Is globalisation good for you?

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In March this year, Horst Köhler managing director of the IMF intoned: ?Widespread poverty in the midst of global prosperity is both unsustainable and morally unacceptable. World poverty is thus the paramount challenge of the 21st century.?

Apparently, the IMF is no longer in the business of overseeing structural adjustment programmes which cut health and education so that foreign debt servicing can continue.

Apparently, the World Bank is no longer forcing development loans upon Third World governments so that US and European multinationals can turn a huge profit building dams and roads where they are not wanted by local communities.

Apparently, the WTO is no longer drawing up plans for prising open markets in the South so that peasants have to compete with the big agri-capitalists of the North.

No, these institutions have all had a makeover. Now their aim is to eliminate poverty, to work in co-operation with Third World peoples to make their governments more accountable and less corrupt, to raise education and health levels. In short, to make governments effective and markets efficient and to show that ?globalisation is good for you?
Naturally, these institutions are not charities. The path to prosperity for the world?s poor lies in promoting more economic growth and the best way to do this, they argue, is to continue to liberalise global trade and capital flows.

The director general of the WTO, Mike Moore, made exactly this point in his speech to the Third UN Conference on the Least Developed Countries in May, 2001. He claimed that one of its studies, ?confirms that those poor countries that are catching up with the rich ones are those that are open to trade. The more open they are, the faster they are converging. . . The message is clear: freeing trade boosts economic growth, and helps to alleviate poverty.?

According to The Economist, where poverty still prevails it is because globalisation has not gone far enough. Barriers to trade and capital have not been freed up enough. In essence, then, the leopard has not changed its spots. The goal of poverty reduction can only be reached by sticking to the same old prescription: tear down tariffs, remove capital controls, privatise, invite in foreign capital. Meanwhile, the ?international community? will once again try to marshal aid to specific programmes that will allow the poor to live longer and stay at school so that some of them can take advantage of the new market opportunities.
So there we have it. ?A rising tide lifts all? say the pro-capitalists and growing prosperity within nations is the best guarantee of peace within and between them.

However, the reverse must also be true: growing inequality and economic decline must give rise to greater social, ethnic and political antagonism.

Which description best fits the reality of global capitalism today?

We argue that:
? All forms of capitalism promote inequality and the liberalisation of capital and trade in the 1990s has increased it and its rate of growth with tremendous social consequences
? The number of people in poverty around the world has grown in the 1990s

? Although the proportion of the world?s population in poverty has fallen slightly, mainly because of China?s growth, in many countries it has grown

The orthodox neo-liberal view used to be that economic growth would naturally deliver ?convergence? of rich and poor nations. But you no longer hear that particular line of defence from the main agencies and their supporters in the media.

The United Nations Conference on Trade and Development (UNCTAD) annual report for 2000 on the Least Developed Countries (LDC) concluded:

?Overall progress in increasing real incomes, reducing poverty and moving towards various international targets for human and social development has been disappointingly slow.?

In fact, if we examine the evidence for ?diminishing income disparities between countries within the global economy? it does not indicate even a slow progress but a sharp worsening of the problem. The weight of evidence proves beyond reasonable doubt that inequality of income and wealth in the world has widened during the 1980s and 1990s, exactly the period when liberalisation of trade and capital flows increased dramatically.

A recent World Bank study by Branko Milanovic gathered data for 83 per cent of the world?s population for the years 1988-93, using household income surveys rather than GDP. Using the Gini coefficient (0 means perfect equality, 100 means one person holds all the wealth) this study proved that world inequality increased from 62.5 in 1988 to 66 in 1993. This is a faster rate of growth in inequality than was experienced in the USA and UK in the 1980s under Reagan and Thatcher.

A further study using the same data concluded that the share of the world?s income going to the poorest 10 per cent of the world?s population fell by over a quarter, whereas the share of the richest rose by 8 per cent.

Why has global inequality increased? There are four proximate causes:
? Faster economic growth in OECD countries than in developing countries.
? Faster population growth in developing countries.
? Slow GDP growth in rural China, rural India and Africa.
? Rapidly widening inequality between urban and rural incomes in China.

The sheer size of the populations in India and China, and their weight in the world?s total, together with the gradual opening up of India to foreign capital and the process of capitalist restoration in China, accounts for much of the increase in global inequality.

Indeed, given the faster pace of India?s liberalisation after 1992 and the dramatic deepening of disparities between town and country in China over the past 10 years, there can be little doubt that a survey today would indicate a further sharp increase in inequality.

The process of capital accumulation and investment in the Third World in the 1990s was an extremely uneven one both within and between countries. In China, for example, capital investment has been heavily concentrated in the coastal provinces and some interior urban centres. This has sucked labour out of the countryside, raising urban working class wage levels in some areas but impoverishing tens of millions in the rural areas.

Official figures show that rural inequality nearly tripled between 1980-2000 and doubled in urban China in the same period. The richest 20 per cent of households receive 42 per cent of the income, whereas the poorest 20 per cent only receive 6.5 per cent. Added to this, population growth is greater amongs the poor, a phenomenon only too apparent in India and China.

The process of technological renewal and investment is invariably to the advantage of the countries in which the major multinationals are based. They retain a monopoly of key research and development facilities and monopolise the fruits of their application in terms of enhanced productivity.

One result of this is that the prices of goods and services exported from G8 countries are increasing faster than those of goods and services exported by the South. These price trends mean that the majority of the population of poor countries can buy fewer and fewer of the goods and services that enter into the consumption patterns of the rich-country populations.

Of course, it is not just within Third World countries, or between them and the OECD members, that inequality has widened under globalisation. It is no accident that the pacesetters of liberalisation and privatisation ? USA and UK ? have recorded the biggest domestic increases in income and wealth inequality of all G8 countries.

Under the first Clinton administration (1993-96) the share of national income going to the top 5 per cent of the population increased at a faster rate than it did during the Reagan years. The top 20 per cent of the wealthy increased their share of national income from 46 to 49 per cent.

In the US, the mechanism for this growing disparity was clear enough: wages were pegged while the benefits of increased productivity went to the bosses in the form of profits. Real wages were stagnant from 1979-95 and only grew at around 1 per cent a year for the rest of the 1990s. This was the point at which manufacturing productivity took off (3-4 per cent pa) leading to profit levels in 1997 being 100 per cent above the levels of the early 1980s.

Globalisation was central to this process since downward pressure on wages stemmed from a massive assault on trade union rights and organisation combined with export of jobs to Mexico (about 100,000 a year in 1980s) to take advantage of cheap labour and no union rights in the maquiladora border zone.

That inequality has widened is less and less contested. In its survey of India, The Economist observed: ?Inequality is bound to grow when the guiding principle for sharing out resources shifts from entitlement to competition? (2/6/01). In the same issue, we find an article entitled: ?Market reforms mean that China is becoming more unequal.?

One response of the pro-capitalists has been to turn the argument around: ?if inequality has increased in Africa, rural China and rural India they are victims of the lack of globalisation. It makes better sense to extend the scope of globalisation - which means addressing the causes of their isolation.? (Economist 28/4/01).

What this conveniently ignores is that the process of world capitalist development is an uneven one. As the examples of China and India show, ?opening up? such countries means forcing millions off the land because they cannot possibly compete with cheap imported food. Many gravitate to the cities where they provide cheap labour for export-oriented industries.

But those left behind become more and more impoverished as sources of income dry up. In short, the relative prosperity of urban capitalist development is predicated on the decline of the rural interior.

The idea that rural India and China suffer from ?too little? globalisation (i.e. opening up of markets, ending protection) is ludicrous, given that this is what has destroyed their way of life. Elsewhere,

The Economist admits that the next stage in China?s embrace of globalisation, entry into the WTO, will worsen the problem of inequality as ?state-owned enterprises collapse and other companies benefit from improved access to world markets. Rural incomes will be further depressed by increased agricultural imports.?

The same pattern can be observed in Mexico. An average of one new factory a day opened in the 1000 mile border corridor with the USA during the 1980s, creating tens of thousands of new jobs, producing (or assembling) goods destined for re-export back to US consumers. The number of Mexican billionaires grew, but inequality widened as 40 per cent of the population were left beached by the globalisation tide.

A final argument against the idea that ? globalisation has not gone far enough? is found in the record of the LDCs during the 1990s. UNCTAD?s report for 2000 concluded:

?IMF data actually show that trade liberalization has proceeded further in the LDCs than in other developing countries. In 1999, for 43 LDCs for which data are available, 37 per cent had average import tariff rates of below 20 per cent coupled with no or minor non-tariff barriers, whilst amongst the 78 other developing countries in the sample, only 23 per cent had this degree of openness. . . Similarly, UNCTAD data for the late 1990s show that in a sample of 45 LDCs only 9 maintain strict controls on remittances of dividends and profits and capital repatriation. Twenty-seven LDCs have adopted a free regime, guaranteeing such transfers, whilst nine have a relatively free regime . . .?

Moreover, ?the record of the 1990s shows that there has been an accelerating process of economic liberalization in many LDCs. In fact 33 out of the 48 LDCs have undertaken policy reforms under the IMF-financed Structural Adjustment Facility (SAF) or Enhanced Structural Adjustment Facility (ESAF) programmes since 1988.?

Yet it is the LDCs who have responded most readily to IMF strictures for reform and more openness that have been most impoverished by the process. According to UNCTAD, ?the number of people living in poverty is increasing in various regions of the world, and the poorest countries are failing to catch up with developed and other developing countries, and some are getting stuck in vicious circles of economic stagnation and regress... economic growth was too slow in most LDCs to make a significant dent in the unacceptably high rates of poverty. ?

If you cannot deny the fact of growing inequality nor its association with more and more globalisation, then why not turn it into a virtue?

This is the standpoint of those who argue that inequality is inevitable. Of course, this argument is in flat contradiction to the first. If inequality is inevitable, then it is hard to see how ?more globalisation? will eliminate it by spreading the benefits of investment more evenly. This does not, however, stop the same ideologues putting the two contradictory arguments side by side.

Their argument is that inequality provides market incentives for entrepreneurs and companies to take risks and invest. This in turn boosts growth and this creates the ?rising tide which lifts all?.

What matters, goes the refrain, is not inequality but poverty. Irrespective of what happens to the rich minority, as long as the real incomes of the people at the bottom do not fall and the numbers living in absolute poverty do not rise, then capitalism and open markets are doing their job.

There are three responses to this:
? Rising inequality does matter and has profound social and political consequences which the pro-capitalists try to disconnect from their causes.
? Absolute poverty has increased in many countries even if it has fallen in others.
? The international agencies and governments have failed miserably to carry out the measures which they said would alleviate the poverty caused by liberalisation and have fallen way behind in the objectives they set themselves.

Rising inequality causes social conflict. Across the globe, as much as 60 per cent of the population may live in poverty. The realisation that within their own societies a minority prosper, while the majority suffer, fuels resentment and the demand for change.

China, so often praised for the single mindedness with which it has pursued market reforms, is a case in point. At a press conference in March 2001, Prime Minster, Zhu Rongji, admitted that ?the general public has voiced fairly strong complaints about income distribution?, which he said was now at 39 on the Gini co-efficient. Since a level of 40 is recognised as a ?warning light? this was a stark enough admission.

But the official news agency has said it is 46 and other analysts say it is 60. Worse, possibly, than the level of inequality, is its rate of increase which provokes massive grievances; the gap between rural and urban incomes in China increased by 50 per cent in the 15 years up to 1999.

In May 2001, Beijing publicly recognised that market reforms had led to a wave of unrest across the country, including armed demonstrations of tens of thousands and bloody clashes between workers and state officials. Looking to the future, the same report predicted that such instability would grow in intensity as a result of further reforms required for China?s accession to the WTO.

The first thing to note is that the number of people in poverty has grown in the 1990s. According to United Nations and World Bank figures, the number of people living on less than one dollar a day grew from 1.83 billion in 1987 to 1.98 billion in 1998. Those living on less than $2 a day grew from 2.5 billion to 2.8 billion in the same period.

The second thing to register is that, although the proportion of people living in poverty did fall during these years, this was only because of substantial growth in East Asia, especially China. Even here, the 1997 financial crisis reversed the trend in most countries. In South Korea, the proportion of people in poverty (national definition) increased from 8.6 per cent before the crisis to 23 per cent in early 1998 before declining to 15.7 per cent. In Indonesia, the proportion of poor people doubled during the crisis.

This tells us something important. Even during the long investment boom in Asia (1990-97) and despite an extremely long upturn in the world business cycle in the 1990s, the numbers of poor kept growing. Capitalism?s productivity could not keep pace with the increase in population. This fact alone condemns it as a social and economic system and calls for its replacement by something higher and non-antagonistic ? socialism.

When the cycle turned down, the numbers of poor soared as the crisis of capitalism was solved at their expense through mass unemployment and loss of income. Wage earners were turned into paupers by the market.

In Russia, the ripping up of a non-market economy and the forced imposition of capitalism saw poverty rise from 11 per cent of the population to 43 per cent between 1989 and 1996, and then worsen again in 1998.

Even countries which have experienced rapid growth in the 1990s have seen large pockets of grinding poverty emerge. ?In the cities of China, absolute poverty is increasing? according to The Economist. By the mid-1990s, 9 per cent of urban people lived below the official poverty line ($217 a year). But this figure was 30 per cent in Xian and even 60 per cent in Shuangyashan, a city of 1.8mn which was devastated by state enterprise closures.

Even at the heart of the most developed capitalist country in the world, poverty exists. In the United States, in the 1980s, one in four children lived below the official poverty line; 13 million people were pushed below the poverty line by Clinton?s cuts in welfare programmes in 1994.

All in all, the United Nations 2000 assessment of likely progress in the decade 1997-2006, concluded that, ?the promise of poverty eradication as a result of faster growth, consequent upon stabilisation and structural adjustment programmes, generally remains to be delivered.?

At the UN millennium summit, member countries committed themselves to halving world poverty by 2015. A raft of development targets on health, mortality and literacy was laid out. Today, none are kikely to be met by the UN?s own admission.

At UN conferences on less developed countries (LDCs) in 1980 and 1990, development targets were set. For their part, the LDC?s met their obligations to open up markets to trade and investment from western MNCs. We have already noted that the LDCs did more than the average Third World country in this respect.

In return, what did they get? The rich nations slashed development assistance by $3.5 bn. The agreed target of each First World country was to donate 0.7 per cent of their GDP. This target was set two decades ago. Today, only five countries have met it.

The Third conference on LDC development, in Brussels, in May, 2001, did little to help except to seek even more openness in trade from the LDCs, and to promise to untie development funds and provide more infrastructural aid.

As a justification for this neglect and cuts in official aid, those who insisted that globalisation could be made to work for the poor said that private capital flows would fill the gap. Indeed, long-term private capital inflows into the LDCs did increase from $323.1 million per annum during the period 1990-4 to $941.9 million during the period 1995-8. However, about three-fifths of this increase has been concentrated in four countries ? Cambodia, Lao People?s Democratic Republic, Uganda and United Republic of Tanzania.

As a result, most LDC?s have experienced a fall in aid and not enough inward capital to compensate. The UN concludes: ?long-term capital inflows into the LDCs as a whole have declined by about 25 per cent in nominal terms since 1990?.

The UN holds out a gloomy scenario for the 43 most impoverished nations on earth if globalisation continues not to serve them:

?They will be pockets of persistent poverty in the global economy, falling behind other developing countries and obliged to call on the international community for aid to tackle humanitarian crises and peace-keeping missions. They will also be epicentres for the global refugee population and major sources of international migrant workers.?
