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**GLOBALIZATION, NEOLIBERALISM
AND LABOUR**

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DISCUSSION PAPERS

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GLOBALIZATION, NEOLIBERALISM, AND LABOUR

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Abstract

The paper discusses the issue of globalization from the perspective of employment and labour. It argues that it is the ideological basis of policy prescriptions advanced in support of globalization, rather than the increasing global interdependence, that is the real source of controversy and anxiety over globalization. The paper discusses the impact of the neoliberal policies on economic growth, employment, and income distribution, and examines the issue of labour market rigidities from the perspective of industrial as well as developing countries. It argues that developing countries face conflicting pressures: the new liberal policies prescribe liberalization of labour markets, while the organized labour in the industrial countries is pushing for higher labour standards in developing countries. The paper concludes with a section containing ideas on how the process of globalization may be humanized, so that the gains from the growth in incomes and trade are more widely shared within as well as across countries in an increasingly interdependent world.

The impact on employment and wages is the single most prominent issue in the ongoing debate on globalization. The proponents of globalization see in it new opportunities for investment, leading to accelerated economic growth, employment creation, and a general rise in economic welfare. The sceptics, on the other hand, question this premise and hold the emerging order to favour capital against labour, and the economically strong against the weak.

Globalization, however, is a loose term, referring to a complex set of economic and financial developments that have made economies increasingly interdependent. As a historical process – reflected in rising international trade, movement of capital, transnational commerce and investment, and labour flows – globalization has much to commend itself. It has given mankind greater choice, access to goods and knowledge, and improved international communication, whose benefits transcend narrow economic or financial returns.

The increased global interdependence is a fact of life, even though for a variety of reasons – notably, the inequality in economic relations and influence – it tends to raise anxieties and is not universally welcome. For individual countries to opt out of it is neither desirable nor altogether feasible. Cataclysmic developments – wars, deep economic recession, collapse of established international institutions – have been observed to slow or even halt the process of global integration, but, sooner or later, advances in technology, communication and transportation, and economic development reassert their influence to make the world increasingly interdependent. The two world wars and the Great Depression of the 1930s interrupted the growth in international trade, but the post-war period witnessed a very rapid recovery.

There is, however, also an ideological side to globalization, which is variously described as neoliberalism, market fundamentalism, and Washington Consensus. These terms tend to be used interchangeably, though they have distinct nuances. They together represent a set of ideas that place emphasis on free markets, deregulation, privatization, and generally minimizing the state's role. The model to emulate is held up to be that of the free-enterprise system found in the United States and, to a lesser extent in Great Britain, the so-called Anglo-Saxon model.

This paper argues that the assertion of this ideology – rather than globalization per se – is the main source of controversy and friction. Many have come to see in it imposition of American hegemony, threatening domestic institutions and cultures. This has pitted the principal proponents of neoliberalism – notably, the Bretton Woods institutions (BWI) – against its opponents in civil society and a few research institutions, though dissenting voices are now beginning to be raised among mainstream economists also. Dialogue between the two sides has been difficult and largely at cross-purposes, because of the sharply differing frames of reference (e.g., how poverty should be measured?) as well as the stark terms in which the argument is structured on specific issues (one is either for international trade or against it).¹

The next two sections of the paper examine the record of economic and social progress over the last two decades, a period identified with rapid globalization. An attempt is made to assess the impact on economic growth and income distribution of the neoliberal policies adopted to promote global integration. This is followed by a discussion of the functioning of the labour market and the issue of labour market rigidities in the industrialized countries. The implications of this for developing countries are twofold: the multilateral development institutions, under the influence of neoliberalism, would like to see flexible labour markets also in developing countries, but labour unions maintain that cheap labour gives those countries an unfair advantage in the world market. This conflict is addressed in Section 4. The paper concludes with a section containing a set of ideas on how globalization could be humanized, so that there is wider sharing of its benefits and greater participation and involvement in policymaking on the part of the economically weak.

1. GLOBALIZATION AND ECONOMIC PERFORMANCE

The increased reliance on freely functioning markets and private incentive and initiative are the core of neoliberal policies.² Profit maximization in markets rid of policy-induced distortions is held to bring about optimal resource use and increased productivity. Lower income taxes and flexible labour markets encourage investment and economic growth while eliminating unemployment.

For longer-term development and growth, however, trade liberalization is deemed to be the single most important measure, as this enables countries to exploit their comparative advantage and increase their wealth. Protectionist policies and the so-called “import-substitution strategy” are seen to have not only failed, but were the principal cause of the perceived failure of development. Even though there is hardly a country (industrial or developing) that managed to industrialize without some form of state intervention (Chang 2002), developing countries are pressed to liberalize trade without regard to their

¹ For example, Anne Krueger (2004), in a recent article, put the issue as follows: “... trade, or rather opposition to it, is what seems to be inspiring the anti-globalization movement. Trade hurts the poor in developing countries, they say, or it costs jobs in industrial countries.”

² The neoliberal reform agenda is quite comprehensive. The Washington Consensus in its original form consisted of ten “commandments”, covering fiscal discipline, reordering of public expenditure priorities, tax reform, liberalization of the financial sector, exchange rate management, trade liberalization, free flow of foreign direct investment, privatization, deregulation, and property rights.

stage of development or needs. It is only after two decades of unsatisfactory results of structural adjustment programmes that the World Bank came to recognize the need for proper sequencing of reform and creation of enabling conditions for the success of trade liberalization (see, e.g., Stiglitz 1998a).

In short, the message to developing countries has been that the economies that rely on the market, get integrated into the global economy, and generally roll back the state's role can be expected to grow rapidly and create employment. This has been a powerful message. Virtually without exception, countries have moved – though with varying degrees of enthusiasm and commitment – towards greater reliance on the market, lower trade barriers, and deregulation and privatization of state enterprises.

Considerable research effort has been put into establishing a positive link between a country's economic performance and its integration with the global economy. A number of studies (notably, Sachs and Warner 1995) show that globalization has been beneficial generally as well as at specific country level, i.e., countries that got integrated most closely tended to grow more rapidly and were more successful in alleviating poverty. But there are serious difficulties in measuring protection and openness and in controlling for the influence of other variables on the outcomes, which raise questions on the reliability of the findings. Rodriguez and Rodrik (1999:39), after failing to get a statistically robust result, conclude that all such research to be futile. In fact, misgivings and reservations have been expressed by a wide range of economists.³

A more recent World Bank study (Dollar and Kraay 2001), which set out to remedy some of the noted weaknesses of interpreting trade liberalization, concludes that globalization is generally beneficial. It shows that within individual countries over time and across countries, “globalization leads to faster growth and poverty reduction in poor countries”. It points out that while “non-globalizers” grew faster than “globalizers” during the 1960s and 1970s, the positions reversed, rather dramatically, during the last two decades. However, “globalizers” are distinguished from “non-globalizers” on the basis of their degree of openness, as measured by either the proportional *increase* in trade (i.e., the sum of imports and exports) to GDP ratio or the absolute percentage point *reduction* in tariffs. Thus, a globalizer curiously is not a country that already has low protection or high trade share, but rather one that has reduced protection or increased trade share the most.

In any case, the study's rather strong conclusion is heavily influenced by the opening up and consequent improved economic growth of China and India, since the group averages are weighted by populations. These two countries, which account for roughly one-third of world population, have taken significant steps towards lowering trade barriers and deregulating their economies, but they are not, by any measure, paragons of economic liberalism. According to the study in question, China continues to retain an average tariff of 20 per cent, while India's is double that level, along with continuing government regulation. Indeed, average tariff levels for the so-called globalizers, even after the reductions, remained significantly higher than those of the non-globalizers, while the opposite is true for the trade: GDP ratio. Thus, if the actual openness – rather than the moves towards it – were taken as the measure of globalization, the study's finding would point to just the opposite, i.e., the economies that were most closely integrated with the global economy and had low tariffs performed less well.

³ See, for example, Havrylshyn 1990, Dornbusch 1992, Ocampo and Taylor 1998, and a whole set of country studies undertaken by the Center for Economic Policy Analysis at the New School University in New York.

While linking policies with economic performance is difficult, it is possible to compare economic performance of countries during the era of neoliberalism with the period when activist government economic policies and higher protection were common. The purpose here is to see whether certain patterns in economic growth experience can be detected over the two periods that were dominated by distinctly different views on the respective roles of the government and the market.

Table 1 compares growth performance of 91 developing and 25 industrial countries⁴ between the periods of 1960–1980 and 1980–2000 for which consistent data are available. The data show a clear and significant general decline in the economic performance of developing as well as industrial countries. While there were eight developing countries during 1960–1980 that experienced a per capita income increase of more than 200 per cent, only three matched that extraordinary performance during the last two decades. This fall in performance could be attributed to the fact that it becomes increasingly difficult for the same country to sustain high rates of economic growth indefinitely. China was the only new developing country to enter the ranks of high performers during the latter period.

Table 1
Growth performance: comparison of 1980–2000 with 1960–1980
(Number of countries in each growth category)

Per cent increase in per capita income	Developing countries		Industrial countries	
	1960–1980	1980–2000	1960–1980	1980–2000
> 200	8	3	2	
199–100	19	7	13	3
99–50	22	9	8	10
25–49	17	13	2	11
10–24	10	11		1
0–9	6	11		
< 0	9	37		
<i>Total</i>	<i>91</i>	<i>91</i>	<i>25</i>	<i>25</i>

Source: The table is based on the data from the Penn World Tables and the IMF, as reported in Table 1 in Weisbrot, Naiman and Kim (2000).

Of greater significance is the finding that more than half of the developing countries in the sample registered at least 50 per cent increase in per capita income during the first period, while only one-fifth (or 19) succeeded to do so in the second. Among the modest performers (i.e., with per capita income increase of between 10–50 per cent), there was also a small decline in the number of countries over the two periods (i.e., 24 against 27). On the other hand, while there were only 9 countries that experienced a decline in income during 1960–1980, 37 countries had a loss in the subsequent two decades. Significantly, it was the already very poor countries where this happened: of the 37 countries (mostly in Africa) in the group, 22 had per capita income of less than US\$1,000 (1999 prices) at the start of the period (1980) and 18 had income of less than US\$500.

The rise in incomes slowed down sharply in the industrial countries also. With the shift of country distribution towards lower growth (table 1), the overall bi-decennial growth in per capita income for the industrial countries declined from more than 100 per cent to only 40 per cent. But, in contrast to

⁴ This group includes only one transition economy, Romania, which for the sake of convenience has been here included with the developing countries.

the developing countries, no industrial country actually experienced a decline in income and only one (Switzerland) had its per capita income increase by less than 25 per cent. Thus, while a number of developing countries showed signs of catching up with the industrial countries during the 1960–1980 period, there was an evident widening of income disparity during the period of globalization. The phenomenon of growing income disparity across countries was highlighted by UNCTAD in the *Trade and Development Report, 1997 (TDR)*, p. IV. The report had noted:

Since the early 1980s the world economy has been characterized by rising inequality and slow growth. Income gaps between North and South have continued to widen. In 1965, the average per capita income of the G7 countries was 20 times that of the world's poorest seven countries. By 1995 it was 39 times as much ... In Africa, where the gap has been widening over the last three decades, average per capita income is now only 7 per cent of that of the industrial countries. In Latin America, the change has been more abrupt: average per capita incomes have fallen from over one third of the northern level in the late 1970s to one quarter today. Only a handful of East Asian economies have managed to sustain growth rapid enough to narrow the gap, or even in some cases to catch up, with the North.

The decline in performance is also reflected in the socio-economic indicators. The *Human Development Report (2001)* identified some eighteen countries that witnessed a setback in human development indicators from the levels of 1990 or earlier periods. Of these, ten were countries in Africa and the rest, transition economies. While most countries continued to advance with respect to such indicators as life expectancy, infant mortality, and literacy and education, the pace of progress, during the 1980–2000 period, showed definite signs of decline, especially in countries where the levels were already quite low (Weisbrot et al. 2001). Similar to the pattern of growth of per capita incomes across different country groupings, past above-average performers generally continued to do well in the recent period while laggards experienced significant setbacks.

Comparisons of income growth over two long periods may be questioned on grounds that countries adopted neoliberal policies to varying degrees, and therefore it is wrong to attribute the general decline in economic performance to those policies. However, the same is true of the earlier period: countries showed wide variance in their trade policies, the presence of state enterprises, and central planning. There is, however, little question that the two periods were marked by a distinct shift in the general orientation of economic policy across the globe. What the available data show is that, despite more than two decades of experimentation, the promised benefits of new policies have still to materialize

2. THE BIAS IN THE NEOLIBERAL POLICIES

The increasing income disparity across countries was accompanied by increasing income inequality within countries. According to the *TDR 1997*, the share of the richest 20 per cent in income rose in virtually all countries since the early 1980s, and in many cases this represented a reversal of the post-war trend. In more than half of the developing countries, the top 20 per cent of the population received over 50 per cent of the national income, while those at the bottom experienced little or no increase in the living standards; in some countries the poor, in fact, got poorer. This trend seems to have been independent of a country's overall economic performance.

The rise in income inequality accompanied the increased share of profits and shrinking share of wages in the national income. The wage share started to fall in Europe in the 1980s, reaching a level substantially lower than in North America (Solow 1998). Real wages actually fell in a number of

developing countries (and also in the United States); 20–30 per cent over the 1980 level in some Latin American countries. Again to quote UNCTAD's *TDR 1997* (p. *V*):

In four developing countries out of five, the share of wages in manufacturing value added today is considerably below what it was in the 1970s and early 1980s. In the North there has been a remarkable upward convergence of profits among the major industrial countries. The rate of return on capital in the business sector of the G7 countries taken together rose from 12.5 per cent in the early 1980s to over 16 per cent in mid-1990s.

At the same time, there occurred, in developing as well as industrial countries, a general widening in the disparity in earnings of skilled and unskilled workers, the causes of which have been a subject of extensive research and academic debate in recent years.

These trends are hardly surprising since the neoliberal policies, by design, were meant to weaken labour and strengthen capital. The data simply confirm that they succeeded with respect to one of their principal goals. The bias against labour can be traced to the origins of neoliberalism in the late 1970s. For some three decades following the Second World War, the Keynesian consensus had ruled with only minor challenges in the industrialized countries. All major political parties had adopted full employment as a key goal, and accepted the need to direct fiscal and monetary policies towards reaching it. The 1950–1970 was a period of relatively high economic growth and low levels of unemployment, with generally moderate inflation – a period that has been called, somewhat nostalgically, as the “golden age”. The welfare state had taken root in Europe and major reforms in the social security and health systems were also instituted in the United States under the drive for Great Society in the late 1960s. As a result, labour gained in political power and influence almost everywhere and made significant gains in real wages and welfare benefits.

The strains in the post-war economic order, however, started to appear in the 1970s, a period which saw the collapse of the Bretton Woods system of fixed exchange rates, when the United States abandoned its commitment to the sale of gold at a specified price. The reasons for the breakdown of the Keynesian consensus were many and complex, but the acceleration of inflation was probably the leading cause. Inflation had become the key economic issue when Mrs. Thatcher in the United Kingdom and Mr. Reagan in the United States assumed office,⁵ but over time the concern became widely shared throughout the industrial world. Low or no inflation, rather than growth, became the primary purpose of public policy.

Mainstream economics had come to explain inflation in terms of the so-called “Phillips curve”, according to which inflation tends to accelerate as unemployment declines. Although the actual statistical relationship was found to be quite unstable across countries and over time, it nevertheless exerted a profound influence on macroeconomic policy, i.e., fighting inflation necessitated sacrificing employment. The belief in the inflation-employment trade-off remains strong to this day, though its intellectual underpinnings have undergone significant modification. At the same time, “discretionary policy” (used to influence employment levels) was discredited, while monetarism (according to which money supply is the sole determinant of inflation) started to influence public policy. This bias in monetary policy remains pervasive in the industrial world.

⁵ These two leaders were open about their anti-trade union sentiments. The firm stand taken by President Reagan against the air-traffic controllers' strike in 1981 and by Prime Minister Thatcher against miners played a significant role in weakening labour's bargaining power in the two countries.

Fighting inflation also required reductions in public deficits, but the way they were reduced had a significant impact on income distribution. On the revenue side, there was a general move towards lower income taxes. This resulted in a shift in public revenue from direct taxes (which tend to be progressive) to indirect taxes (which tend to be regressive). Generally, income taxes on the upper-income brackets were reduced more than those at lower income on the rationale that those paying higher taxes should also benefit more from tax reductions. The United States has gone furthest in lowering income taxes. The concern that this might cause fiscal deficits to rise was in the early days of neoliberalism dismissed on grounds that tax cuts would stimulate output expansion so much that the tax base would actually increase.⁶

In any case, almost universally, the brunt of fiscal adjustment has fallen on public expenditures, with welfare programmes as the principal target.⁷ The latter, according to the neoliberal doctrine, is symptomatic of not only government profligacy but an evidence of government taking over what is best left to the private sector (notably, in health) while distorting incentives (e.g., unemployment benefits discouraging job search). Another reason for reducing public deficits was that they were deemed to “crowd out” private investment, since government borrowing to finance public deficits left correspondingly less money available for the private sector to borrow.

The increased preoccupation with international competitiveness was yet another influence that contributed to weakening workers’ economic position. With the general embrace of globalization, a country’s success has come to be judged by its performance in the world market. Promoting exports and capturing world markets – a phenomenon referred to as “new mercantilism” – has become a major preoccupation of governments as well as corporations. This drive for international competitiveness has made countries more conscious of the consequences of their policies, especially those affecting labour costs. Thus, along with a tight macroeconomic policy, plant-level layoffs and corporate restructuring became the mantra of staying globally competitive.

But of the two determinants of labour costs, controlling wages proved to be easier than raising labour productivity. Just the threat of competition from imports and production moving to lower-wage countries has helped to keep workers’ demand in check.⁸ Indeed, faced by the threat of external competition, some trade unions have come to embrace the notion that workers’ and corporate owners’ interests coincide. This too has helped to moderate wage increases and dampened trade union militancy.

The above narrative has focused on the industrial countries, but the pressure for public expenditure cuts in developing countries was, if anything, even stronger, as it came from the providers of external finance, notably, the IMF and World Bank. Faced with a severely resource-constrained situation, developing countries generally have no choice but to abide by the orthodox policies of fiscal and

⁶ This proposition – popularly known as the “Laffer curve” – was based entirely on the effect of improved incentives (the supply-side economics, as it was then called), rather than the Keynesian notion of fiscal expansion leading to output and employment expansion. In justifying further tax cuts, the current Bush administration has taken mutually opposing positions: it argues “fiscal deficits don’t matter” but attributes the ending of the recent recession to the lowering of taxes.

⁷ This, however, has not discouraged government patronage of the private sector, known as “corporate welfare” in the United States. Time magazine noted in 1998: “Two years after Congress reduced welfare for individuals and families, this other kind of welfare continues to expand, penetrating every corner of the American economy. It has turned politicians into bribery specialists, and smart business people into con artists. And most surprising of all, it has rarely created any new jobs.” Special Report/Corporate Welfare, 152(19), 9 November 1998.

⁸ This became a popular explanation for the evident breakdown of the inflation-employment link during the rapid economic growth period of the late 1990s in the United States.

monetary restraint to become eligible for financial support. To IMF, economic and financial stability has always been paramount, but its prescriptive model was originally designed for “overheated” economies – characterized by tight labour markets and physical capacity constraints – where, with limits on increasing supply, there is no choice but to cut demand to restore macroeconomic balance. This situation did not generally prevail in developing countries or, for that matter, the economies in transition. Their macroeconomic instability typically originated with a supply shock, such as a failed harvest, a sharp deterioration in the terms of trade, civil war, and like events. To urge countries in such situations to cut public expenditures, eliminate subsidies, and mobilize domestic revenue tends only to aggravate recessionary conditions and worsen the macroeconomic imbalance, without bringing down inflation.

In short, the stabilization and structural adjustment programmes undertaken by a large number of developing countries had a rather similar orientation as far as workers’ position was concerned. Control of inflation was the principal target even though the evidence across countries and over time showed that, except in very high inflation situations, it had little effect on economic growth.⁹ Employment was not a major concern under the structural adjustment programmes either, as they focused essentially on improving (rather narrowly defined) productive efficiency. The rise in unemployment following trade liberalization, sale of public enterprises, or general corporate restructuring was viewed as regrettable but a necessary cost for improving efficiency and becoming internationally competitive. In fact, the workers in the formal, organized sectors were considered privileged and fortunate, beneficiaries of an inefficient, protected system, who gained at the expense of the rural and informal sectors. Thus, the rise in unemployment in the formal sector was simply regarded as a necessary consequence of general economic rationalization. Abandonment of trade policy and more or less exclusive reliance on exchange rate adjustments to manage balance of payments difficulties further contributed to the weakening of real wages in a number of developing countries.

The international financial institutions, however, have recognized that adjustment and economic restructuring entail economic distress and unemployment and have come to support the setting up of “safety-nets”. But they continue to view trade union activity or government labour-support programmes as interferences with the free functioning of the labour market. Since this view of the labour market touches on the very core of domestic institutions that are crucial to social and political cohesion, it merits a close scrutiny.

3. FUNDAMENTALISM IN THE LABOUR MARKET

One of Keynes’s most remarkable contributions was to assert that the labour market behaved, in a fundamental sense, differently from ordinary product markets in that unemployment (or the excess supply of labour) could not be removed by simply cutting money wage, even if labour was willing to accept such a cut. Workers are also consumers, and a decline in their income causes a decline in the aggregate demand, which is the primary determinant of employment. The neoliberals reject this view of the labour market, maintaining that if labour markets were allowed to function freely (i.e., absent collective bargaining, government regulations governing hiring and firing of workers, etc.), flexible

⁹ See, for example, Fischer 1993.

money wages would reduce unemployment. Therefore, the high levels of unemployment found in some European countries must be on account of labour market rigidities.¹⁰

The idea behind labour market rigidities is simple and plausible. It helps to explain the two phenomena that have been observed over the past two decades: the variance in the unemployment rates and wage inequality across the industrial countries. Countries successful in lowering unemployment rates have tended also to have rising wage inequalities (notably, the United States); and conversely, high unemployment countries have narrower, though also rising, wage inequality. If labour markets functioned freely, unemployment would be reduced through a fall in wages. At the same time, the widening earnings disparity between unskilled and skilled workers is simply the outcome of how markets actually function: because skilled workers are scarce, their wages have been bid up; conversely for the unskilled workers.

This conception of the labour market, which has been called the “Unified Theory”, has powerful implications for labour policy: get rid of the rigidities in the labour market to remove unemployment and spread education and skills to increase the supply of skilled workers. Under this theory, any kind of worker protection and collective wage bargaining is not good for employment. Its practical implications are that firms must not be prevented from laying off workers if that is needed to improve productive efficiency and maximize their profits. Thus, downsizing came to be identified with improved prospects of a firm’s profitability and an appreciation of its share-value.

In short, benefits from technological change and globalization are contingent on governments not interfering with market forces. Worker rights and employment protection programmes are thus encumbrances and, to the extent possible, must be eliminated. The international financial institutions as well as the OECD embraced the neoliberal view of the labour market with zeal. The subtext here has been to press countries (notably the European countries) to abandon their social-market systems and revamp their social security programmes. Similar pressure for reform has been brought to bear on Japan as well, even though its unemployment rate, until rather recently, had been quite low. There is, in fact, no other area of economic policy or reform where the Anglo-Saxon model of capitalism has been pushed more forcefully.

But there is considerable empirical evidence that casts doubt on the proposition that unemployment is rooted in labour market rigidities. A crucial fact is that labour market regulations were instituted long before the emergence of high rates of unemployment of the last two decades. If anything, there was, during this latter period, considerable rolling back of labour regulations and trade union activity generally weakened. On the basis of his empirical research, Solow (1998) concludes: “... the large continental economies do not seem to have suffered from noticeably more rigid labour markets during the high-unemployment 1980s than they did in the low-unemployment 1970s.” He found that the historical inverse relation between the vacancy rate and unemployment remained stable during the 1980s in the continental economies, suggesting that it was the lack of job opportunities that explained unemployment. Solow also mentions that at industry level aggregate demand, rather than labour market rigidities, was an important determinant of job creation.

¹⁰ Labour market rigidity is not a precise notion. Solow (1998:1) notes: “... a labour market is inflexible if the level of unemployment-insurance benefits is too high or their duration is too long, or if there are too many restrictions on the freedom of employers to fire and to hire, or if the permissible hours of work are too tightly regulated, or if excessively generous compensation for overtime work is mandated, or if trade unions have too much power to protect incumbent workers against competition and to control the flow of work at the site of production, or perhaps if statutory health and safety regulations are too stringent.”

Then there is the fact that unemployment rates varied widely within Europe, with some countries having rates considerably lower than the United States, Austria, West Germany,¹¹ Norway, Portugal, Sweden or Switzerland – which have had low unemployment – are not known for their “flexible” labour markets. As noted, Japan too enjoyed low unemployment rates despite the widespread practice of lifetime employment and seniority system.¹² In examining the impact of specific labour market rigidities, Nickell (1997) did not find employment protection laws and labour standards to have any significant impact on unemployment. Similarly, generous unemployment benefits were also found to be harmless from the viewpoint of employment so long as they were accompanied by pressure on unemployed to take jobs. Nor did high degree of unionization or union coverage have any impact in countries where there was “high level of coordination” in wage bargaining, especially among employers.

On the other hand, the empirical research also shows that while the rigidities might not explain unemployment, they do influence workers’ share in income. According to one estimate, something of the order of one-third of the increase in earnings inequality during the 1980s could be attributed to changes in the real minimum wage, unionization rate, and economic deregulation (Howell 2001).

4. THE ISSUE OF LABOUR STANDARDS

The pressure on developing countries to liberalize their labour markets is also strong, and may become stronger. It is argued that since the labour market has been resistant to liberalization, it should be made a key target in the future “Reform Agenda” (Williamson 2003:10–13). However, while the concern with labour market rigidities in the industrial countries is tied up with macroeconomic considerations (i.e., the level of employment), for developing countries it is cast basically as a microeconomic issue, involving economic efficiency at the firm or plant level. Flexible labour markets are needed to reap the benefits of economic restructuring that trade liberalization, privatization, and other neoliberal measures entail. Firms must not be hindered by government regulations to shut down plants or lay off workers if that is what is required to stay competitive in the world market. In a word, liberalization of factor markets must accompany liberalization of product markets.

It is conceded that economic restructuring might cause jobs to be lost more rapidly than they are created in rising economic activities, but this is seen as a necessary cost of rationalizing an inefficient situation, where owners as well as workers are deemed to enjoy unwarranted “rents” that their “privileged” position in the protected or state-owned firms generates (Rama 2003). In any case, the rise in unemployment can be expected to be transitory, since liberalization would sooner or later bring about higher economic growth. This rosy view, however, is not supported by the actual country experience, which shows that in a number of countries that adopted neoliberal policies, unemployment remained high for long periods (Rama 2003).

But developing countries also face a different, if somewhat contradictory, pressure from the organized labour and the traditional political Left in the industrialized countries. There is a strong perception that workers’ conditions in the industrial countries have suffered on account of the rapid rise in imports

¹¹ The German high level of unemployment is concentrated mainly in Eastern Germany, whose causes are of structural nature.

¹² Japan differs from the other industrial countries in that it has rather weak social security system, but instead firms take responsibility for their workers’ welfare, though this seems to be changing. One Japanese firm owner, in a conversation with the author, characterized the lay off of workers by firms in the United States as “socializing private financial problem”, for unemployed workers still needed to be fed, clothed and sheltered by someone.

from the low-wage developing countries that displaced domestic production. The situation is further aggravated when firms pull out of the industrial countries and start outsourcing or set up plants producing competing products in the low-wage countries.

In short, developing countries are held to enjoy an unfair advantage because of their lower wages and poorer working conditions. Thus, industrial country governments are pressed to restrict imports and use international trade negotiations as a lever to raise labour costs in developing countries by insisting on higher labour standards and a higher legal minimum wage. In fact, the European Union has already started to link the developing country access to its market with the fulfilment of the relevant ILO (International Labour Organization) conventions, although the restrictions are so far confined to imports under the General Scheme of Preferences. The demand for similar action has also been strong in the United States for some time, and became particularly strident during the Democratic Party primaries for the selection of the presidential candidate for the 2004 election. Having failed to bring the matter to the WTO, labour unions have succeeded in getting labour clauses to be included in the bilateral trade agreements that the United States has entered into with various developing countries.

That there is a conflict between the demand for flexible labour markets and the insistence on labour standards is fairly obvious, but, as far as developing countries are concerned, the two pressures are not mutually mitigating. They emanate from two distinctly different sources, both of which exercise considerable influence on policies industrial countries adopt with respect to trading and financial relations with developing countries. The advocates of flexible labour markets (mostly neoliberal economists) have been the principal architects of the conditionality attached to bilateral and multilateral foreign loans and assistance, while the organized labour enjoys considerable leverage over the major political parties.

But to use international trade to placate workers' grievances in the industrial countries and to bring the issue of labour standards before the WTO is likely to punish the developing countries without any assured benefits for the industrial country labour. This would be protectionism through the backdoor, which would threaten the established rules governing international trade. Job losses have been largely limited to manufacturing industries that faced particularly severe competition from low-wage countries, but manufactured imports from developing countries still amount to a rather small fraction of GDP (3 to 4 per cent) in the industrial countries (UNCTAD 2001). It seems, therefore, unlikely that trade sanctions, if imposed, would bring about a significant amelioration in the overall employment situation in the industrial countries. It is in fact the industrial country macroeconomic policy – targeted at controlling inflation, instead of employment – that is responsible for the high levels of unemployment. The industrial country unemployment has been more closely associated with domestic recessions and reductions in exports to developing countries rather than with imports from developing countries (UNCTAD 2001). On the other hand, a rapid rise in imports from developing countries is perfectly consistent with rapid economic growth and falling unemployment, as occurred in the United States during the 1990s.

Nevertheless, working conditions and labour standards in developing countries are a real and legitimate concern. Child and forced labour is a problem in several countries. More generally, in pursuit of export markets and foreign investment, many countries seem to be engaged in “a race to the bottom” with respect to labour and environment standards. This seems to occur even though there is little evidence that countries with low labour standards are particularly attractive to foreign investors

(Kucera 2001). This phenomenon is, however, in the nature of a “collective action” problem; i.e., it may disappear if all countries were to agree and subscribe to established standards.

The institution that has the mandate to monitor country performance with respect to labour standards and rights at work is the ILO. It is that body that has to be relied upon to make appropriate recommendations in cases of serious violations, even though it lacks the leverage that the provision of external finance or market access give to the BWI and WTO. At issue are the worker rights relating to the abolition of forced and child labour, the elimination of discrimination at work, and the rights to association and collective bargaining. As far as the first three sets of rights are concerned – i.e., the rights pertaining to child and forced labour and those relating to non-discrimination at work – there is little question that they are basic human rights that affect the status of an individual. These, therefore, have universal validity and must be treated as absolutes, with all countries being expected to respect them.¹³ But the rights of association and collective bargaining by their nature concern collective action and perforce require an *organizational* basis. Thus, trade unions and collective bargaining may be legal, but their effectiveness in protecting workers’ welfare depends on how these arrangements are actually structured. As the industrial country experience demonstrates, laws and regulations are needed to prevent labour unions from coming under the influence of organized crime or turning oligarchic. In the large majority of developing countries, regulations governing trade union abuses and excesses are virtually non-existent or are difficult to enforce.

In any case, trade union membership varies widely and in some countries (notably, the United States), it has declined rather sharply over the years. Furthermore, workers can get organized more easily in industries dominated by large firms or institutions, where the distinction between labour, management, and owners is fairly sharp. These are typically traditional heavy industries, public utilities, and the public sector. On the other hand, agriculture and small-scale informal sector as well as the up-and-coming information technology sector are not readily amenable to the establishment of labour unions or collective bargaining. In other words, trade union activity and collective bargaining in some countries and some industries are not as practical or effective as in others. Thus, simply having the rights of association and collective bargaining may have little value for general worker welfare.

In any case, the rights of association and collective bargaining, and also non-discrimination at work, are exercisable only by the employed workers, i.e., these are basically rights *at* work and presume the existence of work. To an unemployed worker, these rights are essentially moot and likely to be of little value. But there is at present no recognition of the right *to* work. As noted, the single most important determinant of employment and wages is the overall economic growth, which is mainly a function of the macroeconomic policy. If workers conditions are to improve, there must be a general recommitment to full employment, as it existed during the era of the Keynesian consensus. The ILO’s campaign for “decent work” comes close to such a commitment, though it also covers essentially conditions at work, notably, security at job and a voice in decision-making.¹⁴ The idea has not so far caught the attention of the political leadership in industrial or developing countries, and the goal of adequate opportunities for productive and meaningful work remains largely an aspiration.

¹³ The elimination of discrimination in employment, however, may be qualified in situations of “affirmative action”, which becomes necessary to undo the injustice of past discrimination.

¹⁴ The notion of decent work has four components: employment, social protection, workers’ rights, and social dialogue (see Ghai 2003).

5. HUMANIZING GLOBALIZATION

Commenting on the violent street protests against globalization of a few years ago, the *Financial Times* (16 August 2001) in an editorial noted:

[T]he response to the protests has been largely one of spluttering indignation. Instead of listening, even learning, the politicians have lectured. The knee-jerk response has been to tar all the critics with the brush of thuggery. The tone is hectoring. Liberal markets are good for us, all of us. Anyone who says otherwise is a subversive or a fool. Free trade is an unalloyed blessing, for poor countries as well as rich. The multinational behemoths bring precious investment to developing nations ... What it does mean is that it is not enough for political leaders to dust off the economic textbooks, recite a few mantras about comparative advantage and the division of labour and expect the rest of us to applaud. *The case for liberal markets is not self-evident.* [Emphasis added.]

There has been since little progress in bridging the differences between the proponents and opponents of globalization. As the recent ILO report on globalization lamented: “Public debate is at an impasse. Opinion is frozen in the ideological certainties of entrenched positions ...” (ILO 2004). The international financial institutions and other pro-establishment think-tanks have launched new research and organized seminars and meetings, but “the case for liberal markets” is still taken as “self-evident”. Rather than addressing the concerns over the deteriorating conditions of the poor, they focus on different measures of poverty (relative or absolute, population-weighted or country-weighted) and go to great lengths in explaining why facts do not fit the economic theory.¹⁵ To challenge globalization amounts to questioning the value of international trade.

To the neoliberals, income inequality is not really a concern, for, in well-functioning markets, individuals earn rewards equal to their contribution to output, i.e., their marginal product. So the rich are rich because they are more productive, and the opposite holds for the poor. In this part of the paper, some ideas are offered on what might make the process of globalization more humanized, where economic growth is accompanied by a wider sharing of benefits, within as well as across countries.¹⁶ The goal must be to improve general economic performance while the created wealth is better distributed within and across countries. This is not to reject global integration, but to allow individual countries to manage it in the light of their particular conditions and circumstances. For this to happen, past policies and their orientation has to change.

Curbing market fundamentalism

The first step clearly is to curb market fundamentalism. While one may not agree with the statement that “fundamentalism, in economics as in religion, was the scourge of the late 20th century” (Raghavan 2001), there is little question that it has tended to obscure the human problem and stifled debate within the international financial institutions. The real victims have been some of the poorest countries of the world, which, with their backs against the wall, were desperate for foreign finance to meet their daily needs and had no choice but to heed the advice of the purveyors of foreign finance. According to Dani Rodrik (1999:147):

¹⁵ At the recent Brookings Trade Forum (13–14 May 2004), organized by the Brookings Institution in Washington DC, papers from well-known scholars focused almost exclusively on the measures of poverty and inequality. Not one paper raised questions on the static doctrine of comparative advantage.

¹⁶ Only those areas are discussed here which may be regarded as the core of neoliberalism and where there has been little compromise. A more comprehensive discussion of alternative policies is given in Chang and Grabel (2004).

[D]o developing countries really have a choice? Can small nations still pursue their own distinctive agendas and govern their economies in ways that differ from the prevailing precepts? To hear many policymakers speak, the answer is no. It has become a common refrain that there is little choice but to privatize, open up, and attract DFI [direct foreign investment].

That market liberalizing policies came to be called “Washington Consensus” was no accident. The message to the developing world had to be that the policies they were being told to adopt were all agreed, tried and tested – there could be no scope for argument or debate. If the consensus were to break, the credibility of the BWI and other financial agencies would come under question, and the victims of failed structural adjustment experiment might ask for compensation.¹⁷ Although a discussion on the post-Washington Consensus has started, there has been no perceptible change in the core policies of opening up, privatization, and deregulation. John Williamson, who coined the term, makes no apologies for the past failures, but rather urges countries to “complete the liberalizing reforms embodied in the original version of the Washington Consensus” (Williamson 2003:12).

It is, however, significant that market fundamentalism has not touched all countries in a similar fashion. It was generally the economically weak and vulnerable countries (notably, those caught in a serious financial crisis) that had to take the full dose of the neoliberal medicine. Some countries (notably, China and India) were able to abandon the excesses of government regulation and intervention without yielding to calls for free trade, liberalized capital markets, and wholesale divestiture of public enterprises from the international financial institutions. This is in line with the experience of other successful developing countries which shows that they were not beholden to any set ideology, but rather adopted pragmatic policies suited to their circumstances. It is now widely recognized that the East Asian economies used all manner of market distorting policies (got their “prices wrong”) to build up their industries.

Such violations of market principles, however, were recognized only grudgingly by the economics establishment, and then too as an exception.¹⁸ The World Bank took great pains to show why the East Asian experience could not be emulated by other developing countries. The East Asian economies, it was argued, had peculiar circumstances that did not prevail elsewhere; in particular, they had the administrative and governance capacities to manage controls and restrictions. These were the cases of “hard state” (Briggs and Levy 1991), where “government failure” was not too serious. For other developing countries, with “soft state” (i.e., with governance problems), the recommendation remained less government, the better.

It is, however, an oversimplification to put countries into sharply defined categories, as there are degrees of “softness” and governance capabilities are far from absolute. There is also the consideration that the “softness” of state may very well reflect the nature and extent of political participation, the power of civil society, and the exercise of civil rights. As Sen (1990) pointed out:

Quite often what appears as softness is the responsiveness of the state to the public asserting itself and demonstrating that the state should take heed of the public’s welfare. This need be no bad thing.

¹⁷ When Joseph Stiglitz, then Senior Vice-President at the World Bank, confessed to the failure of structural adjustment programmes during his Prebisch Lecture at the UNCTAD, Geneva, in 1998, there was a question from the floor as to who should be made to pay for the failed economic experiment (Stiglitz 1998b).

¹⁸ The interpretation of the East Asian experience evolved slowly within the World Bank. In the 1970s, these economies were commended for their perceived low protection. When it was found that they too relied on protection, their success was attributed to export-orientation and their managing to neutralize the harm of protection by giving appropriate incentives to exports. It was only with the publication of the *East Asian Miracle* (World Bank 1993) that the World Bank conceded that distortionary policies were indeed widely followed.

A precondition for curbing market fundamentalism is to start a genuine debate on economic and social issues and to give voice to those who are directly affected by the decisions of international financial institutions. This would involve three important steps. The first concerns ensuring that the international financial institutions' sphere of influence remains confined to their mandates and not extend to non-economic domains.¹⁹ This also applies to the WTO, where attempts are being made to broaden its mandate to cover social and environment issues. In this respect at least, an attempt has been made by both of the Bretton Woods institutions to delimit their areas of concern and the developing countries have so far managed to keep new issues out of the WTO.

The second step involves finding ways to “govern the governors”, i.e., making the international financial institutions accountable to a broader constituency of stakeholders, replacing the current concentration of power in the group of seven leading industrial countries (G7 countries). There are basically two issues involved: greater representation of developing countries in the boards of the BWI and granting the United Nations – as the apex and more representative world body – greater role in global economic governance. The twin issues have received wide coverage, especially in the context of the United Nations International Conference on Financing for Development (UNICFD), which was held in Monterrey, Mexico, in 2002. Although nothing concrete has emerged so far, the issue has become prominent on the BWI agenda. One small sign of increased sensitivity to the issue was the effort made at a more transparent – though still not democratic – process of selecting the new Managing Director at the IMF.

The Group of 20, which was constituted to give greater representation to developing countries in the reform of the international financial architecture, has been virtually ineffectual and remains handicapped as its membership is restricted only to the “systemically significant” emerging market countries. The problem of representation could be remedied if a system of regional and rotational seats were to be adopted (Helleiner 2000). There are also proposals on giving greater voice to aid-recipient countries. One such proposal, which has the support of a few industrial countries, promotes the idea of independent evaluation of aid performance of not only the recipient but also the donors.

Finally, the debate on economic and social policy needs to be encouraged at the national level as well, for that is where policy decisions ultimately have an impact. Developing country governments can hardly take advantage of “domestic political pressures” in international negotiations if the domestic debate on public policy is stifled. The role of civil society and associations of workers and employers is central to giving genuine voice to those affected by policy.

These are necessary steps if the hold of the neoliberal ideology is to weaken, but they will not spell its demise. The fact is that it is the economics faculties at the world's leading universities that produce economists steeped in the neoliberal ideology and provide the intellectual firepower. Free markets and least government intervention are rooted in the basic theoretical framework of the mainstream economics. Far from enjoying intellectual freedom, the dissenters – in any case, few in number – remain marginalized in the design of curricula and research. This state of affairs is resistant to change, even though a number of well-known economists have started to voice their embarrassment at the results of the neoliberal prescriptions. It took a serious economic depression to produce the Keynesian revolution. Perhaps, something similar will have to happen to dislodge the ruling orthodoxy.

¹⁹ The issue of “mission creep” received wide coverage a few years ago, especially consequent to the IMF's insistence on legal and structural reforms in Korea during the aftermath of the Asian financial crisis of 1997. A particularly forceful critique of this issue can be found in Feldstein (1998).

Refocusing macroeconomic policy

The record of economic growth has not been impressive over the past two decades. The expectation that the “new economy” had somehow ushered in an era of prosperity, low inflation, and rising employment turned out to be false. Unemployment in the leading industrial economies continues to be high and prospects for long-term economic growth remain mediocre. The news from developing countries, with a few notable exceptions, continues to be bad: slow growth, rising numbers of the poor, incipient financial crises, falling terms of trade, and distressed industry, not to mention civil unrest and political crises of varying intensity.

Within the overall macroeconomic picture, labour generally lost in relative sense; in a number of cases it also lost absolutely. The main reason for this state of affairs is that the current macroeconomic management places considerably greater weight on controlling inflation than on maintaining economic expansion and employment. The IMF, which oversees the macroeconomic policy at the international level, limits itself to anodyne reminders as far as the leading industrial countries are concerned. In recent years, it has supported expansionary measures for some countries, though remains sceptical of discretionary fiscal policy.

The threat of unemployment is the single most important reason why globalization is widely feared and why protectionist pressures remain strong in the industrial countries. The gains from closer integration with the world economy and exploitation of comparative advantage depend on one crucial – though usually unstated – condition, i.e., maintenance of full employment. In theory, domestic production should respond to international prices, with the resources freed from protected activities gaining employment in industries where the country is comparatively more efficient. In such a situation, trade liberalization could yield a net gain for the economy concerned. However, the employment condition is seldom satisfied in reality and the threatened workers are understandably averse to the lowering of trade barriers. Thus, industrial countries continue to protect their textile industry on grounds that textile workers face difficulty in relocating and finding employment elsewhere. Not so long ago, tariffs on steel imports were raised in the United States in order to protect jobs in the steel industry. In developing countries, the common experience has been that trade liberalization, while causing financial distress to protected industries, has not brought about greater efficiency in resource use or given birth to new industries, where the unemployed could be absorbed.

The difficulties for labour to move and get absorbed in other sectors are many, but two are particularly important. One, jobs in new industries tend to require different skills from those in the old industries, and the acquisition of new skills takes time and involves significant expense. There are also not inconsequential costs of job search. However, a more important reason for the resistance to economic restructuring is the fear of not finding a new job when there is already high unemployment and there is no commitment on government’s part to do something about it, a situation that has existed for some time now.

Thus, if globalization is to become more inclusive, a recommitment to employment is crucial. Apart from the human dimensions, unemployment implies lost potential output and reflects a fundamental economic inefficiency. As a rough approximation, for each percentage point rise in unemployment, there is a 1 per cent loss in national output. This is by any reckoning a far bigger loss than the inefficiencies associated with protection. To put it differently, the gains that free trade promises are contingent on maintaining employment in the face of economic restructuring, for a rise in

unemployment could easily nullify those gains. This is as relevant for developing as industrial countries. Finally, a commitment to economic expansion and employment in the industrial world would directly benefit the developing countries, as this would expand markets for their exports while dampening protectionist pressures.

Broadening the trade agenda

If the refocus of macroeconomic policy is needed to improve the industrial country employment situation, greater flexibility in trade policy is required to support diversification and industrial development in developing countries. The recent multilateral discussions on trade policy have been concerned primarily with the rules governing world trade and market-opening issues. The promised “Development Round” of trade negotiations, which is at present mired in arguments over its scope, is also likely to focus mainly on further trade liberalization. However, while trade barriers and market access issues are critical for developing countries, there are broader concerns relating to the functioning of the global trading and financial system that has been a key factor in the increasing income inequality across countries.

The first element in a broader trade agenda must be a recognition that trade policy can be an important tool for fostering development and industrialization. Under the WTO rules, the scope of trade policy has become considerably circumscribed, while the BWI are opposed to it altogether. It is generally overlooked that trade policy played an important role (along with other public policies) in the industrialization of a large number of industrialized and successful developing countries (Chang 2002). There are obvious risks and costs associated with protection that cannot be ignored. Perhaps, the most obvious is the danger that it can turn competitive, i.e., countries can start retaliating against each other’s protectionist measures. The 1930s’ experience shows that it can end up hurting all parties. But there is little risk of that in the context of developing countries that are small players in the world market. There is also the problem of excessive protection and inefficient import controls, which has prevailed in many developing countries. In fact, the countries that benefited most from trade liberalization – notably, China and India – focused primarily on rationalization of trade barriers and removing redundant and inefficient government regulations.

On the other hand, too rapid lowering of trade barriers and “big bang” approaches to reform, which failed to take into account supply constraints and other local difficulties, disrupted economic growth and created serious balance of payments difficulties. Export prices came under pressure as countries competed for a share in the world market of their traditional exports and trade deficits rose as imports were liberalized. The result was depressed terms of trade, especially for producers of primary products, and an increased need for external finance.²⁰ Since trade policy has fallen into disuse, the burden of balance of payments adjustment has fallen on exchange rate adjustments, especially in situations where external finance is not easily available. But the exchange rate is seldom effective by itself; it usually requires that the aggregate demand be also reduced in order to bring down the trade deficit.

²⁰ The IMF became more reticent on capital account liberalization after the 1997 Asian financial crisis. But the fact is trade liberalization and the opening up of capital account are intimately interlinked. Very often the first necessitates the second (Haque 2001).

Thus, labour is hit three ways as a result of trade liberalization: unemployment rises on account of economic restructuring; unemployment also rises with a fall in domestic demand; and real wages decline on account of the rising unemployment as well as due to the depreciation of the exchange rate, which spells a rise in the prices of tradeable goods relative to the non-tradeable goods.

But developing countries' concerns over international trade go beyond trade policy and market access. Perhaps, the most pressing issue relates to the world commodity markets, which illustrate well how free markets hurt the weak and unorganized. Since import barriers are generally low or nonexistent, market access is not a major concern for most primary producers.²¹ Instead, the problem is the functioning of international commodity markets, characterized as they are by perennial oversupply and widely fluctuating prices. International commodity agreements and domestic marketing institutions once existed to regulate the markets but became a casualty of the neoliberal reform agenda. True, they were often ineffectual in regulating supplies or stabilizing prices, but their removal has created arguably a worse situation. Prices of most primary products have fallen to their lowest levels and commodity markets remain highly unstable. In the absence of state marketing institutions and international regulation, trading in primary commodities has fallen into the hands of just a few multinational corporations. The upshot is that, far from creating a free market, the neoliberal policies have produced a situation where the sellers of primary commodities face monopsonies while the buyers in industrial countries face oligopolies. Thus, on top of the low prices, primary producers have witnessed a serious erosion of their share in the value chain (Morisset 1997).

This raises a more general concern over the nature of international competition, where the market is dominated by a few large firms but also contains a number of small producers. This is far from being the textbook case of perfect competition on which much of the neoliberal economic theory is based. The problem developing countries face is that the increased market concentration that followed a wave of mergers and acquisition across the globe threatens the existence of their small producers, who would disappear, through bankruptcy or takeover, not because of their inefficiency but because of their size. The United States and the European Union manage to protect themselves from unfair competition by means of elaborate rules governing mergers and acquisition, which are virtually nonexistent in developing countries. They have also pushed to bring the issue of competition policy into the WTO, but their interests here, as in other respects, are obviously at odds with the developing world. They want their firms to enjoy "national treatment" in developing countries (i.e., that they be given the same treatment as the local firms). To protect their firms from unfair competitions from the multinationals, developing countries need an international competition policy that spells out rules of competition and takeovers of developing country firms.

²¹Important exceptions are products where developing country producers compete with industrial countries (notably, cotton and sugar), where the latter's policies have a disastrous effect on the earnings of the former.

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