Mohamed, Seeraj

Working Paper

Economic policy, globalization and the labour movement: Changes in the global economy from the golden age to the neoliberal era

Global Labour University Working Paper, No. 1

Provided in Cooperation with:
The Global Labour University (GLU)

Suggested Citation: Mohamed, Seeraj (2008): Economic policy, globalization and the labour movement: Changes in the global economy from the golden age to the neoliberal era, Global Labour University Working Paper, No. 1, International Labour Organization (ILO), Geneva

This Version is available at:
http://hdl.handle.net/10419/96380

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
ECONOMIC POLICY, GLOBALIZATION AND THE LABOUR MOVEMENT:

CHANGES IN THE GLOBAL ECONOMY FROM THE GOLDEN AGE TO THE NEOLIBERAL ERA

SEERAJ MOHAMED
Seeraj Mohamed is Director of the Corporate Strategy and Industrial Development Research Programme (CSID) in the School of Economic and Business Sciences at the University of the Witwatersrand, Johannesburg (Wits University). He also teaches in the Global Labour University Masters Programme at Wits University.

Editorial Board
Hansjörg Herr (Berlin School of Economics, Germany)
Mariano Laplane (University of Campinas, Brazil)
Seeraj Mohamed (University of Witwatersrand, South Africa)
Wolfgang Schröder (University of Kassel, Germany)

Contact Address
Fachhochschule für Wirtschaft Berlin
IMB – Prof. Hansjörg Herr
Badensche Str. 50-51
D-10825 Berlin

Contact: glu.workingpapers@uni-kassel.de
Layout: Harald Kröck

Global Labour University Working papers
ISSN: 1866-0541

© Global Labour University e. V. All rights reserved. The material in this publication may not be reproduced, stored or transmitted without the prior permission of the copyright holder. Short extracts may be quoted, provided the source is fully acknowledged. The views expressed in this publication are not necessarily the ones of the Global Labour University or of the organisation for which the author works.

First published 02/2008 in Berlin, Germany
ABSTRACT

There has been a huge shift in the hegemony of macroeconomic thinking and actual macroeconomic policy between the period after World War II until the late-1970s and the period since the late-1970s until the present. The shift has been commonly identified as a move by countries of the West from Keynesian-type economic policies to free-market economic policies. It is important to realise that this shift is ideological. The shift in ideology is fundamentally related to contending views of the role of the state and state regulation. The ideology of free market capitalism is the motive force behind the globalization that occurred since the late-1970s. This working paper provides a broad overview of key consequences of the economic changes that occurred during the period since World War II to the present. It highlights the different impacts that hegemony of neoliberal ideology and widespread adoption of neoliberal policies have had on workers and the labour movement. The first part of the paper provides a historical and institutional background to the changes in economic perspectives and policy. The second section provides a historical and institutional background to industrial development and business restructuring. The third section considers the very real problems facing developing countries in their attempts at industrial and economic development during the neoliberal era. The fourth section considers the role and benefits of foreign direct investment for developing countries. The fifth section discusses the very important issue of gender and neoliberal globalization. The final section is the conclusion.
ECONOMIC POLICY, GLOBALIZATION AND THE LABOUR MOVEMENT: CHANGES IN THE GLOBAL ECONOMY FROM THE GOLDEN AGE TO THE NEOLIBERAL ERA

Seeraj Mohamed
# TABLE OF CONTENTS

1. INTRODUCTION .......................................................................................................................... 1  
2. HISTORICAL AND INSTITUTIONAL BACKGROUND TO POLICY .................................................. 8  
3. HISTORICAL AND INSTITUTIONAL BACKGROUND ................................................................. 14  
4. DEVELOPMENT CHALLENGES DURING THE NEOLIBERAL ERA ........................................ 18  
5. FOREIGN DIRECT INVESTMENT DURING THE NEOLIBERAL ERA .................................. 22  
6. GENDER, MACROECONOMIC POLICY, GLOBALIZATION AND LABOUR .................................. 28  
7. CONCLUSION ............................................................................................................................. 31  
8. REFERENCES ............................................................................................................................. 33
1. INTRODUCTION

There has been a huge shift in the hegemony of macroeconomic thinking and actual macroeconomic policy between the period after World War II until the late-1970s and the period since the late-1970s until the present. The shift has been commonly identified as a move by countries of the West from Keynesian-type economic policies to free-market economic policies. It is important to realise that this shift is ideological. The shift in ideology is fundamentally related to contending views of the role of the state and state regulation. The ideology of free market capitalism is the motive force behind the globalization that occurred since the late-1970s. The laissez faire ideology of the later period is distinct from the ideological views that shaped the capitalist systems of the welfare states and social democracies of the US and Europe after the Great Depression and during the post-WWII period. During the post-WII period, most national economies were placed under the control of the state, even economies where markets played a strong role. The economic systems after WWII were very influenced by views such as those expressed by Karl Polanyi in *The Great Transformation* that social structures of solidarity were necessary to offset the social tensions caused by the negative effects of competitive market pressures, such as acquisitiveness and inequality. The role of the state and extensive regulation was also central to the widely accepted solutions advocated by Keynes to deal with the domestic and international macroeconomic instability inherent in free market capitalism (see for example Keynes, 1936).

I will refer to the period after WWII until the 1970s as the ‘Golden Age’\(^1\) and the period since the late 1970s to the current period as the ‘neoliberal era’. The shift in economic thinking and macroeconomic policy has had a huge impact on society and individual actors. The change also led to a renewed process of economic globalization of trade and financial markets. The changes to mainstream economics and macroeconomic thinking developed within the Golden Age out of a process of internationalization of businesses and financial markets. However, once mainstream macroeconomic hegemony shifted from Keynesianism to neoliberalism, a rapid process of goods and financial market liberalization ensued. This liberalization drove a process of global integration of goods and financial markets, which in turn reinvigorated the laissez faire ideology in mainstream academic and economic policy thinking.

---

\(^1\) I use the term "Golden Age" drawing on works such as *The Golden Age of Capitalism* (1992) edited by Marglin and Schor as a short-hand label. I use this label conscious that it is much criticised because the post-WWII period was not a Golden Age for all countries or even for all people within those countries that had fast economic growth. The critique of the label is important to keep in mind while reading this paper. Many countries and groups of people within countries suffered during this period of relatively rapid profitability for US, European and Japanese firms and relatively high economic growth in these countries. The reason I use the label is because it provides a sharp contrast with the label "neoliberal era" – these contrasts are explained below. Other forms of classifying and differentiating the 2 periods refer to the periods as Fordism and post-Fordism (French regulation school), Monopoly Capitalism and late Capitalism, and even Modernism and post-Modernism. Readers may prefer to refer to these labels or even not to provide different labels for these periods.
The end of the Bretton-Woods financial arrangements and the rise of Thatcherism in the United Kingdom and Reaganism in the United States have become important iconic events associated with the shift in economic policy thinking from the Golden Age to the neoliberal era. Later, the decline and subsequent disintegration of the USSR, the changes in political and economic changes in Eastern Europe and the collapse of the Berlin Wall served to reinforce the free market rhetoric of the free marketers. Within the field of economics renewed interest and mainstream acceptance of the work of people like Friedrich August von Hayek (see for example Hayek, 1994) and Milton Friedman (see for example Friedman, 1982) led to widespread acceptance by policymakers that the role of the state in the economy should be curtailed. The ideas of anti-state ideology inherent in the economics of Friedman and Hayek replaced the ideology of Polanyi and Keynes where the smooth functioning of capitalist nations required the balm of state oversight and regulation to cure the potential excesses inherent in free markets. Within the ideology of the free marketers these vices and excesses were spun into virtues that promoted a form of economic freedom without which democracy could not be sustained. Within a short space of time, mainstream economic theory appropriated the ideas of neoclassical economics and created a hybrid that supported laissez faire ideology and disapproved of state involvement in the economy.

New-classical macroeconomic theory is an important source for the development of the free-market perspective that influenced the development of the Washington Consensus and neoliberal thought. New classical economic theory developed out of neoclassical economic theory during the 1970s and 1980s. Central to the new classical theoretical perspective is instantaneous market adjustment and the ‘rational expectations’ hypothesis. Some seminal works in the new classical tradition are Frydman and Phelps (1983), and Lucas (1973). The ideological position of the new classical macroeconomists for unrestrained functioning of businesses in an economy was rationalized using the theoretical argument of rational expectations, which could be used as a theoretical ‘whip’ to ensure that policymakers implement policies that are perceived to be ‘credible’ by people who dominate especially the financial markets.

The notion that policies should be credible has become pervasive during the neoliberal era. Credibility is judged by an elite few, usually the relatively few people who operate in the financial markets and credit ratings agencies in the financial centres of a few developed countries, such as the US, Germany, Japan and Britain. Credible policies are the neoliberal policies set out in the Washington Consensus: low fiscal deficits, low inflation, liberalization of international trade and financial markets, a smaller role for the state in the economy through deregulation and privatization. This notion of ‘credibility’ is antidemocratic in that a few people operating in international financial markets are able to impose policy criteria on the voting citizens of a country. This notion of credibility is anti-intellectual in that certain neoliberal policy perspectives are imposed on countries
through political and economic pressure rather than through rigorous research and debate (Grabel, 2000).

Related to the notion of credibility is an interesting change within the business movement from the Golden Age to the neoliberal era. During the Golden Age industrialists and small businesses, supported by the unions, formed a powerful voice in favour of closed economies and strong regulation of the financial sector. Within the Golden Age as many industrial firms grew into multinational corporations their allegiances eroded and they allied with the financial sector. They joined the lobby for more openness and less state regulation of finances, especially restrictions on the flow of capital. This shift in allegiance by industrialists from the labour movement and small business to financial capital was decisive in shifting economic thinking from Keynesian to neo-liberal. Within the neoliberal era large industrial firms became more and more 'financialised', i.e., a larger proportion of their turnover and profits derived from financial activities rather than their real sector traditional businesses (Krippner, 2002; Crotty, 2002; and Dumenil and Levy, 2001). Another characteristic of financialization during the neoliberal era is the huge role the financial sector plays in the global economy. The deregulation of the financial sector has reshaped business and alliances between different national interest groups.

An important consequence of the hegemony of the notion of policy credibility around contractionary macroeconomic policies (higher interest rates and lower government spending to keep their budget deficits low) and reducing the role of the state in the economy has been lower growth in many countries. As a result, there has been lower global growth related to widespread acceptance and implementation by policymakers of developed and developing countries of contractionary monetary and fiscal policies. According to Maddison (2001, p.26) the annual rate of growth of real global GDP fell from 4.9% in 1950-73 (the Golden Age) to 3% in 1973-1998. This is a decline in the rate of growth of 39%. When one calculates the decline in growth rate considering GDP per capita, there was a 55% drop in growth. Maddison shows that for the same periods there was a 43% decline in growth in Latin America and a 38% decline in Africa. The only major area where GDP growth rates increased was Asia. Crotty (2002, p.3) says that the United Nations estimates that world GDP grew at an annual rate of 5.4% in the 1960s, 4.1% in the 1970s, 3% in the 1980s, and 2.3% in the 1990s.

An important development due to the changes in economic perspectives and policy implementation from the Golden Age to the neoliberal era is government and businesses approach to employment and labour relations. The goal of Keynesian macroeconomics is for the state to reduce volatility and tackle uncertainty inherent in capitalist economies in order to ensure sustained investment and full employment. The use of aggregate demand management is one key aspect of Keynesian macroeconomic policy where the state would smooth cycles of booms and busts inherent in capitalist economies to secure full employment. After WWII, Western states with varying degrees of enthusiasm
supported trade unions and high road labour relations. Organised workers were able to win important rights and benefits through collective bargaining. In return they worked hard and kept productivity at high levels. Further, during this period large corporations, which dominated in most developed country economies, took a long-term perspective with regard to their investments and their labour relations because they enjoyed relatively stable profits and limited competition in domestic and financial markets. During the Golden Age, workers of large corporations had more job security, better wages and benefits, such as health insurance.

During the neoliberal era the focus of macroeconomic policy is on price stability and maintaining low fiscal deficits. Governments will impede economic performance and sacrifice investment and jobs by pushing up interest rates to reduce inflation. In order to calm the advocates of rational expectations theory and to appear credible to people working in global financial markets governments will entrench the independence of their countries’ central banks. Some governments have gone so far as to implement inflation targets to establish stronger ‘credibility’ credentials. During the neoliberal era there is growth in importance of financial markets, which had been curtailed and highly regulated during the Golden Age. Large corporations, significantly affected by the growing influence of financial markets and higher levels of global competition due to trade liberalization take a short-term perspective of investment and labour relations. The move from “patient capital” to “impatient capital” as a result of changes in international financial markets is an important change from the Golden Age to neoliberal era. Increased pressure to raise profits by financial markets and more competition in global goods markets lead large corporations to treat labour poorly. Corporations constantly attempt to improve their profits by cutting employment and reducing wage costs by reducing benefits of workers. Firms have moved away from centralised bargaining to decentralised wage setting. There has been increased casualisation of workers. Many firms are able to reduce wages and benefits because they have a credible threat to move elsewhere within a country or abroad where labour costs are cheaper and labour markets less regulated. Indeed, an important phenomenon of the neoliberal era has been geographic relocation of firms to take advantage of lower costs in different countries that offer lower wages and less stringent regulation. At the same time, firms have used this threat to reverse the gains that workers had won during earlier periods and to create a political momentum for increasing labour market flexibility. However, an important reasons for lower profits, investment levels and economic growth are ignored in the push for labour market flexibility: lower economic growth rates due to widespread acceptance of neoliberal macroeconomic policies, increased product market competition in global and domestic markets, and the increased influence of financial markets on corporate behaviour that has spurred unprecedented levels of mergers and acquisitions, which are usually accompanied by downsizing of employment in the newly merged entities. The effect of lower wage levels has been lower levels of aggregate demand at the national and international level. This lower aggregate
demand rather than rigid labour markets provides a more convincing reason for higher unemployment and lower economic growth.2

One of the most important and influential changes from the Golden Age to the neoliberal era has been the liberalization of financial markets and international financial flows. Based on the experience of the financial crashes in 1929, there was broad agreement amongst economists and policymakers that finance should be reigned in and tightly controlled if countries’ goals of economic growth and full employment of capital and labour were to be achieved. It was also agreed that global capital flows could be extremely disruptive for countries and, therefore, countries maintained closed financial borders and limited the convertibility of their currencies. In addition, the Bretton Woods agreement, including the establishment of the International Monetary Fund, was based on the understanding that international cooperation between countries was necessary to maintain closed financial borders and to avoid the disruptive effects of international capital flows. During the neoliberal era most states of developed and developing countries have liberalized their financial sectors and opened their economies to relatively uncontrolled capital flows. They have unleashed the financial sector which has grown in size and influence at a global level. As a result, financial crises have become common and it would not be an exaggeration to say that they are a characteristic of the neoliberal era. The relative financial and macroeconomic stability of the Golden Age has been replaced with huge instability.

Another hugely significant consequence of financial liberalization and financialization is the role finance plays in influencing firms and reshaping the global business environment. Financialization was important in the shift from ‘patient capital’ to ‘impatient capital’. The increasing role of institutional investors during the neoliberal era led to much quicker turnover of shares in equity markets. At the same time, management of large corporations changed. Management increasingly treated firms as if they were part of a portfolio of assets that could be bought and sold. This change in corporate management style was evident in the hostile takeover movement during the 1980s. During the 1990s there was increasing influence of institutional shareholders and the shareholder value movement. Both the hostile takeover movement and the shareholder value movement had significant influence on the behaviour of management of large corporations and also played important roles in reshaping firms and domestic and global business structure. The shareholder value movement has been important in driving the merger and acquisition frenzy since the 1990s that has increased global concentration and pressured diversified conglomerates to unbundle and restructure themselves with a focus on core business.

2 Stockenhammer (2004) provides interesting insights and empirical modelling to show that the impact of financialization of European firms and the negative effect of financialization on aggregate demand is a more significant cause of unemployment in Europe. He provides a useful refutation of the argument that rigid labour markets cause relatively high unemployment in Europe.
Nolan (2003) argues that the huge amount of mergers and acquisitions during the 1990s has led to greater global economic concentration with a few giant global firms dominating a large share of global markets. Nolan says that this ‘global business revolution’ has been led by businesses of developed countries. He shows that almost all the dominant global firms have head offices in their developed host country. He comments that most of the globally dominant brands and most research and development expenditure occur within the giants of the developed countries. The location choices of multinational corporations and the unprecedented levels of concentration in the global economy do not bode well for workers and the labour movement. There are coordination problems for workers across the globe whereas large MNCs have global strategies. The process of globalizing production seems to turn workers of different countries against one another. In addition, the governments of many countries, especially developing countries but also developed countries are desperate to attract foreign direct investment. As a result, governments will side with foreign investors even if their allegiances do not favour their own citizens. An important aspect of the trend towards relocation and the ability to use the threat of relocation by MNCs is referred to as feminization of the labour force.

The gender aspects of macroeconomic policy and financialization during the neoliberal era are important. They highlight the importance of considering differences with countries, such as race and ethnicity and class. This paper will not deal with ethnicity and class but will focus on gender. The important subject of gender is hugely neglected in mainstream discussion of globalization, trade and macroeconomics. Instead, there is a presumption within the mainstream that women are better-off as a result of neoliberal globalization. This is an important presumption to examine.

Neoliberal globalization has a contradictory effect on women’s positions in households. On one hand, women’s bargaining power within households is strengthened because they have more access to paid employment in markets. On the other hand, neoliberal globalization often affects social spending by government because it is usually accompanied by fiscal austerity. The wellbeing of the entire household is reduced when governments reduce social spending. Women are usually more negatively affected because they have to give more of their time to household unpaid labour as a result of social spending cuts. Therefore, women have to do both more paid labour and more unpaid labour. In addition, women’s jobs are usually more precarious than men’s jobs and they are the first to lose their jobs when there are problems in the economy. Women jobs are more uncertain when there is neoliberal globalization because liberalization of capital and trade markets increases economic instability, for example many economies are more prone to financial crises.
This introduction has provided a broad and general overview of the key consequences of the economic changes that occurred from the Golden Age to the neoliberal era. It has attempted to highlight the different impacts that hegemony of neoliberal ideology and widespread adoption of neoliberal policies have had on workers and the labour movement. The next part of this paper provides a historical and institutional background to the policy changes that occurred from the Golden Age to the neoliberal era. After that the historical and institutional background to industrial development and business restructuring from GA to neoliberal era is provided. The following section considers the very real problems facing developing countries in their attempts at industrial and economic development during the neoliberal era. After this the issue of the role and benefits of foreign direct investment for developing countries is examined. In the section that follows the very important issue of gender and neoliberal globalization is considered. The final section is the conclusion.
2. HISTORICAL AND INSTITUTIONAL BACKGROUND TO POLICY CHANGES FROM GA TO NEOLIBERAL ERA

After the Great Depression, Keynes argued that openness did not benefit countries but instead could disrupt national economies. He believed that it was the task of government to counter economic instability and declines in aggregate demand and to maintain full employment through macroeconomic management. The free flow of capital across borders could be very disruptive to attempts to maintain stability in national economies. Keynes and economists with similar beliefs encouraged countries to be open only insofar that there were goods they could not reasonably produce for themselves. Rather than pursue international openness Keynes and others encouraged bilateral trade and capital arrangements between national economies.

Block (1977) refers to the solution offered by Keynesians after the depression as national capitalism. In this view, the primary responsibility of government is to ensure full employment and high levels of domestic activity. The pursuit of international cooperation could occur once national goals were accomplished. However, international cooperation should not interfere with the attainment of full employment and instead should support full employment goals possibly through high levels of international trade. If necessary controls over trade and capital flows should be used to ensure full employment.

Block argues that the struggle to prevent national capitalism was central to US foreign policy (1977, p. 10). The Roosevelt administration was elected with the support of small business owners, farmers, labour groups and sympathetic business leaders. This election was due to a realignment in coalitions and power caused by the financial crisis in 1931. During the term of President Roosevelt, the US treasury was dominated by Harry Dexter White and other Keynesian economists that supported national capitalism for the US and other economies.

There was an opposing view within the Roosevelt administration that was strengthened at the end of WWII by businesses’ fears that policies to maintain full employment would lead to a situation where the national economic planners would totally dominate US policy making. These businessespeople argued that tax reductions would stimulate the economy and support full employment to make up for decline in demand after the war. Unlike the national capitalists who wanted all countries to have a national capitalist strategy and limit US exports, these businessespeople wanted to maintain a large export surplus with the rest of the world after the war – at least until the US economy could be restructured so that it could maintain full employment even when it had an import surplus. Those in favour of maintaining an export surplus realized that the US would have to lend to people in other countries. This meant that they wanted an open world
economy and opposed capital controls and trade barriers. Thus, after the war there would be a realignment of interests and industrialists who wanted to export would support bankers lobbying for open capital markets.

Helleiner (1994) shows that the policies of the US and Britain at the Bretton-Woods negotiations were opposed to a liberal international financial order. At the Bretton-Woods negotiations White and Keynes agreed on the control of capital flows across borders because it could hamper national macroeconomic planning measures of the new interventionist welfare states. Both were concerned about capital flight motivated by short-term speculative gain. Keynes was also concerned about more “normal” capital flows resulting from interest differentials between countries that could lead to capital outflows. His concern was that countries with capital account deficits would not be able to use low interest rates as part of their macroeconomic strategy. If markets were open there would be significant flows of capital to countries with higher interest rates. Both Keynes and White also agreed that the new welfare state had to be protected from capital flight because wealthy people may want to avoid “burdens of social legislation” or have “political reasons” to send there money abroad (quoted in Helleiner, 1994: 34).

Keynes and White did not oppose all forms of capital movement. They believed that “disequilibrating” capital movements were to be opposed and that “equilibrating” movements were to be supported (ibid: 36). In other words, they argued that there should be flows of capital from countries with surpluses on their current accounts to countries with current account deficits. Countries with surpluses, not those with deficits, would have to adjust by inflating their economies and increasing their imports while those with deficits would be free to pursue their own policies. This meant that if the US maintained large surpluses with the rest of the world they would have to adjust and there would be little negative effect on the rest of the world. Keynes and White also opposed speculative capital movements but supported movements of capital into productive activities. They supported both these types of movements but said that the overriding principle in their drafts was to give states the rights to control capital movements.

The US Congress did not support a system where the US would have to adjust if it ran a surplus. They would not support an agreement that limited US freedom of action. New York bankers opposed much of the proposals by both White and Keynes. As a result of the opposition from congress and some successful lobbying by the New York Bankers, White was forced to amend some of his original proposals and oppose many of Britain’s proposals. However, despite alterations the final Bretton-Woods agreement supported restrictions on capital movements and states were given the right to control all capital movements. The World Bank would promote productive and equilibrating flows of capital. The IMF would finance deficits. Helleiner correctly argues, “The restrictive provisions in the Bretton Woods Agreement partly reflected the prominence of an embedded...
liberal framework of thought, which gave priority to the defence of the policy autonomy of the new interventionist welfare state from international financial pressures” (Helleiner, 1994: 49).

After Roosevelt’s death US financial policymaking was once again dominated by bankers. The Truman administration attempted to implement policies that would undermine the Bretton Woods arrangements because the new officials opposed the Bretton Woods agreement and because they wanted to increase the pace of trade liberalization. The key currency plan was to cut off aid and then offer Britain a loan to deal with impending financial crisis provided they restore convertibility between the dollar and the pound. They hoped that this convertibility of currencies would revive international trade and bring back old forms of private international financing that had existed in London and New York.

The new US officials also attempted to restore orthodox economic policies in the rest of Europe. The plan to reinstate convertibility and more orthodox economic policies failed because of the financial crisis of 1947. Within six weeks of restoring convertibility the British had to resort back to tight exchange controls because of the huge amount of currency speculation against the pound. There was a massive flow of capital from Europe to the US. US bankers refused to cooperate with European governments to stem the capital flight. Helleiner argues that the US bankers profited from the capital flight and therefore refused to limit it. This uncooperative stance of the New York bankers was a short-sighted move because the instability caused to European economies undermined their goal of building a more open financial order because it undermined confidence in the international financial system.

The US did not oppose the use of capital controls in Western Europe and Japan because of the need to maintain the support of these countries during the cold war after 1947. Many US policymakers, influenced by Keynesian thought, believed that these countries would grow better with restrictions on capital flows. The communist threat was very real for the US after WWII. The Soviet Union exploded an atomic device and there was a communist revolution in China. Many Western European countries had elected left wing governments. For example, in Britain the election of the Labour Party was indicative of the strong support the left had gained during the war. Many politicians in the US feared that the national capitalism built after the war in Western Europe could easily be transformed into socialism. They also realized that many of the governments in Europe were interested in building ties with the Soviet Union and Eastern European countries. The US feared that economic links built by Western European governments with Eastern Europe would cause them to weaken their ties with the US. Therefore, open markets and increased economic relations with the US was an important part of the US’s strategy to reverse the move towards national capitalism and possible evolution of socialism in Western Europe. The US government embarked on a multi-pronged strategy to ensure the success of their foreign policy in Europe. They used aid, especially the Marshall Plan as a way to build loyalty for
and increased dependence of the economies of Western Europe on the US. An important part of the US strategy was to divide and isolate the left in Western Europe. Block says, “CIA operatives, American labour representatives, and Cold War rhetoric were used to persuade non-communist trade unions to cooperate with economic policies that were disastrous for the working class” (ibid: 92).

The US state department realized that the Marshall Plan would not be enough to maintain sustained economic links with Western Europe and started developing a new plan. They proposed a rearmament policy in the US and to aid rearmament in Western Europe. Supporting the rearmament of Western European countries, including West Germany, would help intensify the polarization of Europe. The substantial increase in defence spending would also serve to stimulate the US and European economies and bolster them against economic downturns. Block argues that this military Keynesianism amounted to an acceptance of Keynesian theory but without national economic planning and the threat of Western European countries moving even further left. The rearmament programme also meant that there would be a continued flow of US dollar denominated aid to Western Europe. This meant that Western European countries could continue importing US products and would not cut themselves off from the US economy.

Helleiner argues that the US abandoned its support for the Bretton Woods arrangements because of changes to its economic position after the late-1950s. Starting in the 1960s the US started experiencing growing current account and budget deficits. The rise of the German and Japanese economies after the war posed a serious problem for US industry. While its global position in international trade declined it maintained a dominant role in financial markets. Helleiner attributes this dominance to the size of the US economy, the strength of US finance markets and the predominance of US financial institutions and the dollar in world markets. The strength of the US in global financial markets meant that the US supported globalization of financial markets and repeatedly refused to participate in cooperative ventures that were essential to stymie the movement of capital across borders. Therefore, the aim of maintaining high exports with Europe after WWII became less important than the later goal of integrating international financial markets.

Britain played an important role in undermining exchange controls in other countries by allowing the development of the Eurodollar market in the 1960s. The development of the Eurodollar market would be an important component in the evolution of the post-war financial system toward the dismantling of embedded liberalism towards a system of global neoliberalism. The reason for allowing the development of the Eurodollar market is related to Britain’s financial authorities and financiers desires to revive the City of London as an important financial centre. London had been a centre for the closed sterling bloc but with this bloc in decline it faced losing its role in international finance. The plan to revive its international financial role involved breaking with the national capitalist norm of heavily regulated financial markets. Britain acted unethically by opening an offshore
market for dollar transactions. Britain was undermining the financial regulations and controls developed in other countries to maintain economic stability so that they could maintain their role as an international financier. These were the same regulations Britain had used to maintain stability after the depression and to rebuild its economy after the war.

It was inherently difficult to maintain the Bretton Woods system because it depended on cooperation between countries. It would be impossible for one country to maintain capital controls when another was willing to accept funds from illegal capital flight from another country. The dollar was seen as a safe currency and the US was the dominant financial market after WWII. The fact that the US refused to cooperate with countries to curb capital flight meant that it was impossible to maintain the system.

The proponents of national capitalism in the Treasury and other officials drawn from the anti-internationalist camp during Roosevelt’s term had lost their power were replaced by people with ties to finance after he died. The real threat of communism and the use of cold war anti-communist scare tactics served to defeat the anti-internationalists. The US played an active role in undermining national capitalism in Europe and pushed for integrated and open markets as well as military alliances to maintain its export surplus and its sphere of influence.

Many Western European countries found it increasingly difficult to maintain closed financial markets as the Eurodollar market grew and the international environment opened more and more in the 1970s and 1980s. There were strong financial and large corporate interests internal to these countries that had been pushing for open financial markets since the war and the new environment strengthened their cause.

In addition, the intellectual environment was changing. Economic events – the economic slowdown in the 1970s and the oil and debt crises during the 1980s – lead to the predominance of neoliberal ideas over Keynesianism. The ideas of free market economists like Friedman and Hayek were spreading and this supported neoliberalism. These ideas influenced government officials, especially those working in finance departments, who were frustrated by the difficulties related to regulating closed financial markets in an increasingly open environment.

Neoliberalism was also embraced by industry that had previously been opposed to liberalization and the changes to the nature of corporations in the US and other countries were immense. Corporations in Western Europe, the US, Japan and a number of developing countries had grown in size and become increasingly multinational in character. This significant industrial group allied themselves with domestic finance in lobbying for more open international markets.
Opening of trade and rising international competition altered labour relations. The alliance between the labour movement and industry for protectionist policies that existed after WWII slowly disintegrated. The high road labour relations, increasing real wages and steady productivity gains that characterized the “Golden Age” of modern capitalism (post-WII to the 1970s) changed with the assent of neoliberalism (Marglin and Schor, 1992).

The style of management and the nature of investment changed dramatically. Crotty (2002) says that the trend towards diversified conglomerate in the 1960s and early 1970s, followed by the hostile takeover movement in the 1980s led to a move away from viewing firms in terms of long-term growth units towards a “portfolio” view of firms as liquid assets to be bought or sold in capital markets. This short-term perspective of firms was entrenched even further with the rise to dominance of institutional investors. Crotty says that on average US stocks are held for just one year now, “indicating that stock prices have lost any significant connection to long-term fundamentals”. In addition, the dispersion of shareholding and the resulting weakening of shareholders have led professional executives firmly in control of major corporations. All these forces combined with the “shareholder value” movement of the late 1980s and 1990s pressured top management of industrial firms to focus on achieving ever higher stock prices rather than long-term growth.

The turn towards neoliberalism has led to far reaching changes in finance and industry from what existed during the Golden Age. Today, is hard to imagine a world where national capitalism predominates and full employment is the major goal of macroeconomic management.
Crotty (2002) provides deep insights into the different forces that shaped rapid economic development during the Golden Age and constrained development during the neoliberal era. Drawing on the work of Joseph Schumpeter and Alfred Chandler, Crotty argues that in the US and most other developed countries it was large non-financial corporations (NFCs), operating in oligopolistic markets, that were responsible for most of the capital investment, technological change and productivity growth during the Golden Age. Crotty describes markets structure and organization during the Golden Age:

_During the Golden Age, important Northern industries were characterized by what Schumpeter called “corespective competition,” inter-firm relations based on partial cooperation rather than all-out war. Under corespective competition, firms could be reasonably sure that rivals would not take actions intended to undercut industry demand growth or erode industry profitability. Of particular importance, firms avoided predatory pricing and capital investment wars that destroy profits and create large-scale industry excess capacity. By placing upper limits on capacity and lower limits on price, firms generated secure oligopoly rents, which were used in part to fund the high road labor relations that were the hallmark of the dominant firms of the era (p.6)._"

High road labour relations were very important for the fast economic growth during the Golden Age. This more cooperative relationship between employers and employees helped firms achieve high levels of productivity growth and secured growing real wages for workers. The conditions that existed under corespective competition and high road labour relations meant that the rapid growing aggregate supply due to rapid productivity growth occurred in an environment where wage growth and sustained investment helped aggregate demand to grow rapidly. These conditions assured the large NFCs of stability and secure profits, which in turn allowed them to be involved in long-term planning, spend generously on R&D, invest at a rapid pace and offer a large proportion of workers lifetime employment (ibid.). Crotty says, “There are numerous economic and political conditions required to ensure that core oligopolies act in a manner that helps create and reproduce a healthy economy. These necessary, complementary conditions include a strong regulatory apparatus, sustained high employment, a labour-friendly government, appropriate tax policies, and strong unions in core industries (ibid.).”
Crotty argues that these confluent conditions that allowed corespective competition amongst oligopolistic NFCs, including Keynesian macroeconomic policies and trade protection, were removed during the neoliberal era and were replaced by "coercive competition". Coercive competition is a hallmark of the neoliberal era. Crotty says that coercive competition is "based on cut-throat pricing, the destruction of secure oligopoly rents, over-investment relative to demand – creating chronic excess capacity, and fast-paced technical innovation that often renders recently constructed capital goods prematurely obsolete – and the debt that financed them unpayable (p.7). The pressure on large NFCs and their profits under coercive competition forces them to abandon their long-term planning horizon and high road labour relations, which included actions such as downsizing and cutting wages.

The reason for chronic excess capacity during the neo-liberal era is in part due to reduced aggregate supply and in part due to the nature of large NFCs. There are key industrial sectors, such as automobiles, airplanes, steel and semiconductors, which dominate and drive international trade, productivity growth, technological change and international investment. They are capital intensive, with huge economies of scale and scope. Building capacity in these sectors requires huge investment with capital sunk into projects for long periods. Once the huge investments to build these core industries have been made it is very hard and expensive to withdraw from these businesses because firms in core industries have industry-specialized machinery, labour, and management. The plant and equipment cannot be sold without usually incurring huge losses on initial capital laid out.

These core sectors are vital for deepening industrialization. During the Twentieth century, developing countries that wanted to move up the technology ladder invested in these core sectors. In order to develop these sectors a large number of developed countries had to forcefully enter global trade markets because many developing country domestic markets were not large enough to absorb the supply coming out of these industries with the significant economies of scale and scope. As a result there was growing competition on the already existing core industries of developed economies that enjoyed oligopolistic market structures during the Golden Age. However, the product market competition was more intense during the neoliberal era because aggregate demand was lower. Therefore, excess capacity grew rapidly because existing developed country core industry firms could not easily exit without incurring very high exit costs. The new confluence of factors was that economic policies, such as trade liberalization caused more competition and macroeconomic policies constrained aggregate demand and at a time when there were huge increases in supply capacity in industries with huge exit costs. The outcome of these factors led to a situation where firms continued to make substantial investments in order to remain in the industry and to avoid huge exit penalties even as excess capacity rapidly grew. This situation continues today, large core NFCs try to remain afloat even as profits decline and possibly turn negative. The competing global firms hope that one of
their competitors will be forced to exit. The rewards to the survivors who get to restructure the industry and possibly establish new oligopoly relations are usually large. However, in order to increase their chances of survival these firms have to complement new investments with strategies such as cutting employment, new investments in locations where wage costs are lower, and they must make new investments to get in on the ground floor within countries where they expect rapid economic growth. Crotty refers to these new investments as “coerced investments”.

Another crucial difference for industry between the Golden Age and the neoliberal era was a shift from ‘patient capital’ to impatient capital. Further, the liberalization that unleashed finance and led to global financialization shifted the power balance between finance and industry. At the same time large, NFCs became financialized, i.e., an increasing share of their activities and profits were in due to involvement in financial markets. As a result, the influence of shareholders on management grew. During the Golden Age when large NFCs in the US and other developed countries had stable profitability they funded expansion out of their earnings and did not use debt much for growth. Crotty says, “The stock market was never an important source of corporate finance in the US; it was always a market where entrepreneurs could cash out, trading control of illiquid equipment and structures for money, and households could store value over long periods (p.16).” However, during the neoliberal era firms were more dependent on raising debt in equity markets.

From the 1960s, the importance of institutional investors grew. The pressure on fund managers to earn above average returns to control and manage funds grew over the past few decades and led to significant and faster churning of equities and bonds in the pursuit short-term returns. The growing importance of institutional investors led to a much shorter-term perspective in financial markets. During the neoliberal era, a ‘financial view’ of NFCs took hold where these corporations were seen as consisting of a portfolio of subunits to be continuously adjusted in attempts to increase the stock price of the firm. During the Golden Age managerial pay was linked to the long-term success of the firm. During the neoliberal era managerial pay is linked to short-term stock movements of the firm (Crotty, 2002, 2003, Froud et al, 2003, 2006 and Lazonick and O’Sullivan, 1996, 2000). The majority of CEOs of the largest NFCs now receive the bulk of their income in the form of stock options.

Crotty says that there is increasing pressure on NFCs by financial markets to increase their returns during an era where the is lower aggregate demand and destructive product market competition that puts downward pressure on profitability. Crotty calls these contradictory pressured on NFCs today the “neoliberal paradox” and argues that there is a link between recent massive corporate accounting fraud, e. g., Enron and WorldCom, and the neoliberal paradox.
Froud et al (2002) also discuss the pressures on NFCs to achieve high, unrealistic returns by financial markets. They say that this pressure to keep achieving high returns drives corporations to continuous restructuring and explains the rise in mergers and acquisitions. When considered together with Nolan’s assessment of the unprecedented levels of mergers and acquisitions since the 1990s one gains new insights into the global corporate restructuring drive by global financialization. One realizes that much of the influence of the shareholder value movement has been to push management to find short-term solutions to increase earnings in line with demands from financiers. The role of market sentiment and stock market indices plays a huge motivating role in corporate behaviour today. Much of the recent trends towards concentration and domination of global markets may be due to fancy footwork by managers who want to secure increased incomes. Froud et al (2006) argue that some firms acquire other firms in order to boost earnings in the short-term to meet shareholder expectations. In an in-depth case study they show that a global giant like General Electric, which has been lauded by analysts and business journalists as a huge success, has been a serial acquirer and has continuously acquired firms and sold others to buy in growth in earnings. Unsurprisingly, GE Finance Corporation is a huge part of GE’s story in this era of global financialization.

The increased importance of finance has led to a situation where “…neoliberal globalization is also destroying conditions in both product and financial markets that are necessary for the successful long-term performance of large nonfinancial firms. It will not be possible for NFCs to lead either advanced or developing nations to stable, egalitarian, long-term prosperity unless the neoliberal project is rejected (Crotty, p. 37).”
4. DEVELOPMENT CHALLENGES DURING THE NEOLIBERAL ERA

The historical and institutional sections above should provide background to locate the challenges facing developing countries in the attempts to industrialize and develop their economies. Ideology around the role of the state in development has changed. Neoliberal hegemony means that a large proportion of policymakers and government officials are hugely affected by the laissez faire change in thinking about economic development and good economic policies. More and more developing countries play the credibility game in pursuit of foreign investment and to keep people working in global financial institutions happy. The influence and direct involvement of the state in coordinating competing interest groups and directly closing economic gaps has decreased significantly during the neoliberal era. Furthermore, the economically powerful countries of the north and institutions like the IMF and World Bank exert huge influence on countries to implement neoliberal policy reforms. At the same time, changes to the global economy lead to a situation where investment in core sectors for economic development has become much harder due to coercive competition. The huge and largely negative influence of the financial sector on large corporations and the real sector as a whole makes a long-term approach to investment hard. The financial market volatility and disruptions due to contagion and crisis further promote a ‘liquidity preference’ amongst wealth holders in developing countries and also encourage capital flight towards developed country assets, which are perceived to be more stable and less likely to suffer huge losses in value. As a result of these policy shifts, developing countries have become much more dependent on foreign direct investment and subcontracting from developed countries to build industrial capacity. However, FDI is not always the benign force that it is made out to be by developing country leaders who are desperate for economic interventions to promote economic development in their countries (see section on FDI below).

In his excellent book *Kicking Away the Ladder*, an economic history of the development of countries that are now the developed countries, such as the US, Germany, and Switzerland, Chang (2002) shows that all currently developed countries used some sort of protection of their domestic markets to support industrialization. He shows that countries that dominated global markets were in favour of free trade while countries that wanted to build their industrial bases understood that their emerging industries needed protection before they could compete with established foreign competitors. This idea is reminiscent of Keynes argument that open trade borders could be disruptive for a country. Keynes

---

3 Stiglitz (2002) in his book *Globalization and its discontents* and some of his papers (see for e.g., Stiglitz 2004) criticises the IMF for attempting to enforce policies based only on ideological perspectives. For example, he says that advocacy and pressure for liberalization of international capital flows by the IDC was not based on theory or empirical research but was influenced by ideology.
further argued that countries should be protected against destabilising capital flows that could disrupt their economic growth. Developing countries were more likely to use infant industry protection and other industry strategies during the Golden Age. Many of the newly industrialized countries of Asia used trade protection and strict regulation of financial markets and international financial flows to aid their economic development. Latin American countries started a process of import substitution, however, this development strategy was halted by the debt crisis and the types of policies imposed on countries after the crisis.

The strategies used by developing countries were not only related to trade protection and destabilising capital flows. Amsden (1989) explains the difficulties facing a developing country attempting to industrialize. She says:

Countries with low productivity require low interest rates to stimulate investment, and high interest rates to induce people to save. They need undervalued exchange rates to boost exports and overvalued exchange rates to minimize the costs of foreign debt repayments and of imports – not just imports of raw materials, which rich and poor countries alike require, but also of intermediates and capital goods, which poor countries alone are unable to produce. They must protect their new industries from competition, but they require free trade to meet their import needs. They crave stability to grow, to keep their capital at home and to direct their investment toward long-term ventures. Yet the prerequisite of stability is growth (p.13).

The role of the developmental state would be to manage and coordinate the different and conflicting needs in the economy. The state would have to manage conflict between major economic actors and ensure that there was adequate investment or incentives to invest in infrastructure, core economic sectors, education and other key areas to promote long-term economic development. Amsden’s account of the industrial development of South Korea shows that a developmental state can successfully navigate and manage the contradictory requirements required for rapid productivity growth and economic development. However, the changes in the neoliberal era, especially after the 1980s International Debt Crisis, seem to have reduced the possibilities that states would play this type of developmental role. However, there remain examples where governments have been able to implement progressive developmental policies and resisted pressure from developed countries to implement neoliberal reforms. However, it seems that this type of action is easier if one is a large and fairly strong country such as India or China.

An important lesson of the neoliberal era is that Keynesian macroeconomic policies to manage aggregate demand are not enough to promote development. This point is fairly easy to understand when one reads the quote from Amsden (above) about the many contradictory requirements on governments that want to promote productivity growth. From the quote above, it is clear that government has to play a role in influencing the direction of wealth and savings in an economy.
towards developmental goals. Often, it is required that the state plays an active role in allocating resources toward development goals.

The role of finance in developing countries after independence from colonial dominance has been extremely important in shaping how these economies have developed. The development states in many East Asian countries played an active role in the financial sector. For example, strong government involvement in directing bank credit was an important factor in the successful strategy for rapid growth for the Asian “tigers” (Chang 1993). The states in these countries restructured their financial institutions and changed the governance of these institutions in order for them to play a developmental role. The ability to direct the control of financial institutions away from the narrow interests of domestic capitalists (usually involved in primary minerals or agricultural industries or low level beneficiation of these goods) with strong links to former colonial powers towards national development goals is a key insight for understanding the role of developing countries within the global financial system. For example, the financial systems in most African countries did not change much after independence. The financial systems in most African countries continue to service a small section of the domestic population and foreign investors and to maintain strong and sometimes subservient relations with the financial sectors of former colonial powers and other developed countries.

The types of governance of financial systems were different in the countries of East Asia and other countries where the state played a “developmental role”. However, with the emergence of neoliberal thinking since the 1970s developmental states have faced ongoing pressure from advanced industrial countries, the multilateral financial institutions and domestic interests to liberalize. The success of many developmental states led to domestic industries growing and becoming more integrated into financial markets and domestic pressure from powerful industrial capitalists to liberalize financial markets. In some countries, for example South Korea, the state’s role in allocation of capital was seen as a hindrance by some chaebol who wanted to improve their position in global markets.

The increasing global mobility of financial capital is an important consequence of neoliberal policy. Blecker (1999) says that, “Since the 1970s virtually all industrialized countries and a large number of developing countries and ex-socialist economies have opened up their capital markets to largely unregulated international transactions” (p.1). He correctly argues that the result of liberalization was a series of severe financial crises in the 1990s. He says that speculative “hot money” has fuelled currency crises, stock market collapses and financial panics and contagion. Blecker also shows that international capital flows have become more influential in their impact on balance of payments and

---

4 This pressure is similar to the pressure that led to the abandonment of the Bretton-Woods system and forced many European countries that experimented with national capitalism after WWII to open their financial markets and re-instore convertibility of their currencies.
exchange rates than international trade in goods and services. He argues that huge currency trading often leads to global financial pressures that cause “perverse changes in exchange rates that destabilize the global trading system and undermine domestic economic production.”

See Herr’s contribution to the GLU working paper series, “Theories of Financialization”, for a deep and insightful discussion of the destabilizing role of finance during the neoliberal era.
During the neoliberal era, developing countries that wished to develop and deepen their industrialization but adopted neoliberal policies did not have the options and room for creativity open to a country like South Korea. Today, options to promote development often seem limited and attracting developed country corporations to invest in their countries is one option open to developing countries policymakers that have chosen to adopt neoliberal policies. Over the past few decades the growth in information technology and the internet revolution has provided an added impetus for developing countries to attract FDI. Many policymakers were as enamoured with internet companies as the investors who drove the dotcom bubble. However, the ‘new-economy’ hype industry, led by the financial sector that were making huge profits on IPOs, promoted the untrue belief that the transformation of economies would be instantaneous. They convinced people to believe that the ‘old economy’ was outmoded. They held the ridiculous belief that a new system could replace an old system completely in a short period of time. The hype in financial markets about how the internet had changed the business world led many government policymakers to believe that FDI by IT companies would magically transform their economies and they would leave behind the old economy and be transformed beyond industrialization into new economy, service driven success stories. The race (sometimes to the bottom) for FDI between developed countries heated up during the period of the dotcom bubble.

Today, foreign direct investment (FDI) is seen by governments of many developing countries and many economists as vital for economic growth and development. The promotion of FDI by developing countries is usually part of a neoliberal policy regime. Neoliberal globalization provides a vision where all countries are open to investment and there is integrated trade and financial markets but the vision does not usually include free movement of labour across national borders. In other words, this vision is one where capital and traded commodities have unrestricted movement around the globe. The rationale for open capital and trade markets is that countries can make the best use of their natural resources and human capital endowments with the technology available to them. Neoliberal globalization is built upon the weak foundation of comparative advantage. This theory, usually based on a model with 2 countries and 2 commodities, envisages that free movement of capital and goods will mean that all countries eventually specialize according to their comparative advantage and that the welfare of all countries will be increased through trade.

The importance of FDI for proponents of neoliberal globalization is the belief that more foreign control of productive assets will have spillover effects in the host country. They argue that an important function of FDI is to provide capital for
economic development to developing countries. Developing countries usually have inadequate access to capital, technology and skills (including entrepreneurial flair and management skills) and often have raw materials and unskilled and semi-skilled labour. Therefore, for neoliberals, FDI is usually considered to be better than portfolio investment for developing countries because portfolio flows increase only the amount of capital available to capitalists in the host country. FDI on the other hand, means that capitalists of more developed countries aid the transfer of skills and technology from developed countries by investing in developing countries. Neo-liberals believe that developing countries will be able to make better use of their raw material endowments and that the skill of their workforce will be improved as a result of the spillovers from FDI. In addition, policymakers favour FDI over portfolio investment because the recent spate of financial crises has highlighted the “flighty and unreliable” nature of short-term portfolio capital inflows (Braunstein and Epstein, 2002). Many governments of developing countries believe that attracting multinational corporations (MNCs) to their countries will provide their domestic firms with access to global marketing and distribution channels that are usually closed. However, this belief seems misguided since MNCs manage to appropriate a large share of profits on a final good by controlling marketing and distribution and guard these channels closely.

The proponents of neoliberal globalization argue that governments of developing countries who want to receive the benefits of FDI have to follow neoliberal policy prescriptions, which include liberalization of trade and finance, low tax rates, tight monetary and fiscal policies. In addition to the usual neoliberal policy prescriptions, they add government transparency and investor guarantees (usually accompanied by bilateral investment protection agreements) to the list for countries that want to attract FDI. Many developing country governments, who believe that FDI is necessary for their development, understand that MNCs are very mobile and that there is a lot of competition between countries (both developed and developing) to attract FDI. They usually implement neoliberal policies and a number of incentives in the hope that MNCs will locate in their country.6

The bargaining power of MNCs relative to developing countries increases considerably as a result of global competition for FDI. Burke and Epstein (2001) argue that FDI and the other activities of MNCs “embody a destructive asymmetry which is detrimental to workers and citizens both in the less developed countries, and to those in the developed world as well” (p.2). They say that this asymmetry occurs because there are so many destinations available to MNCs to invest and so few MNCs able to make significant investments. At the same time, while the amount of investment may not be large, the increase in investment will contribute a significant amount to the margin of investible resources in

---

6 Burke and Epstein and Braunstein and Epstein point out that there may be other reason that politicians and government officials may wish to attract FDI. They include personal motives such as improvement of public perceptions, improvement in status and possibly promotion and corruption.
developing countries. Therefore, MNCs have large negotiating power relative to investment destination jurisdictions because FDI as a whole is important for MNCs but no single foreign investment, with a few exceptions, is important to MNCs. In addition, MNCs that are already in a country have the ability to increase their profit share through threat effects related to their ability to move their investment to another country. Epstein (2000) refers to magnification effects, which is the increase in MNC bargaining power based on their threat of moving to a cheaper location.

Developing countries that wish to attract FDI implement neoliberal policy prescriptions and offer tax breaks and other incentives. The incentives for FDI can be harmful for the welfare of the developing countries offering them because they could include reduction of protection to workers (including lower wages and health and safety requirements) and the environment. Those opposed to neoliberal globalization correctly argue that policies promoted by neoliberals and the incentives to attract FDI cause a “race to the bottom” because developing countries who try to attract FDI often erode social protections and conditions of employment and environmental protection. Unfortunately, many developing country policymakers seem unaware or ignore studies that show that FDI is attracted to countries with higher growth, higher productivity and more skills and technology. The task of developing countries, therefore, should not be to promote FDI but to develop their countries in a way that enhances growth, productivity and skills. Once they are on this type of development path, they can choose the type of FDI they would like to accept into their countries.

Hanson (2001) and Markusen and Maskus (2001) explain how theory (usually Hecksher-Olin-Samuelson with increasing returns to scale) predicts where MNCs will locate. Hanson says:

Theory predicts that firms will penetrate foreign markets through FDI when trade costs are high, firm-level scale economies are high (i.e. the fixed costs associated with head-quarters activities are high), and the plant-level scale economies are low (i.e. the costs of having plants both abroad and at home are low. Conversely, firms will penetrate foreign markets through exports when trade costs are low and plant-level scale economies are high. (Hanson, 2001, p. 11)

Markusen and Maskus (1999) and Hanson also explain the difference between vertical and horizontal FDI. Vertical FDI is where a MNC locate different stages of manufacturing a product in different locations. Vertical FDI occurs because the differences in cost of production in host and home countries are large. Horizontal FDI is where an MNC produces the same commodities or services in many different countries because the costs of production (and usually the size of markets) are similar in host and home countries.
A large number of empirical studies, using general and partial equilibrium analyses, examine the factors that determine where multinational corporations locate their production facilities. Hanson (2001) provides a useful review of many of these studies. General equilibrium studies referred to by Hanson seem to support theory. These general equilibrium studies report that more FDI relative to exports will occur when there are higher trade costs and bigger firm-level scale economies (Brainard, 1997), economies with more skilled labour will attract FDI in sectors that use more skilled labour (Yeaple, 1999), and FDIs have expanded their production more through horizontal than vertical FDI (Markusen and Maskus, 1999).

A partial equilibrium study by Wheeler and Mody (1992) is said to be representative of other papers in this literature (i.e. other papers using partial equilibrium analysis). Wheeler and Mody report that FDI by US firms are higher to countries with larger markets, a larger stock of initial FDI, higher quality of infrastructure and more industrialized economies. They also report that agglomeration economies are associated with FDI, i.e., MNCs are attracted to locations where there is a larger concentration of industrial firms. A finding by Wheeler and Mody that is contrary to theory is that FDI is slightly higher in countries with higher labour costs and corporate tax rates. Hanson warns against empirical studies like that of Wheeler and Mody because they may contain omitted variable bias. Hanson says that empirical studies that have attempted to deal with omitted variable bias have found that MNCs are influenced by differences in taxes across countries or regions. He finds that agglomeration effects associated with FDI seems to be supported by empirical studies that attempt to avoid omitted variable bias.

Hanson also considers empirical studies that examine whether FDI generates positive externalities for host economies. He says that across countries and time empirical studies generally show that MNCs are larger, pay more, have higher factor productivity, use capital, intellectual property and skills more intensely, have higher profits and export more than domestic firms. Therefore, it seems that domestic firms should be able to learn from MNCs. Hanson says that early literature is optimistic about the impact of MNCs on host countries. He lists a number of studies, including more recent studies that report a positive correlation between industry average value-added per worker and the share of industry employment in foreign firms. Some recent work claims weak positive correlations between FDI inflows and GDP per capita. Hanson also mentions a study by Mansfield and Romeo (1980) that reports that there were technology spillovers from US MNCs to host country firms. Hanson says that these empirical studies showing positive spillovers to host countries are not conclusive because they suffer from omitted variable bias and also from endogeneity bias. Hanson questions the direction of causality between productivity and FDI. It does seem that rather than FDI being the cause of these positive spillovers, higher productivity and other positive factors, such as the existence of agglomeration by industries, more skills and higher technology, attract FDI. Hanson says that studies using plant level data, which attempt to address endogeneity and omitted
variable bias, report that “... multinational firms concentrate in high productivity sectors and that domestic plants, while having high relative levels of productivity, experience even or negative growth in productivity relative to plants in other sectors” (p.14). Hanson’s lucid insight is that micro-level data refutes empirical studies that report positive productivity spillovers from FDI. He also says that these micro-level studies seem to indicate that MNCs cause domestic firms to be less profitable by restricting them to less profitable industry sectors.

Despite huge efforts by developing countries to attract FDI, most FDI continues to go to developed countries and most of the FDI to developing countries goes to very few of these countries, with a large share going to China. Braunstein and Epstein (2002) provide a valuable insight into the effect of FDI into China. They argue that China did not benefit as much as it could have from FDI, in the form of higher wages, more employment, more technology transfers and higher tax revenues, because it did not take advantage of its relatively strong negotiating position relative to MNCs that invested in China. They report that the impact of FDI on employment and wages was relatively small and had much less of an impact than domestic investment and exports. They also report that FDI crowds out domestic investment. This finding is similar to Hanson’s assertion that FDI may force host country firms into less profitable industry sectors. Possible methods by which FDI can crowd out domestic investment or concentrate domestic firms in less competitive sectors is by buying up domestic firms or by using cut-throat competition to force domestic firms out of business. The medium- or long-run effect of these predatory actions by MNCs is that the sectors where MNCs predominate could become less productive as MNC firms face less competition in domestic markets.

Liberalization of investment and finance and trade can lead certain industries to become feminized [Elson, Grown and Cagatay (2000), Braunstein (2000) and Seguino and Grown (2000)]. Feminization of an industry sector means that there are more women working in that sector and also the sector has taken on conditions more like those identified with “women’s work”, i.e., working conditions are more precarious and more jobs are casual. The sectors that become feminized are those sectors that export more. Braunstein (2000) argues, “...although the relationship between women’s employment and MNCs is not well documented, there is strong evidence that the share of female employees in the labor-intensive, export oriented assembly and multinational manufacturing sector is high” (p.5). She says that women tend to be concentrated in electronics, garments and textiles where labour costs are important for international competitiveness. Therefore, it seems that FDI will go into countries where they can take advantage of discrimination against women to secure low unit labour costs in industry sectors where there is lots of price competition and capital is relatively mobile. Seguino and Grown (2000) argue that in cases where industry has matured towards higher value-added outputs, there has been a reverse of the feminization process. They argue that this may occur because firms are less willing to train women who are presumed to be temporary labour. Seguino and Grown correctly argue that governments should adopt policies that lead to the
development of value-added industries and ensure against gender discrimination so that women are trained and have access to jobs with better wages and conditions of employment. An investment code that applies to both domestic investors and FDI could help ensure against gender discrimination. Industrial policy could move the country towards higher value-added production and ensure that FDI does not occur only in low value-added sectors. This type of industrial policy would have to include regulations to ensure protection of certain industries from imports – such as an infant industry protection strategy. There would have to be regulation of capital markets to ensure against capital flight as countries adopt policies that are different from the Washington Consensus.

In addition to the broad policy prescriptions that trade and financial markets be regulated, more specific policies are needed to ensure that appropriate FDI is attracted and that maximum advantage is gained from FDI. This would require state regulation of FDI. The type of foreign companies that should be attracted to a country are those that will not lower the market share of domestic firms or squeeze domestic firms out of profitable sectors. If it can be shown that FDI will lead to positive spillovers then this type of FDI should be attracted. A country can ensure that this type of FDI is attracted by developing their domestic industries and improving the education and skills of domestic labour. FDI will be drawn towards existing productive industries with agglomeration of firms.

Burke and Epstein argue, “…the structure of international production, and the emerging neo-liberal rules that govern it, work primarily to enhance the bargaining power of MNCs at the expense of citizens in both the rich countries of the North and poorer countries of the South” (p.36). The task of countries to develop their domestic economies would be made much easier if neoliberal globalization was reversed and the rules governing international production and trade were to change. Neoliberal globalization leads to a situation where countries and workers compete against one another and domestic prices become more influenced by factors outside of countries than inside. This integration into global markets leads to profit-led growth where capital, especially MNCs with strong negotiating position as a result of threat effects (and threat magnification), are able to appropriate productivity gains in the domestic economy. This situation makes development more difficult as fewer resources are available to governments and workers to invest in the domestic economy.

Countries can do much to improve the productivity of industry without FDI. For example, South Korea developed new sectors, such as shipbuilding, by recruiting retired engineers and managers from the US and Western Europe to transfer skills to local workers.
6. GENDER, MACROECONOMIC POLICY, GLOBALIZATION AND LABOUR

A discussion of the neo-liberal era would be incomplete without discussion the gender aspects of neoliberal globalization. Of course, there was gender discrimination during the Golden Age but it is necessary to challenge the view that globalization and economic development during the neoliberal era has liberated women and improved gender issues in the global economy. This section will show that gender plays an important role in the neoliberal era.

Gender relations, a fundamental institution in any society, have traditionally been ignored by mainstream economists. The gender of workers in firms or members of households does not usually factor into mainstream economic analyses. Firms and households are treated as if all their members have common interests. On the whole, the inclusion of gender analyses has occurred in microeconomics but has been neglected in areas like macroeconomics and international trade that deal with economic phenomenon at a national or international level. However, gender issues are relevant to all levels of analysis. Grown, Elson and Cagatay correctly explain that gender is relevant to macroeconomics and international trade because “… gender relations permeate all levels of economic, political, social and cultural life” (2000, p.1148). They go on to explain that the meaning of the term “engendering” macroeconomics or international trade is to reveal the way that gender relations are present in every aspect of these fields.

Gender norms and biases while assuming different forms and intensities are present in all societies. Gender norms and biases affect the behaviour of individuals. In most societies, women are assigned the role of caregivers within the household. Women are expected to do most of the work involved in reproducing households. On the other hand, men are expected to be active in markets and political life outside the household. Where women are active outside of households they face discrimination. Women are usually excluded from networks where information is shared; they usually have less power and fewer women are represented on boards of directors and political positions; and women usually have less access to skilled, higher paid jobs.

Macroeconomic changes have significantly different impacts on men and women because of the different gender roles assigned to men and women in society. For example, women have been disproportionately affected by the austere fiscal policies many governments have chosen or been forced to adopt as a result of liberalization of financial markets or structural adjustment programmes. Fiscal austerity policies often mean that governments reduce social spending. These cuts often lead to increased demand for unpaid care work in households. Since women are usually expected to provide this type of unpaid labour, the cuts in social spending lead to more demands on women's time. Floro and Dymski (2000)
and Singh and Zammit (2000) consider the effects of financial liberalization and the resulting instability in financial markets on women. They find that women bear a larger share of the costs when a country liberalizes and when financial crises occur. Women are usually the first to lose their jobs during crises. There are increased demands on women's time to do unpaid household labour because governments usually cut social spending in the aftermath of financial crises.

Policies aimed at increasing integration into the global economy, such as liberalization of investment and financial and trade markets, also disproportionately affect women. For example, liberalizing trade seems to lead to higher levels of paid female employment. However, increases in the number of women in the workforce are not associated with less discrimination of women workers. Grown, Elson and Cagatay say that there has been feminization of jobs in certain industry sectors as a result of liberalization of investment and trade. They explain that feminization is not only the increase of women in paid employment but also “. . . a transformation of the conditions of paid work, such that more jobs are casual, irregular, flexible, precarious, characteristics that hitherto were more typical of “women’s work” than of men’s work (2000, p.1147).” It seems that export oriented industries in many developing countries become feminized because their competitiveness depends on low unit labour costs.

The different gender roles attributed to men and women and gender biases affect the functioning of the overall macro economy and international trade. Klasen (1999) finds that gender biases in education and employment may have a negative impact on economic growth. Seguino and Grown (2002) say that those semi-industrialised countries with more gender inequality in wages, and where women form the bulk of the labour-force in the exporting sector, had higher growth rates than countries where there was less gender wage inequality. Seguino and Grown argue that the reason there was more growth in countries with a larger gap in wages between women and men was because there was more investment by firms seeking low labour costs and higher productivity of investment because of the lower wages. Braunstein (2000) develops a structuralist macro model to show that a number of different macroeconomic outcomes can be found when there are different relations between men and women in households that affect reservation wages of women. She also links different levels of foreign investment to intrahousehold gender relations that affect the reservation wages of different groups of women.

The interrelationship between unpaid work in households and macroeconomic outcomes is clear from the examples presented above. Women bear an unequal share of hardships that befall an economy because they are usually the first to lose their jobs and they have more demand on their unpaid labour time. Braunstein (2000) shows that different gender relations in household, such as patriarchal, where men have more control over women’s time and income, and autonomous, where there are more equal relations between men and women within households, affect the entry of women into labour markets. The shadow
wage of different women is affected by these intrahousehold relations and affects the type of foreign investment in an economy.

Grown, Elson and Cagatay state:

“a gender perspective argues that it is important to conceptualize the system of reproducing and maintaining the labour force in a given society and to treat labor as a produced input. There is a fundamental connection between the economy of monetized production and the non-monetized economy of reproductive work. Yet, macroeconomic policy fundamentally takes the reproductive economy for granted, assuming it can function adequately no matter how its relation to the market economy is articulated.”

Gender discrimination in labour markets is related to the gender roles assigned to men and women in society, especially the division of labour within the household. Men are often treated as the breadwinners and women who enter the labour market are treated as supplementing families’ incomes. Women are usually treated as temporary members of the workforce despite the fact that most women will be in the workforce permanently. The feminization of certain sectors and the unequal treatment of women workers are usually justified by employers who opportunistically use these inaccurate arguments. Overall, the number of women who are part of the workforce or the reserve army of the unemployed, the terms at which they enter the labour market and their levels of education and productivity will be affected by gender relations within households. These factors affect the overall macro economy of a country.
7. CONCLUSION

Today is hard to imagine a world where national capitalism predominates and full employment is the major goal of economic policy and macroeconomic management. The hegemony of neoliberal ideology has permeated all levels of economic thinking. We see its influence in economic policy, the structure of government, the role of the state in the economy and in academia and the media. It is necessary for us to challenge the ‘conventional wisdom’ in economics perspectives that has developed as a result of the hegemony of neoliberal ideology because these perspectives shape not only economic and corporate governance in our societies but also shape and limit thought about what types of economic ideas are possible, desirable and ‘credible’.

Governance and economic policies have become much more sensitive to the views of people working in global financial markets. The views of citizens, including owners of small and medium-size businesses and workers, have been made subservient to these people working in global financial markets. Maintaining ‘credible’ economic policies such as low inflation rates and low government budget deficits and liberalizing trade and financial markets is more important to many economic policymakers than considering welfare, fighting poverty and unemployment, and ensuring decent work conditions.

For the economic policymakers of developing countries, foreign investment has become a panacea for economic development. They make a huge effort to show potential foreign investors that they have ‘credible’ economic policies and will provide a friendly environment. As a result, policymakers have sacrificed the developmental role of the state and replaced it with neoliberal economic policies. However, on the whole foreign investment has not been associated with economic development and economic growth, and technology and skills transfer. On the contrary, developing countries that attract foreign direct investment are those that have already been growing and already been investing and building skills and technological capability.

Most mainstream economics ignores gender attitudes and relations within economies, households and firms. Gender is often not seen as an issue to economic policymaking and is often ignored in discussions about globalization. However, gender attitudes and assigned gender roles in economies are important for understanding how globalization is occurring, why foreign investors choose certain locations for certain types of industries and for developing more just economic policies. We have to make an effort to include gender in our analysis of the impacts of neoliberal economic policies such as promoting low inflation and low government budget deficits and trade and financial liberalization.

The hegemony of neoliberal ideology has led to a shift in thinking from the perspective that economic policy should be used to maintain full employment to a perspective aimed at keeping people in financial markets happy. As a result,
many policymakers have proved to be willing to reverse the hard-won gains of
the labour movements and to favour capital and their calls for greater labour
market flexibility. In the process the power relation between workers and
capitalist has significantly changed. The conditions of work for many workers
have deteriorated. Job security and benefits have declined as corporations have
become more internationalized. Casualization and informalization has increased.
There has been ‘feminization’ of many economic sectors and capital has been able
to profit from negative gender attitudes and roles dominant in national
economies. Labour and their trade unions, a large proportion of which remain
organized in national economies, have become weaker and face credible threats
from capital threatening to relocate to other countries. Therefore, the impact of
neoliberal ideology has meant that, on the whole, economic policies and
globalization have had a negative impact on labour and that the struggles of
workers and their trade unions have become more difficult.
8. REFERENCES


Polanyi, Karl (1944), The Great Transformation: The Political and Economic Origins of Our Tim, Boston, Beacon Press.


Published GLU Working Papers

No.1  Seeraj Mohamed; Economic Policy, Globalization and the Labour Movement: Changes in the Global Economy from the Golden Age to the Neoliberal Era, February 2008

The Global Labour University (GLU) www.global-labour-university.org is a network of universities, trade unions, research institutes, NGOs and foundations in order to

- develop and implement university post graduate programmes on labour and globalization for trade unionists and other labour experts;
- undertake joint research and organize international discussion fora on global labour issues;
- publish textbooks, research and discussion papers on labour and globalization issues.

Members of the GLU network:

- British Trade Union Congress (TUC), U.K.
- Cardiff University, U.K.
- Central Única dos Trabalhadores (CUT) / Observatorio Social, Brazil
- Congress of South African Trade Unions (COSATU), South Africa
- Deutscher Gewerkschaftsbund (DGB) / DGB Bildungswerk, Germany
- European Trade Union Institute (ETUI)
- Fachhochschule für Wirtschaft Berlin (FHW), Germany
- Friedrich-Ebert-Stiftung (FES), Germany
- Global Union Research Network (GURN)
- Global Unions (GU)
- Hans-Böckler-Stiftung (HBS), Germany
- Industriegewerkschaft Metall (IG Metall), Germany
- International Federation of Workers’ Education Associations (IFWEA)
- International Institute for Labour Studies (IILS), ILO
- International Labour Organisation (ILO) / Bureau for Workers’ Activities (ACTRAV)
- National Labour and Economic Development Institute (Naledi), South Africa
- Tata Institute of Social Sciences, India
- Universidade Estadual de Campinas, Brazil
- Universität Kassel, Germany
- University of the Witwatersrand, South Africa