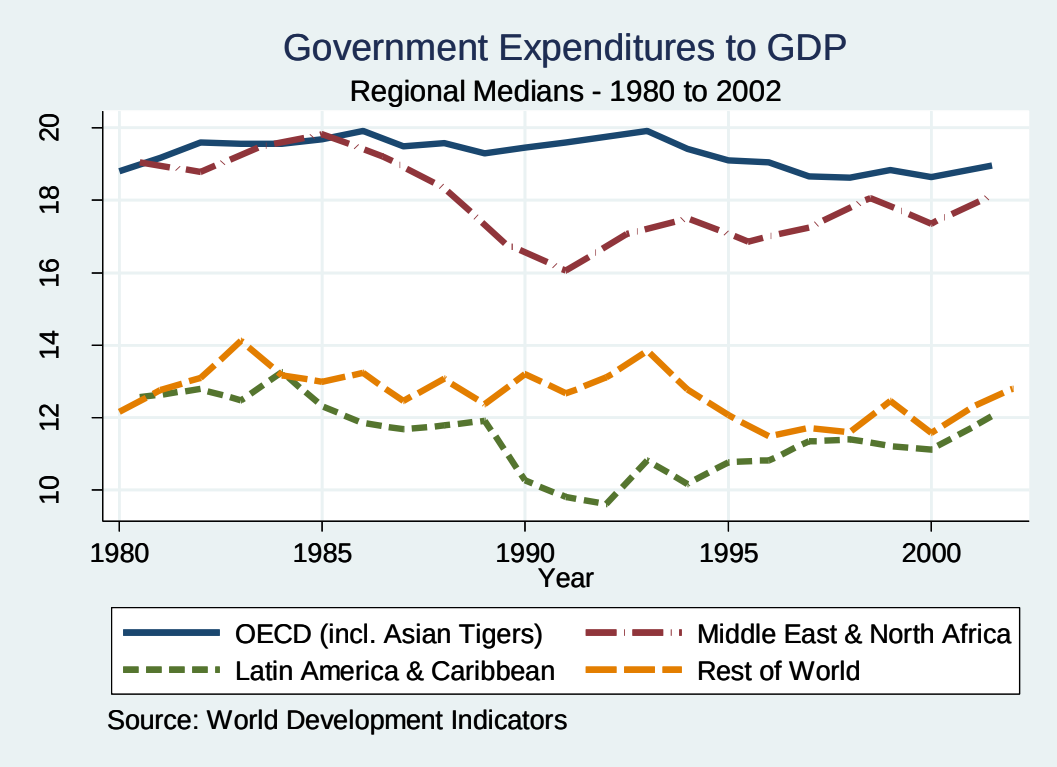
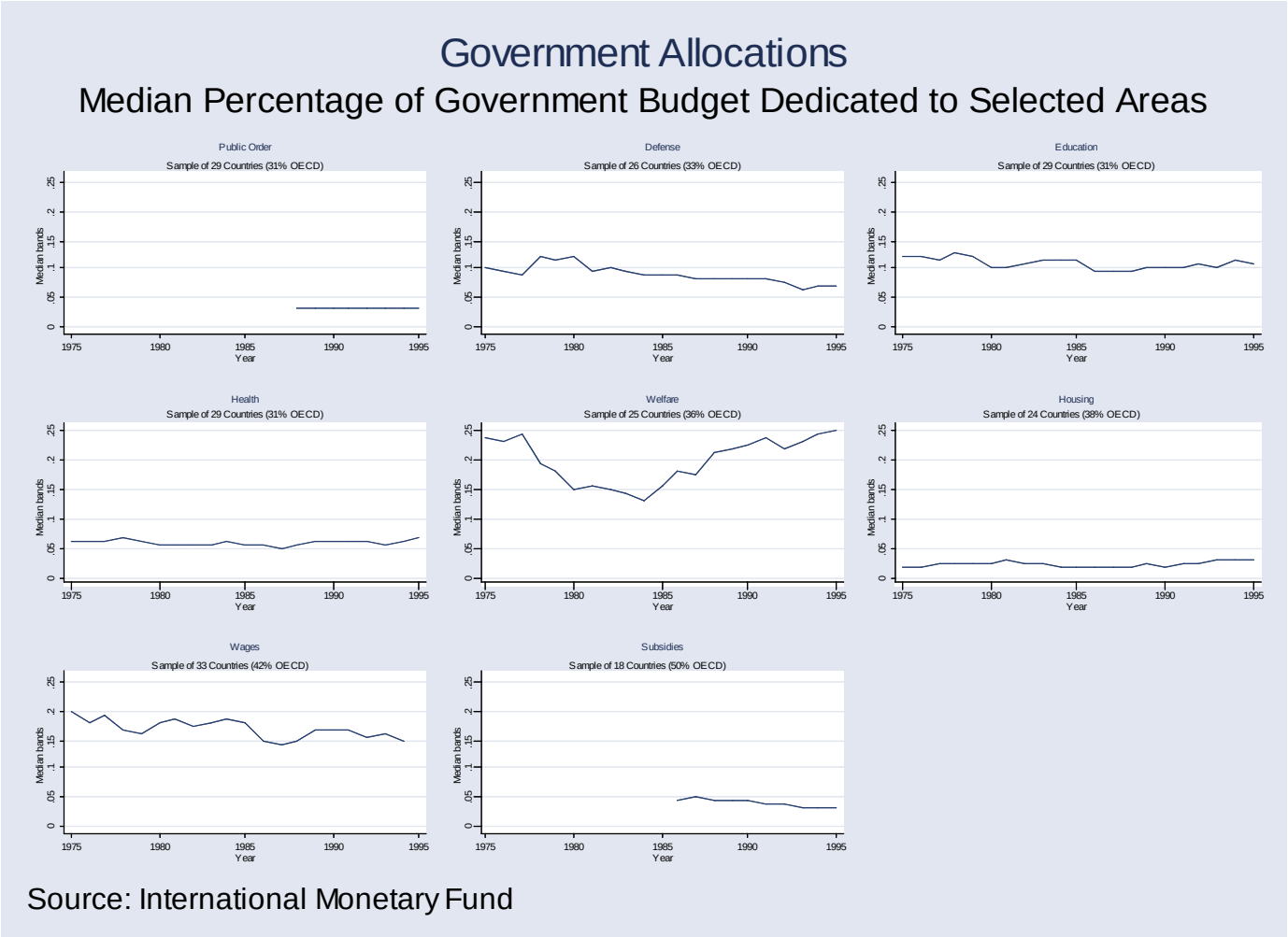


Figure 2.3. Median percentage of government budget dedicated to selected kinds of spending in 95 countries.



Source: International Monetary Fund

Figure 2.4. Import duties as a percentage of tax revenues in 38 countries 1997-1998.

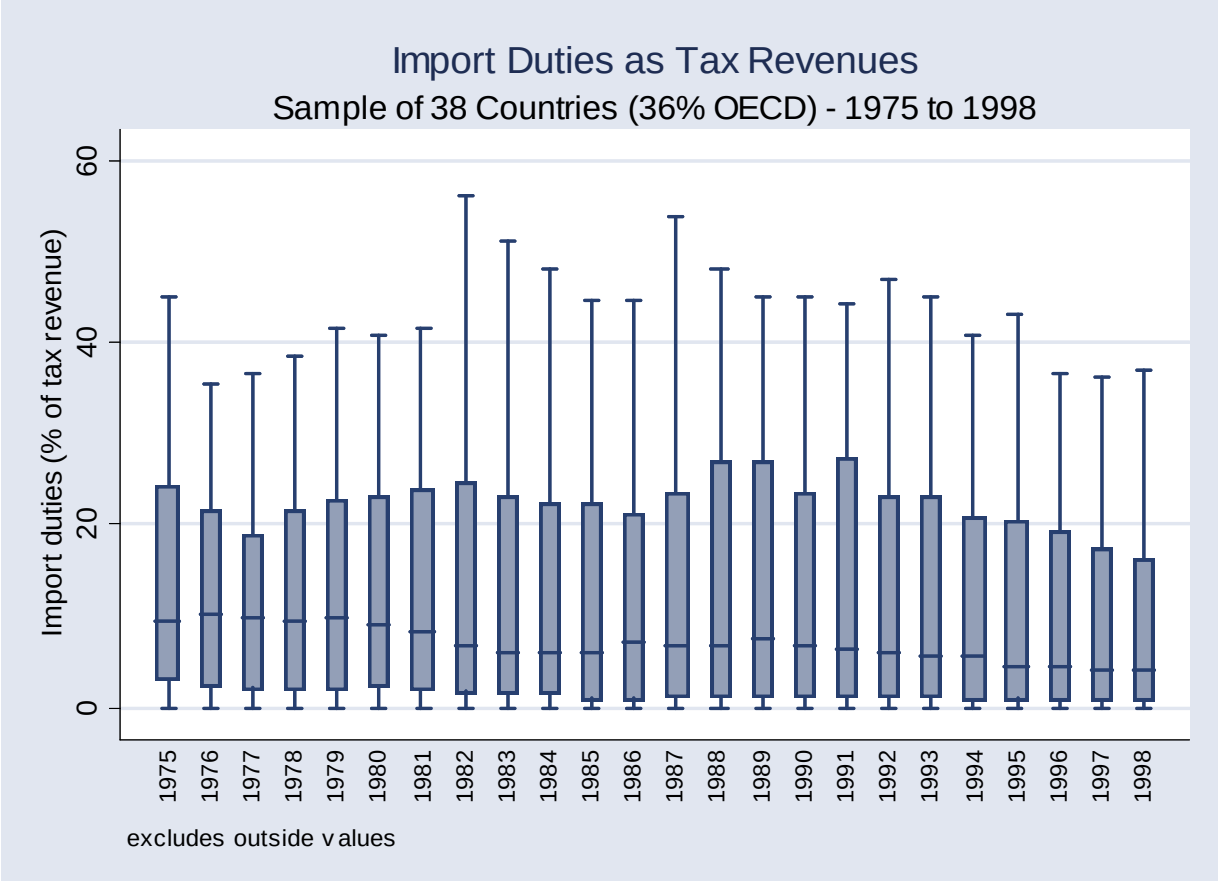


Figure 2.5. Import duties ad a percentage of imported value in 43 countries 1975-1997.

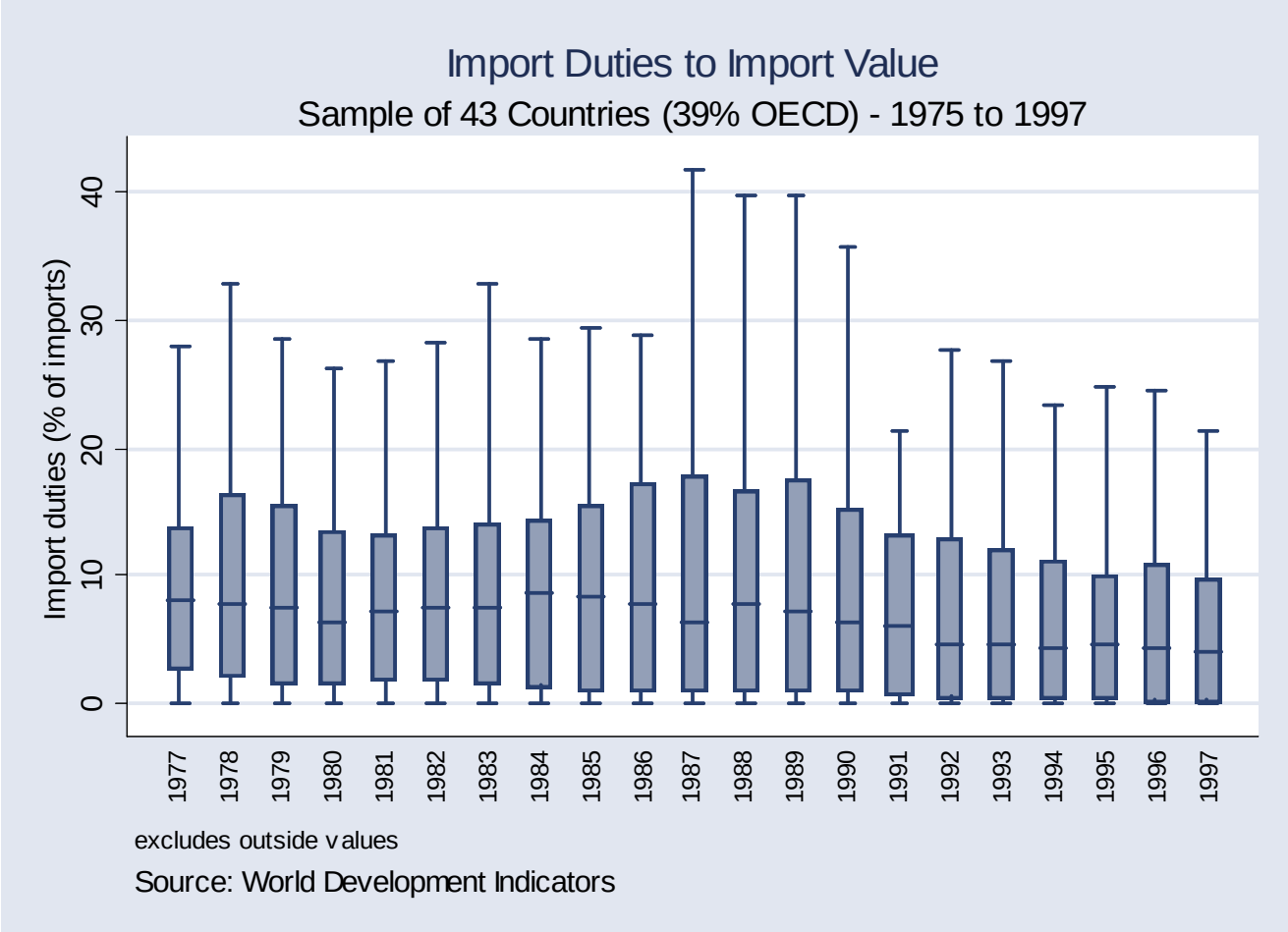


Figure 2.6. Export duties as a percentage of tax revenues in 39 countries 1975-1997.

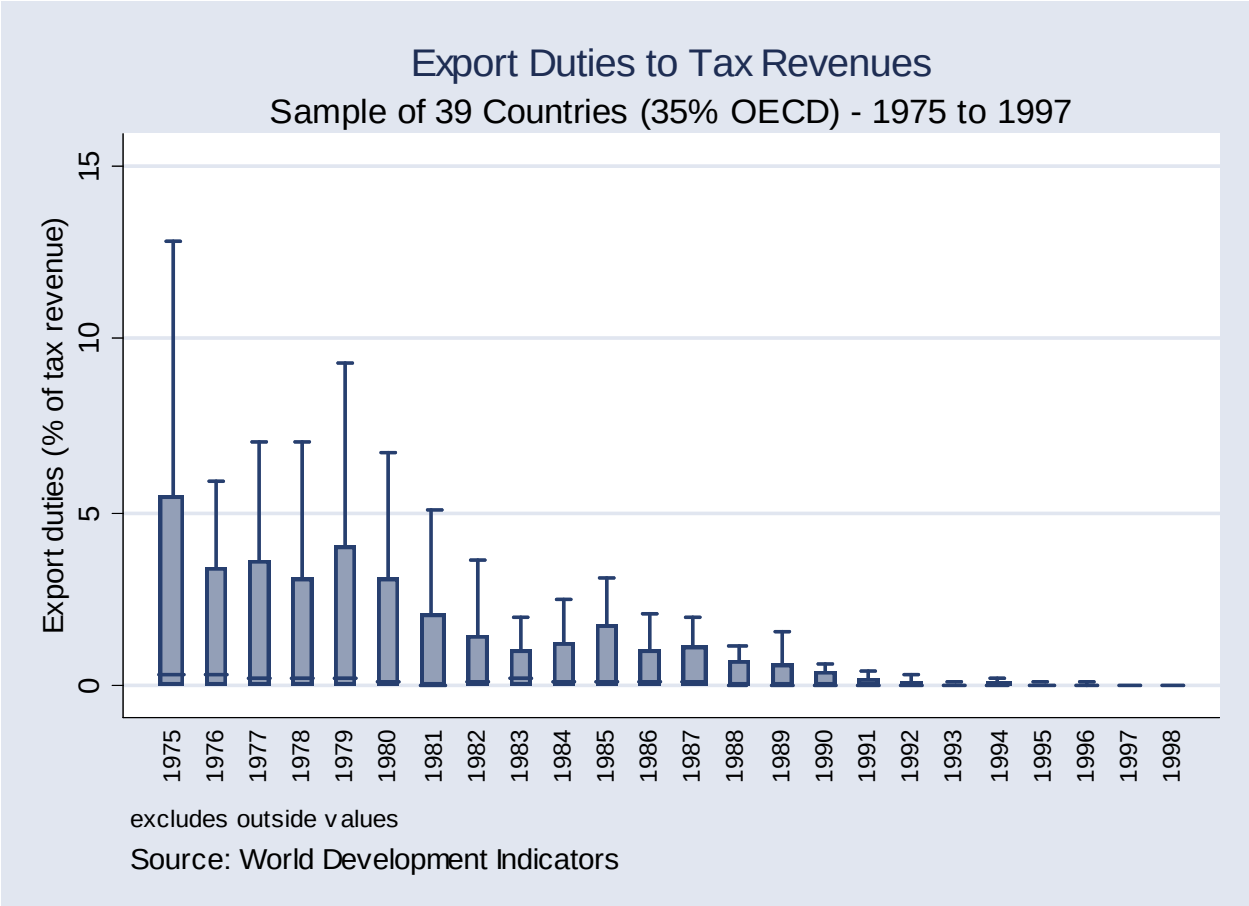
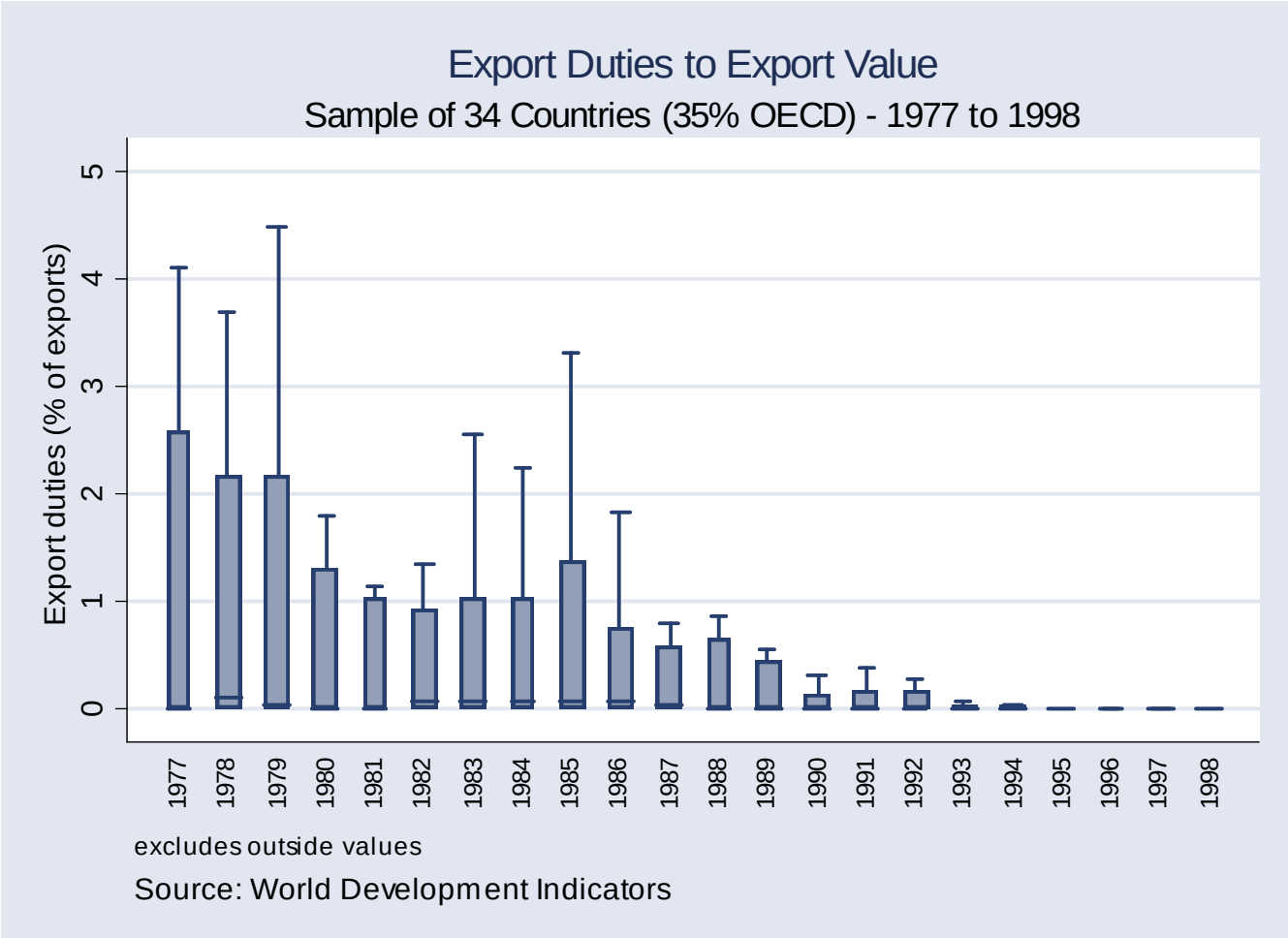


Figure 2.7. Export duties as a percentage of export value in 34 countries 1977-1998.



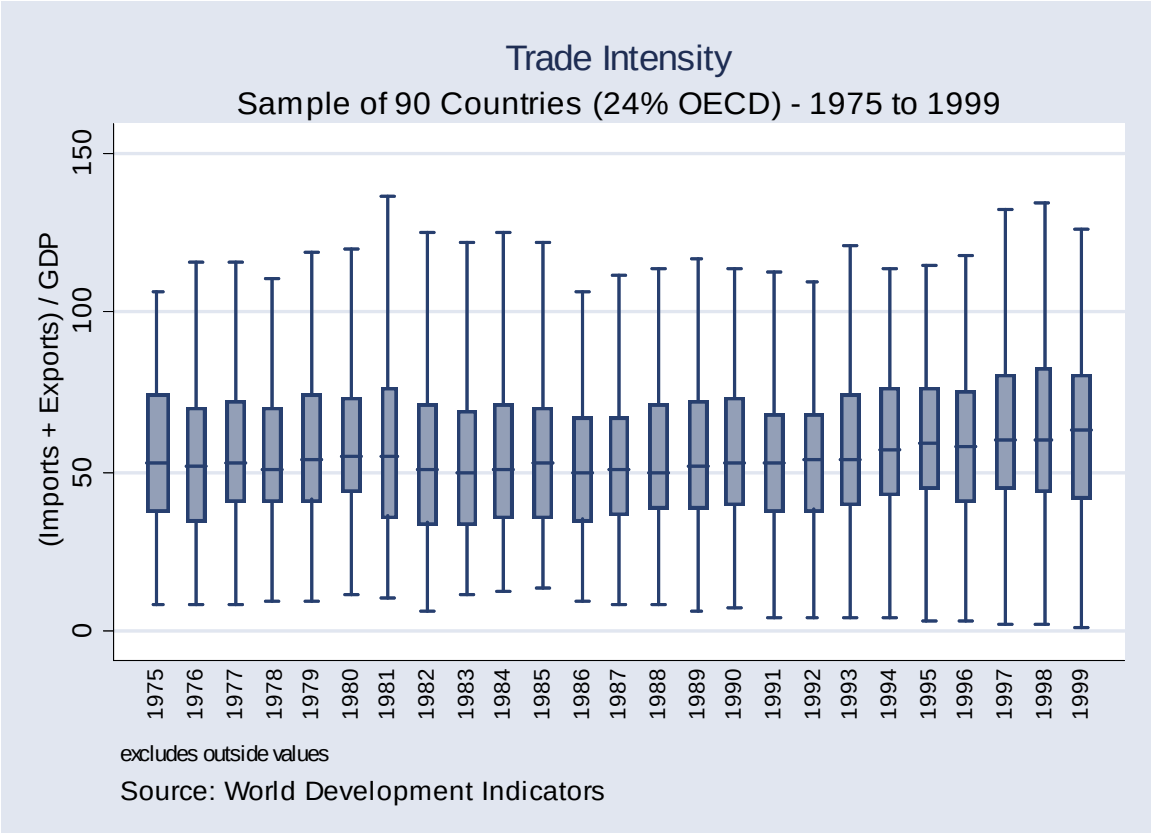


Figure 2.8. Intensity of trade in 90 countries (24% OECD) 1975-1999.

Figure 2.9. Median trade intensity by region 1975-1999

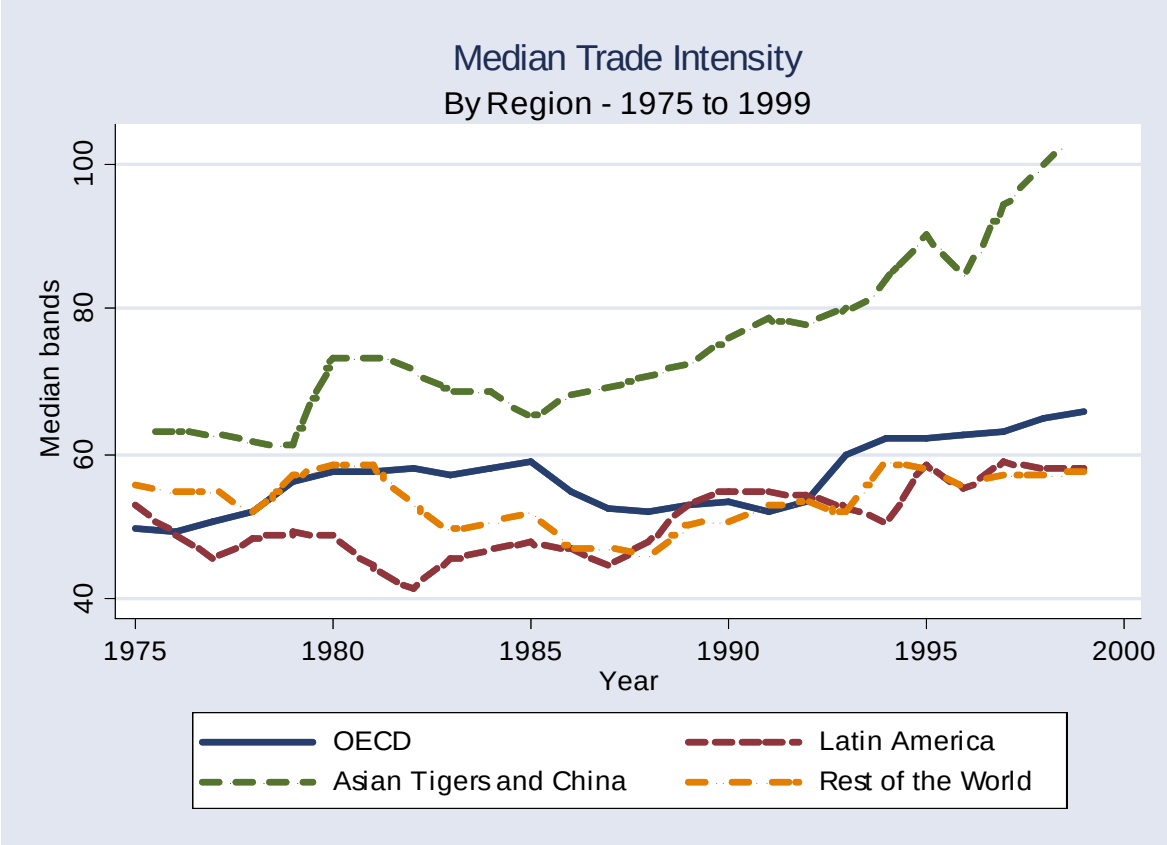


Figure 2.10. Gross foreign direct investment in 64 countries 1980-2000.

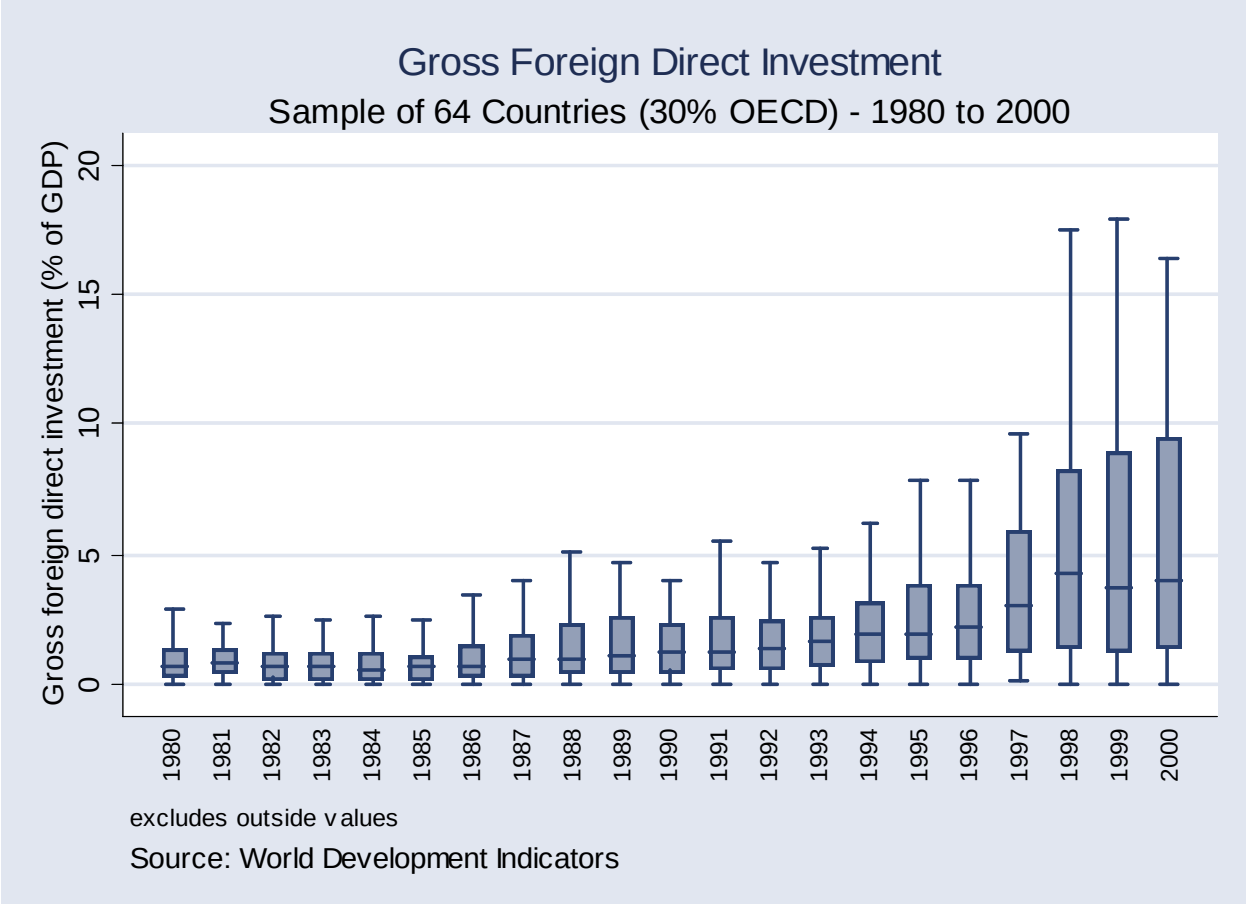


Figure 2.11. Gross foreign direct investment as a percentage of GDP by region 1975-2000.

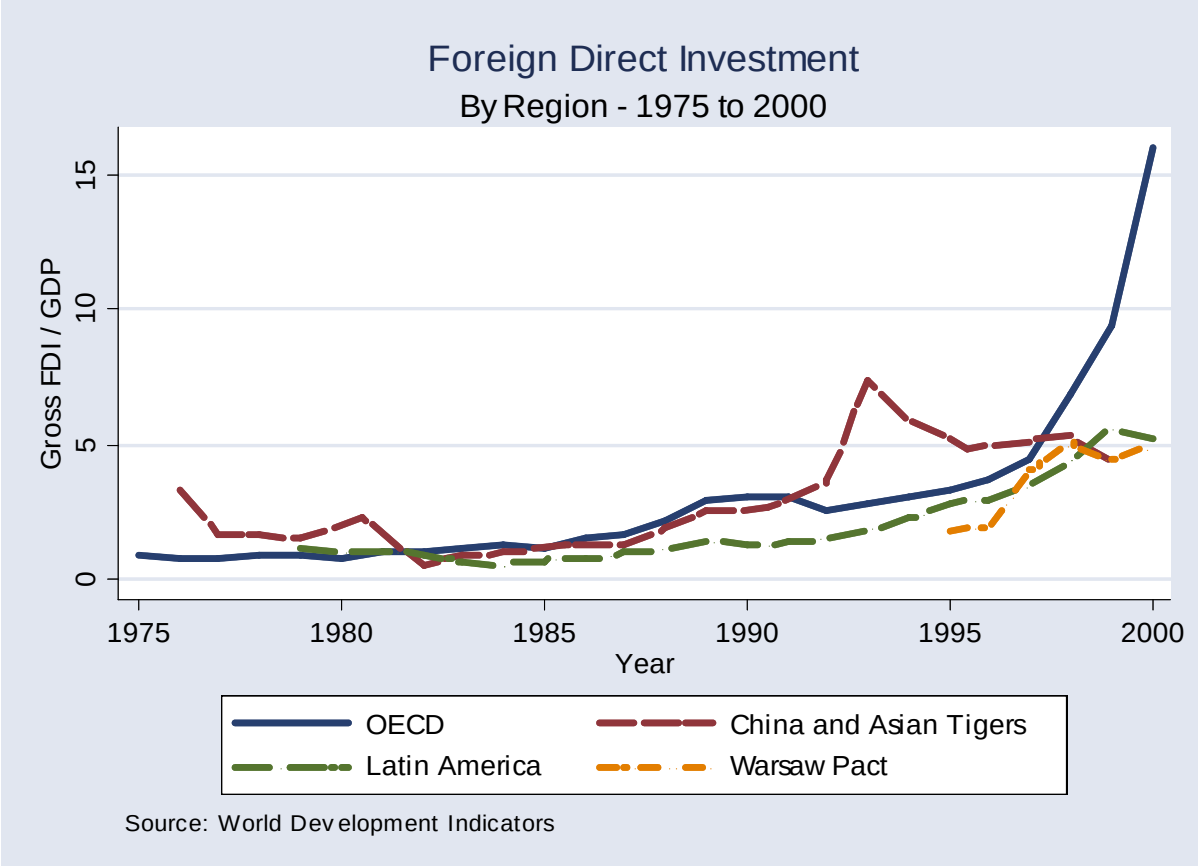


Figure 2.12. Annual percentage increase in GDP in 96 countries 1976-2000.

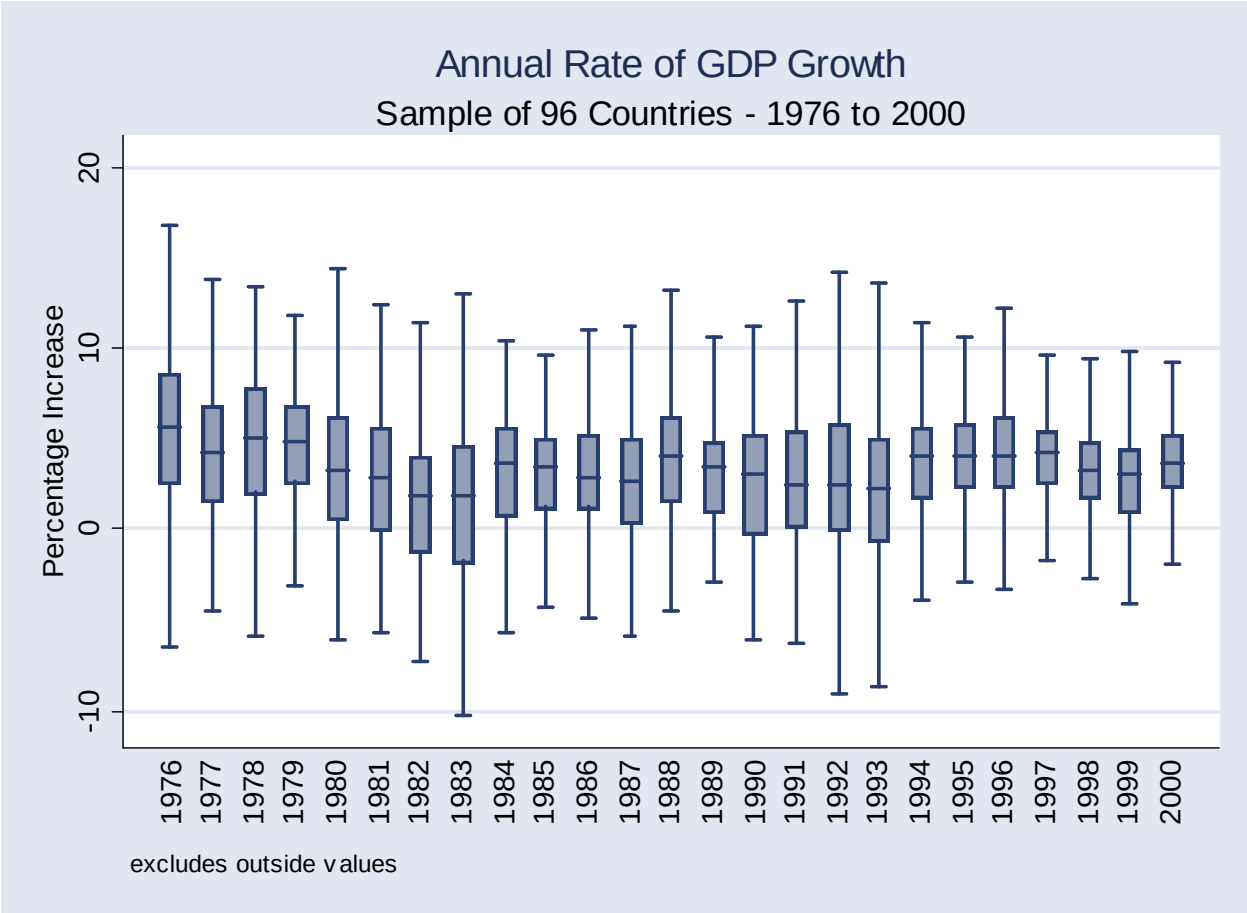


Figure 2.13. Average annual rate of growth in GDP among 96 countries by region 1976-2000.

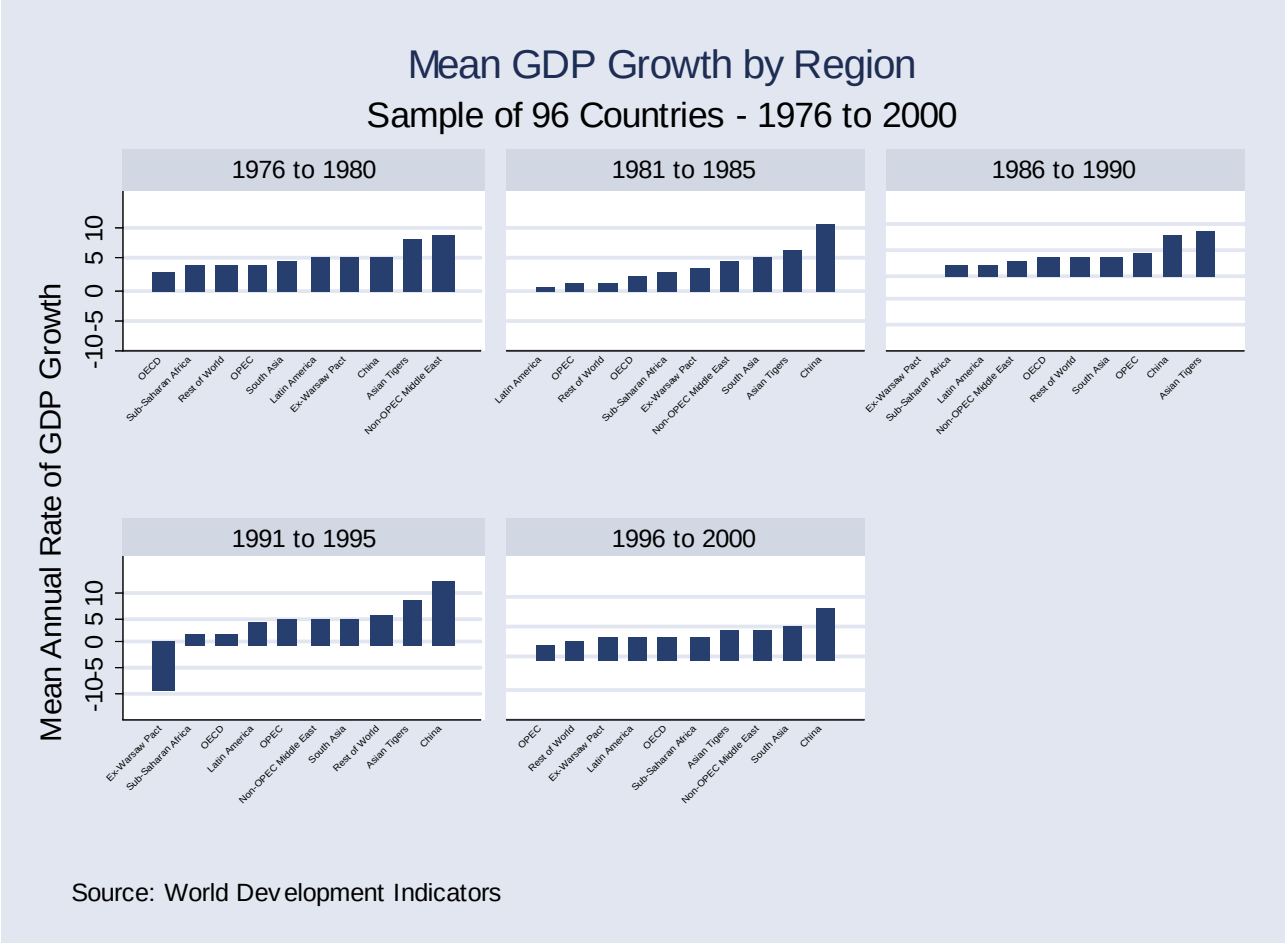


Figure 2.14. Box plots showing distribution of GDP deflators in 72 non-OECD countries 1975-1979.

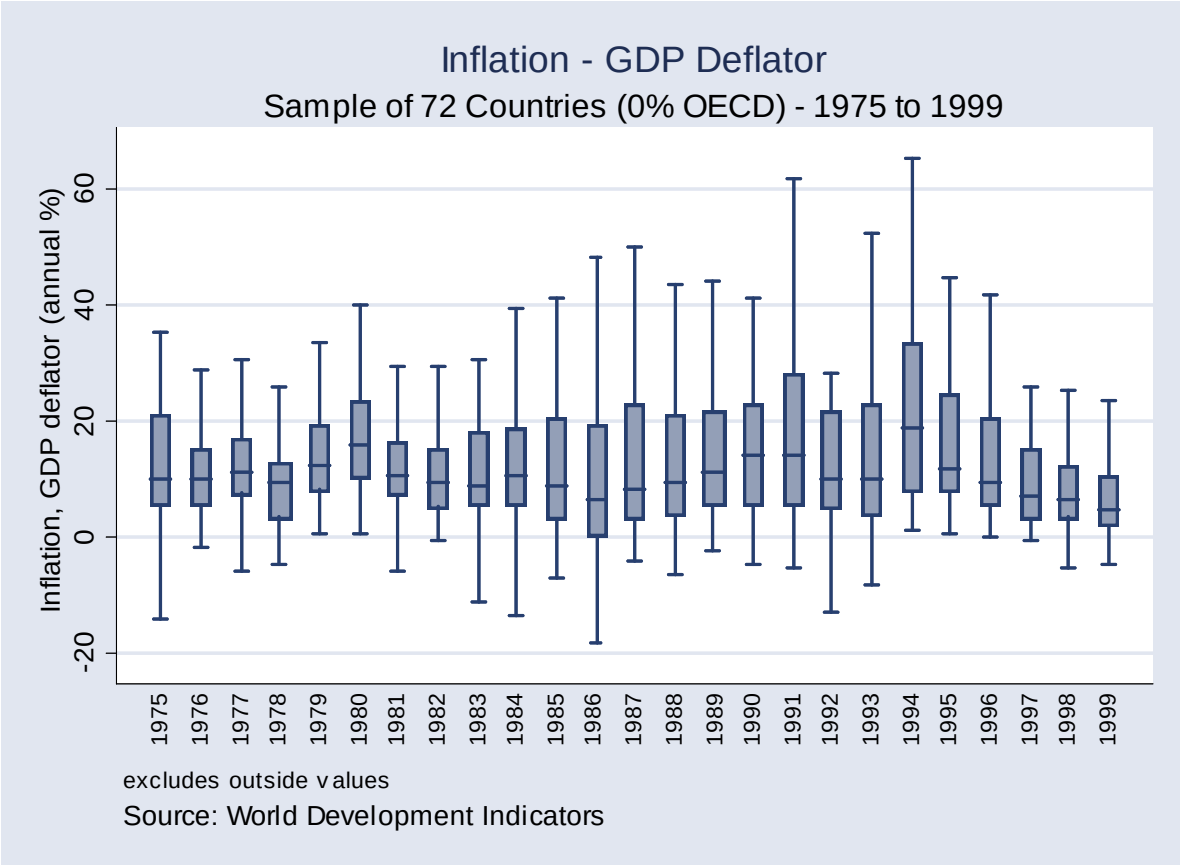


Figure 2.15. Box plots showing variation in consumer price index for 81 countries 1975-1999.

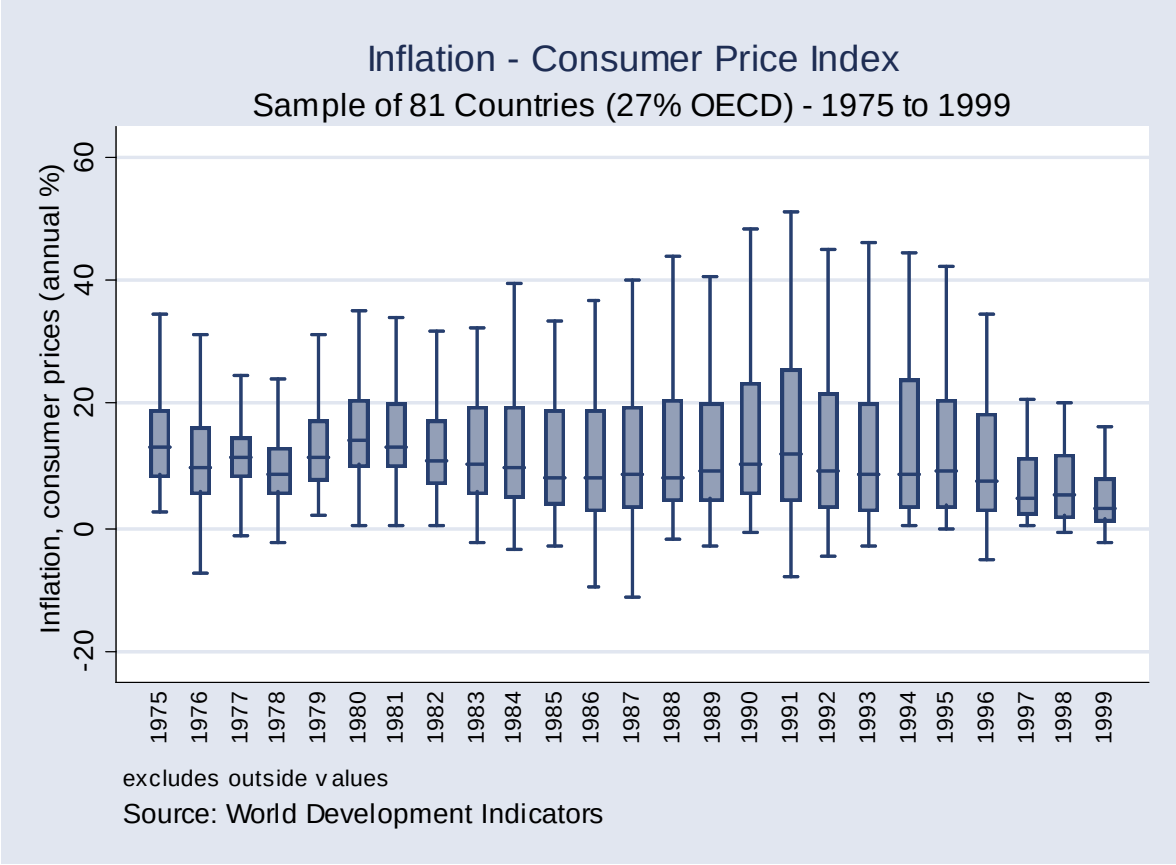


Figure 2.16. Annual change in consumer price index by region 1975-1999.

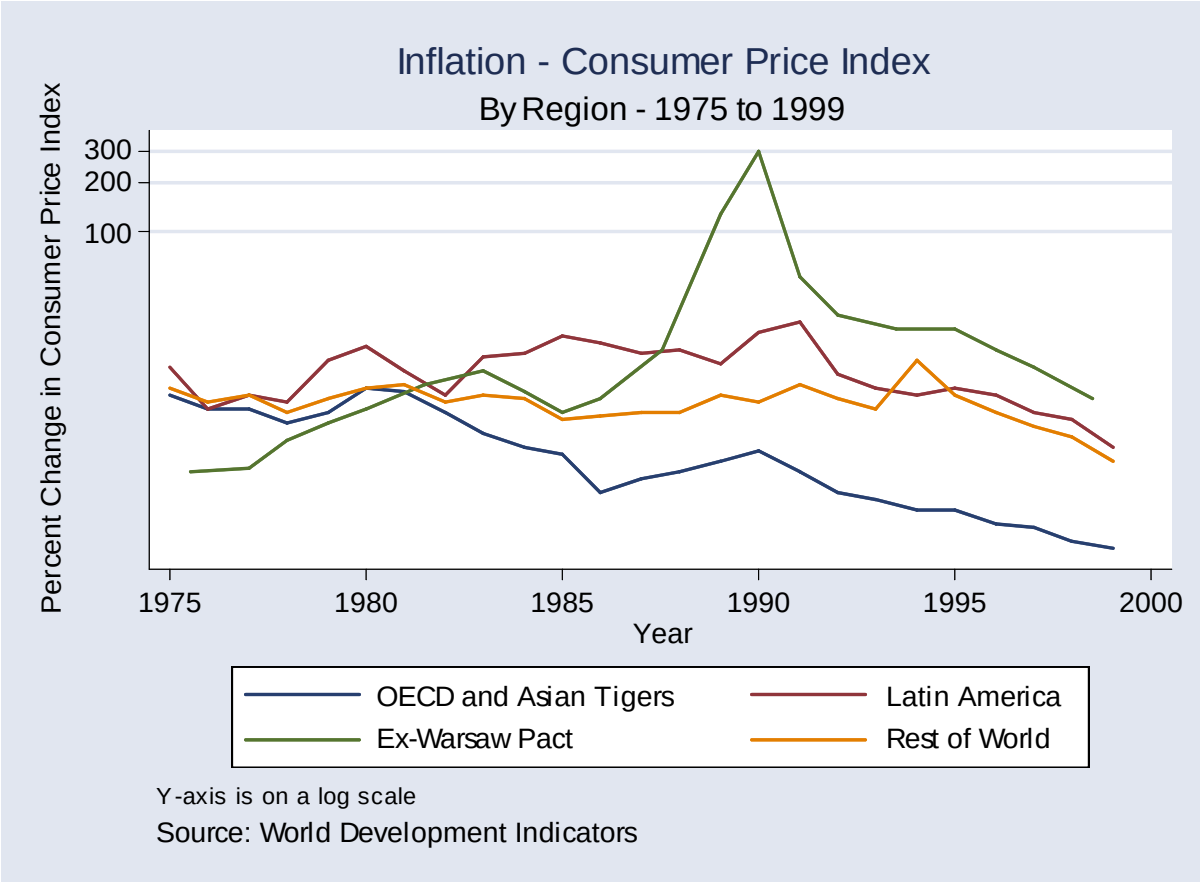


Figure 2.17. Rates of unemployment in 29 countries 1980-1999.

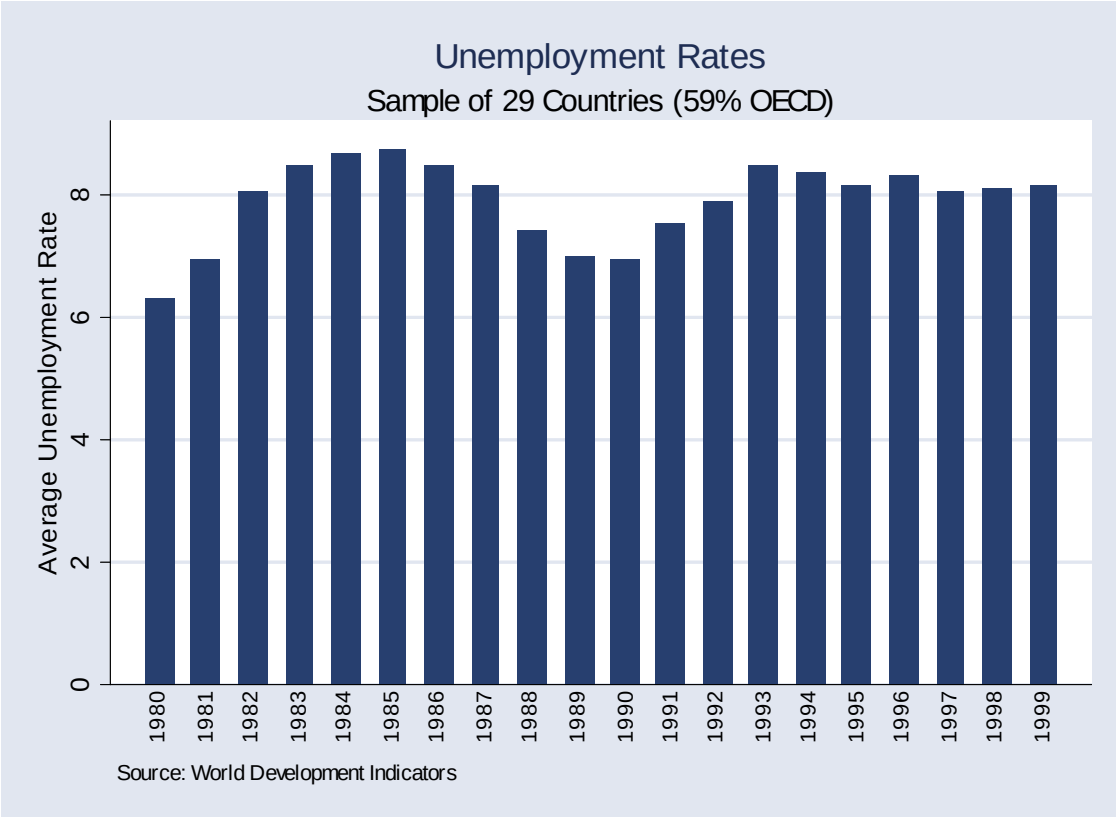


Figure 2.18. Standard deviation in rate of unemployment in 29 countries 1980-1999.

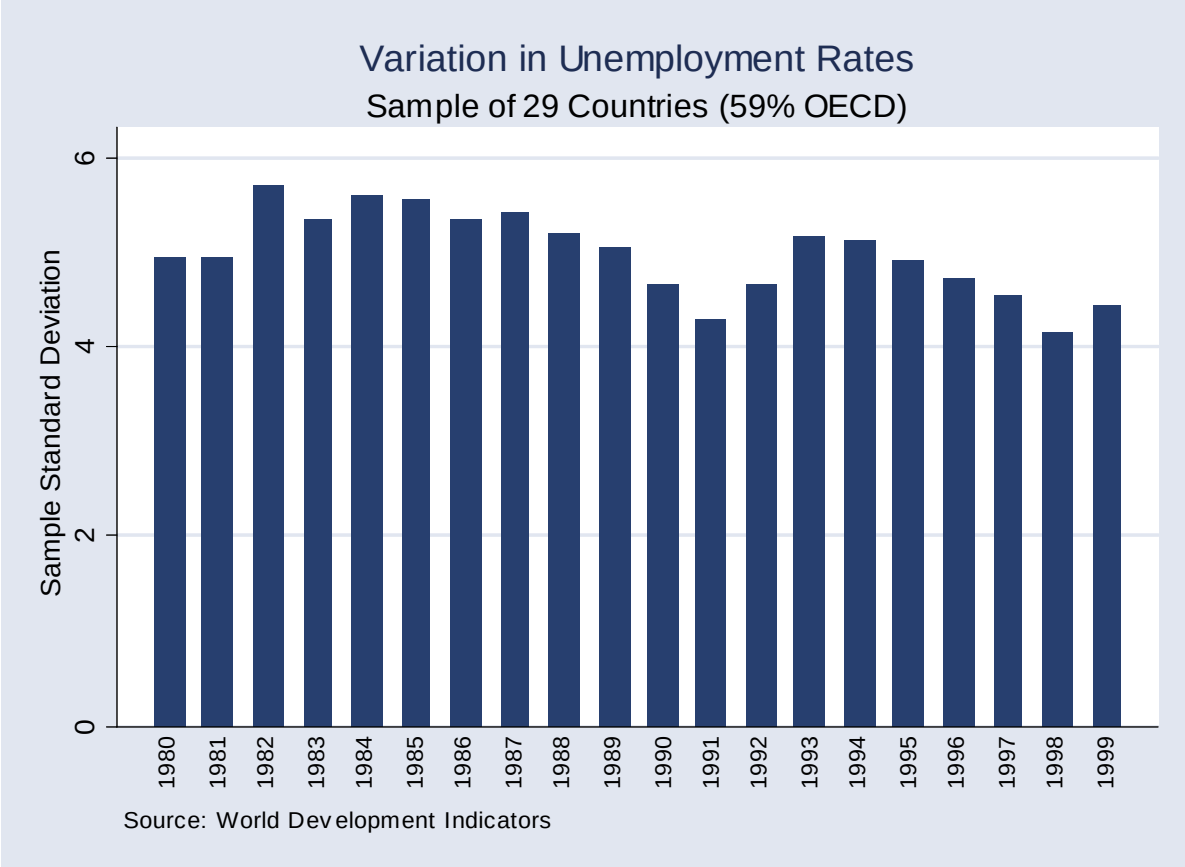


Figure 2.19. Public debt as a percentage of GDP in 27 countries (40% OECD) from 1980 to 1999.

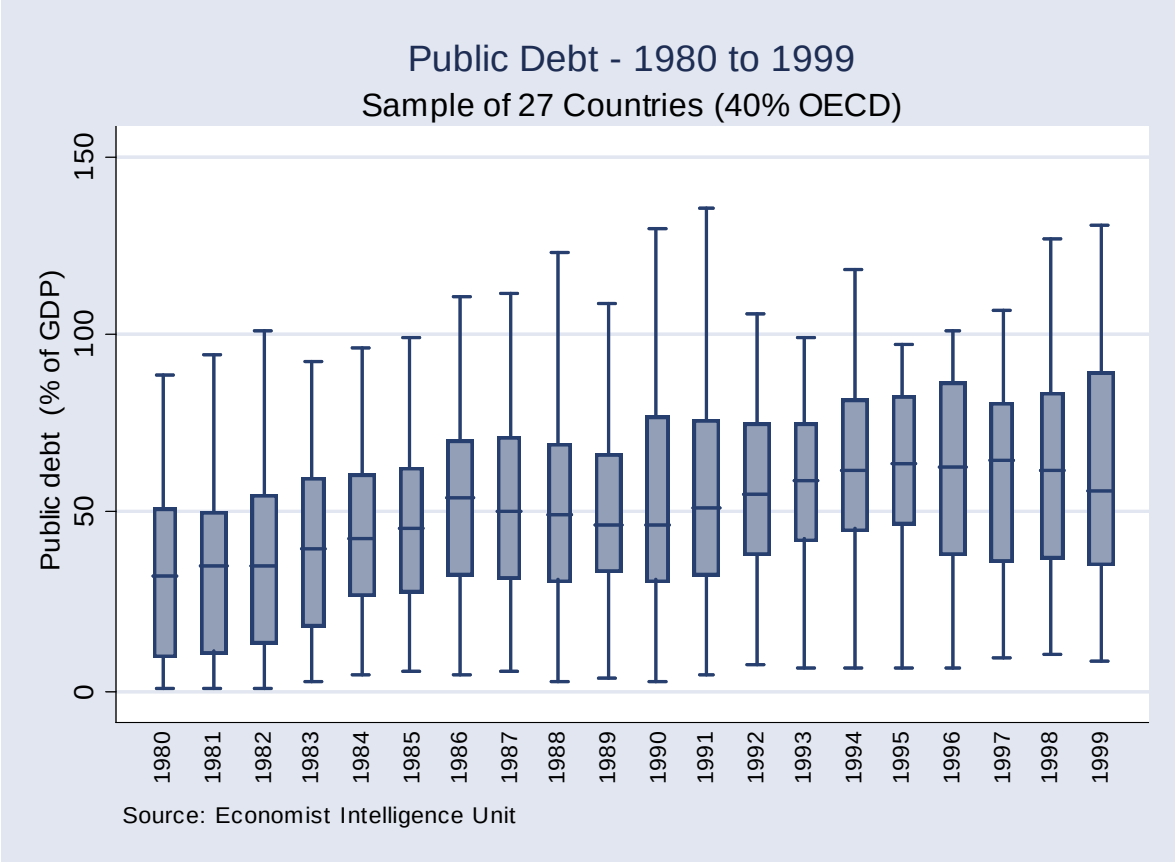


Figure 2.20. Box plots showing variation in public debt as a percentage of GDP of 87 countries from 1993 to 1999.

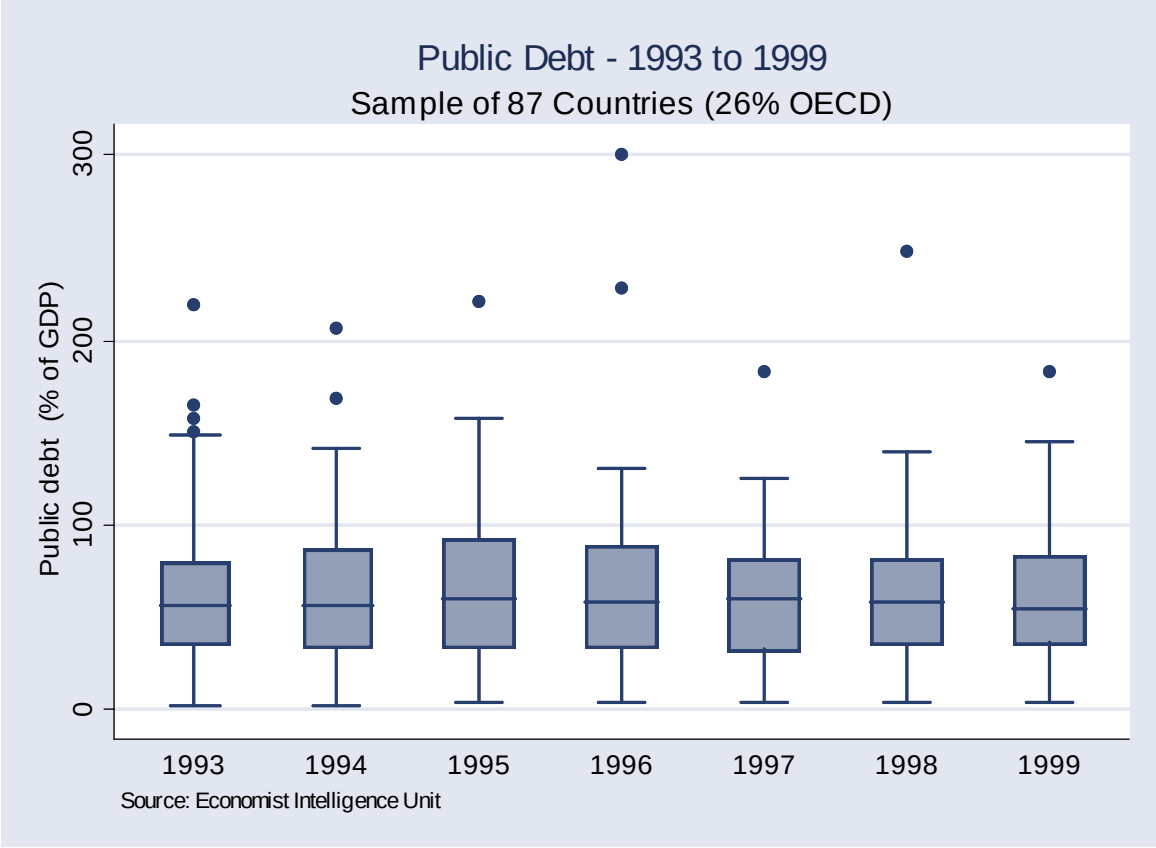


Figure 2.21. Median public debt as a percentage of GDP in selected world regions 1993-1999.

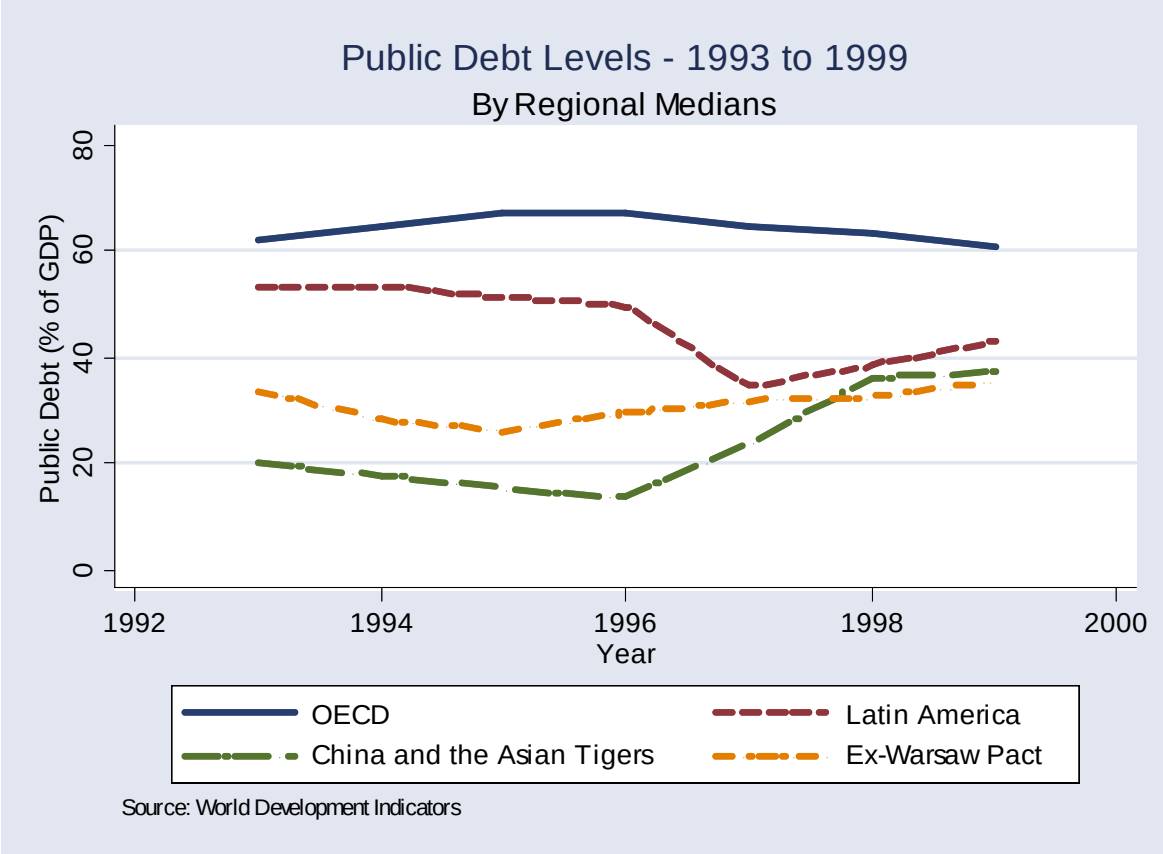


Figure 2.22. Box plots showing variation in distribution of public debt as a ratio of GDP in OECD and non-OECD countries 1993-1999.