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For Session 6 of module
Managing and Planning for Development: International and National Dimensions

(Academic year 2011-2012)

6 - Privatization, Liberalisation and Decentralisation, a recipe for export-led growth, as suggested by the World Bank and the International Monetary Fund. The neoliberal state. The role of Structural Adjustment Programmes and beyond.

<u>The neo-liberal state (privatization, liberalisation and decentralization)</u>

Since the 1970s, the ruling elites of industrialized countries have been engaged on the anti Keynesian counterrevolution led by <u>monetarists</u> and <u>neoclassical economists</u>.

In the early 1980s, United States (Ronald Reagan) and United Kingdom (Margaret Thatcher) governments adopted <u>neoclassical economics</u> as the official economic thought in their nations…attempting a way out from five years of <u>economic slowdown</u>, <u>high inflation</u>, <u>high unemployment</u> following the <u>oil price crises</u> of 1975 and 1980.

The <u>economic slowdown in industrialized countries</u> engulfed markets in Asia, Africa, Western Europe and Latin America.

There was a danger that <u>developing countries</u> could not repay their huge <u>debts</u> to the big banks of the centre, adding fuel to the fire.

The neo-liberal state (privatization, liberalisation and decentralization)

At the end of 1989, the International Monetary Fund and the World Bank reviewed the neo-liberal policies being imposed piecemeal on developing countries governments since 1980 (beginning of debt crisis), and created a comprehensive set of rules (Washington Consensus) for lending and financing projects in developing countries.

The development state was dismantled and the neo-liberal state was established as a condition for developing countries getting loans to finance deficits on balance of payments and productive projects.

Economic globalization in the age of information technology asserted itself.

An early shaping of the neo-liberal state in developing countries began when in 1980 the World Bank first introduced Structural Adjustment Programmes as a conditionality for loans.

Since then World Bank lending instruments have been:

1.- Investment lending (for specific projects)

2.- Adjustment lending (for Structural Adjustment Programmes):

- **a) Structural adjustment loans**
- **b) Sector adjustment loans**
- **c) Programmatic Structural adjustment loans**
- **d) Special Structural adjustment loans**
- **e) Subnational adjustment loans**

The neo-liberal state (privatization, liberalisation and decentralization)

The neo-liberal state follows the main assumptions of neoclassical economics, which advocate a minimalist state with only one purpose: to make sure that capitalist markets remain unregulated:

Total freedom of movement for **financial capital** (both for speculative and productive purposes), **productive capital**, and **foreign direct investment** by **gigantic corporations (TNCs),** created an

interconnected two-tier world economy:

Tier 1.- the real economy (production of goods and services, now dominated by TNCs in an

integrated international system of production);

Tier 2.- the virtual economy (speculation with national currencies, loans, debts, mortgages, pension funds, price of oil, price of commodities, shares in stock exchanges, etc. – casino capitalism).

The neo-liberal state (privatization, liberalisation and decentralization)

Developing countries' governments found themselves unable to implement independent development policies.

N. Girvan argued **"the need for the South to secure greater autonomy in development policy"…"which now is dramatically constrained by neo-liberal globalization dominated by direct investments from industrialized countries"…**

"neoclassical economics and neo-liberal policies ruled out the notion of an economics *sui generis* for the developing countries"…
(they dismissed development economics and developmental state. R.R.)

"developments since the late 1990s have shown that the triumphalism was premature, as global social movements, financial crises, contradictions in the World Trade Organizations process and the shifting political climate in the South have served to undermine the Washington Consensus…and have re-opened space for academic enquiry and policy experimentation in the South and the North".

(N. Girvan (2005), "The search for policy autonomy in the South", UNRISD)

The logical structure of the Structural Adjustment Model:

Five major groups of CONDITIONALITIES:

1.- **Institution design** based on market economy

2.- Promotion of **free trade**

3.- **Financial structure** reform

4.- Reform of **public sector**

5.- Reform of **financial sector**

(World Bank, 2001, "Adjustment Lending Retrospective. Final Report", pp. 7-8. Available at www.rrojasdatabank.info/dev0029.htm)

For **Institution Design** see Róbinson Rojas, **New Public Management. A market friendly type of public administration? A critique**
and **Slide presentation 10**

The logical structure of the Structural Adjustment Model:

Five major groups of CONDITIONALITIES :

1) Institution design based on market economy:

- maintenance of the market economy rules.
- abolition of prices and wages “distortions” (i.e., subsidies and minimum wage).
- securing consistency with the macroeconomic policy and the financial sector reform (unregulated markets for productive and speculative investments).
- securing fund availability for the private enterprises.*

The logical structure of the Structural Adjustment Model:

Five major groups of CONDITIONALITIES:

2) Promotion of free trade

- devaluation of the rate of exchange.
- reduction the customs duty.
- promotion of exports (current account balance).
- abolition of regulations that prohibit foreign investments in some sectors.
- facilitate location of transnational enterprises

(assemble industry, mainly for exports, such as cars, aircraft, IT products, etc. in **special economic zones**).*

The logical structure of the Structural Adjustment Model:

Five major groups of CONDITIONALITIES:

3) Financial structure reform

- reduction of the national financial deficit through decreasing public expenditure.
- improvement of the national tax collection system (increasing indirect taxation).
- reduction of local public finance expenditure.
- **decentralization** of local tax collection system *

The logical structure of the Structural Adjustment Model:

Five major groups of CONDITIONALITIES:

4) Reform of public sector

- simplification of administrative procedures for creating private businesses.

-promotion of **privatization of state owned enterprises** and **outsourcing**.

- improvement of public administration services.

- **cost recovery** in public services (education, health, housing, etc).

- watch of **money laundering**.*

The logical structure of the Structural Adjustment Model:

Five major groups of CONDITIONALITIES:

5) Reform of financial sector

- improvement of the banking system via **privatization of state-owned banks**.
- abolition of regulations that prohibit **foreign investment in domestic banks**.
- efficient management of the banks through market competition.
- abolish regulations on **speculative investments**.*

The logical structure of the Structural Adjustment Model:

Impacts of CONDITIONALITIES expected by the World Bank/IMF:

Short-term: improvement of current account.

Medium and Long-term:

-reform of economic structure (unregulated capitalist markets)

-improvement of <u>economic fundamentals</u>:

a) expansion of private capital investment;

b) expansion of final demand (individual consumption, capital investment);

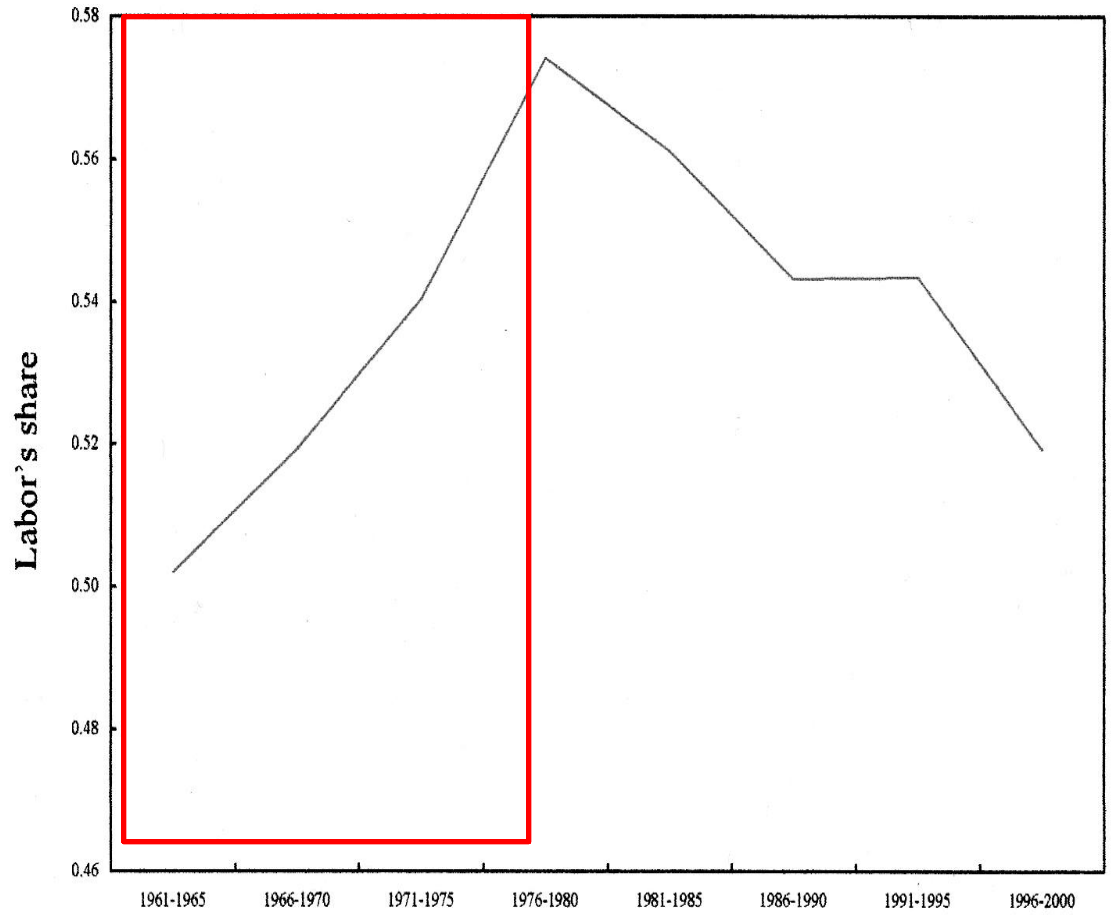
c) expansion of export-led growth.

d) public sector governance as a <u>facilitator</u> of a free unregulated capitalist market economy.

The social effects of neo-liberal policies in industrialised countries (OECD):

Labour participated fully in rising productivity in the pre-globalisation era (1961-1965 to 1976-1980), but under globalisation **productivity gains and trade have first and foremost benefited capital** – eroding labour shares in industrialised countries.

Figure 1. Cross-Country Average Labor's Share in National Income
(Ratio of labor income to national income)



Source: OECD, Structural Analysis Database.

Source: OECDSTAN database and Guscina, A., 2006, "**Effects of Globalization on Labor's share in National Income**", IMF Working paper.

The social effects of Structural Adjustment Programmes:

In April 2002, **based on Results of the Joint World Bank/Civil Society/Governments/Structural Adjustment Participatory Review Initiative (SAPRI) and the Citizens' Assessment of Structural Adjustment (CASA), a report was published <u>with the opposition of the World Bank.</u>**

On page 21, the report noted: "the intransigence of international policy makers as they continue their prescription of Structural Adjustment Policies is EXPANDING POVERTY, INEQUALITY and INSECURITY around the world".

(Full report available at www.rrojasdatabank.info/dev0029.htm **)**

In August 2004, the World Bank announced that a new programme, called <u>Development Policy Lending</u> had replaced <u>Structural Adjustment Lending .</u> **The new programme maintained in its text the TOTALITY of SAPs conditionalities**.

(Complete information available at www.rrojasdatabank.info/dev0029.htm **)**

And defined the role of the World Bank and the International Monetary Fund:

"the Bank undertakes <u>Development Policy Lending</u> only when it has determined that the <u>country's macro-economic policy framework</u> is appropriate..."

"there is a relationship of any Bank assessment with programs supported by or views of the International Monetary Fund (IMF)…the presence of an IMF program is usually an important input in this determination…"

"if there is no Fund arrangement, Bank staff ascertain, before making their own assessment, whether the Fund has any major outstanding concerns about the adequacy of the country's macroeconomic policies"

World Bank, 2006, "**Development Policy Lending Retrospective**", doc. 36772, pp. 20-21 . Available at www.rrojasdatabank.info/dev0029.htm

A closer look at the CONDITIONALITIES

Share of Conditionality (in percent)	1980s	1990-94	1995-99	2000-04	2005-06
Public Sector Governance	24	24	17	35	47
Financial and Private Sector Development	22	30	43	28	17
Trade and Economic Management	27	21	16	10	11
Social Sectors	5	12	18	21	16
Environment, **Rural and Urban Development	22	13	6	6	9

"As noted in the 2005 Review of Conditionality, conditions related to industry, trade, energy, transport, and communication **now frequently focus** on trade facilitation, business climate reforms, and improvements to regulatory environments."
(Ibid. p.19)

Source: World Bank, 2006, "**Development Policy Lending Retrospective**", doc. 36772, p. 18
Available at www.rrojasdatabank.info/dev0029.htm

In 2002, SAPRIN report on SAPs noted:

"<u>Agricultural reform</u> has not improved the income of farmers overall. <u>Small-scale farmers</u> were particularly affected because, as a result of the reforms, production <u>subsidies</u> were removed, <u>public expenditure</u> on services declined, and obtaining <u>credit</u> became more costly."

"<u>Food security</u> has declined in most countries."

"Reforms have exacerbated <u>inequalities</u> in the countryside and led to further <u>environmental problems</u>."

"The design of reforms did not take into consideration <u>gender issues</u>, and the policies have had substantial differentiated impacts on men and women."

UNCTAD News No 16 (Sept.2008): **" probably the single most detrimental factor (in the food crisis) has been low agricultural productivity".**

Table on rural and urban productivity per worker compared (country average= 1)

	Urban workers	Rural workers	Urban/ Rural		Rural labour force (% of total)
U.S.A.	1.01	0.50	2.02		1.8
Japan	1.02	0.52	1.96		3.1
European Union	1.03	0.43	2.39		5.6
Africa	**2.26**	**0.29**	**7.79**		**64.1**
Asia	**2.01**	**0.30**	**6.70**		**59.2**
Latin America & The Carib.	**1.12**	**0.38**	**2.95**		**16.7**
China	**2.49**	**0.20**	**12.45**		**65.0**

Source: UNCTAD Handbook of Statistics 2008, UNCTAD, from tables 8.3.1 and 8.4.1

The neoliberal state social basis

"The neoliberal programme draws its social power from the political and economic power of those whose interests it expresses:

stockholders, financial operators, industrialists, conservative or social-democratic politicians, et al.

Neoliberalism tends on the whole to favour severing the economy from social realities

and thereby constructing, in reality, an economic system conforming to its description in pure theory, that is a sort of logical machine that presents itself as a chain of constraints regulating economic agents".

(P. Bourdieu, "Utopia of endless exploitation. The essence of neoliberalism ", Le Monde Diplomatique, Dec. 1998)

On Saturday 25th October 2008, leaders of 43 Asian and EU nations and the IMF met in Beijing to discuss the role of the IMF might have to rescue poor nations from the **global financial crisis. United Nations Secretary General Ban Ki-moon**, said to the delegates:

this crisis… "threatens to undermine all our achievements and all our progress:

our progress in eradicating poverty and disease…

our efforts to fight climate change and promote development to ensure that people have enough to eat"

From UNCTAD - 19 March 2009

The Global Economic Crisis: Systemic Failures and Multilateral Remedies

"Market fundamentalist laissez-faire of the last 20 years has dramatically failed the test.

Financial deregulation created the build-up of huge risky positions whose unwinding has pushed the global economy into a debt deflation that can only be countered by government debt inflation:

– The most important task is to break the spiral of falling asset prices and falling demand and to revive the financial sector's ability to provide credit for productive investment, to stimulate economic growth and to avoid deflation of prices.

The key objective of regulatory reform has to be the systematic weeding out of financial sophistication with no social return. "*

From United Nations Conference on Trade and Development - July 2009

The least developed countries report 2009
The state and development governance

"The current economic crisis is the result of weaknesses in the neoliberal thinking that has shaped global economic policies in the last three decades;"

"weaknesses that have been magnified by policy failures and lax regulation in the advanced countries.

The cost in terms of the bailouts and recapitalization of banks has already reached unprecedented levels.

However, the adverse impact on the real economy and the cost in terms of lost output and employment are now the great concerns ".

"**What began as a crisis in finance markets has rapidly become a global jobs crisis**. Unemployment is rising. The number of working poor is increasing. Businesses are going under"

"**Concern is growing over the balance, fairness and sustainability of the sort of globalisation we have had in the run up to the financial crash**."

"The International Labour Organization, representing actors of the real economy, that is governments, working together with representatives of employers and workers organizations, is playing its role within the UN and multilateral system to support its constituents as they seek to weather the crisis, prepare for recovery **and shape a new fair globalisation**."

(ILO, October 2009)

From United Nations Conference on Trade and Development (UNCTAD):

The least developed countries report 2009

The state and development governance

"The current financial crisis has given added urgency to a reconsideration of the potential for new roles and functions for the State in the current global context.

Development governance, or governance for development, is about creating a better future for members of a society by using the authority of the State to promote economic development,

and

in particular to catalyze structural transformation, create productive employment opportunities and raise living standards for present and future generations."

From United Nations Conference on Trade and Development (UNCTAD):

The least developed countries report 2009

The state and development governance

"Governance is about the processes of interaction between the government — the formal institutions of the State including the executive, legislature, bureaucracy, judiciary and police — and society.

Development governance is governance that is oriented to solve common national development problems, create new national development opportunities and achieve common national development goals."

From United Nations Conference on Trade and Development (UNCTAD):

The least developed countries report 2009

The state and development governance

This is not simply a matter of designing appropriate institutions but also a question of policies and the processes through which they are formulated and implemented.

Development governance is thus about the processes, policies and institutions that are associated with purposefully promoting national development and ensuring a socially legitimate and inclusive distribution of its costs and benefits.

Washington Consensus:

1) **Fiscal discipline** (to reduce social expenditure and achieve a balanced budget)
2) **Tax reform** (to lower marginal rates and broaden the tax base increasing indirect taxation)
3) A "competitive" **exchange rate** (to link it to the US dollar, yen, and euro)
4) **Trade liberalization** (to allow free flow of goods and services into developing economies)
5) Liberalization of **Foreign Direct Investment** inflows (to give foreign capital the same status than domestic private capital)
6) **Privatization** (to transfer all economic activity to private ownership)
7) **Deregulation** (to abolish barriers to entry and exit for capital and labour)
8) Secure **property rights** (to make private property of capital universal)
9) **Decentralization** (give local authorities administrative and financial freedom)

(Read R. Rojas, 1999, “Sustainable development in a globalized economy? The odds”)

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