Neoliberal Globalization and the Scope for Employment Policy

JOHN QUIGGIN

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John Quiggin examines the options for employment policy in a global economy of unconstrained capital flows. He argues that, as it commonly discussed, globalization is simply the international component of the neoliberal attack on social development, represented at the national level by policies of free-market reform.. An alternative global policy framework, based on international co-operation and active national economic and social policy, is urgently needed.

Globalization and neoliberalism

The concept of globalization conflates two quite distinct processes - international integration arising from technological growth and the change in the relative power of governments and markets associated with the rise of neoliberalism. The process of integration, involving reductions in the cost of communications, transport and travel, and increasing interaction between different parts of the world, has continued for past two centuries. Since the construction of the first trans-Atlantic telegraph cable, the real cost of international communications has declined steadily at a rate of about 5 per cent per year. Technologies such as radio, film and television increased both the volume and scope of international communications long before the advent of the Internet. Similar, though slower, reductions in transport costs have taken place as sailing ships (themselves the ultimate outcome of an impressive process of technical evolution) were replaced by steamships which were in turn replaced by airplanes by airplanes. Examples of this kind could be multiplied endlessly.

One important special case is the reduction in the costs of complex financial transactions associated with improvements in technology. This has led to a massive increase in the gross volume of financial transactions and a corresponding increase in the rate of turnover of financial assets. Although most attention has been focused on international financial transactions, this process has occurred in all financial markets, domestic and international.

By contrast with this steady process of international integration, the liberalization of trade and financial markets has been far from linear. The economy was highly globalized in the 19th century, but the international financial system, based on the gold standard, was suspended when World War II broke out. Subsequent attempts to restore the gold standard failed, leading to the Great Depression and the renewed outbreak of war.

After World War II, the victorious Allies saw the Depression as a major factor in the rise of Hitler and sought to establish an international financial system under which it could not recur. Meeting at Bretton Woods (New Hampshire, United States) in 1944, the Allies agreed to establish a new international financial structure. The object of the structure was to control capital flows in a way which allowed for both fixed exchange rates and sufficient domestic freedom in economic policy to permit the maintenance of full employment. The objective of the system was to expand trade in goods but to ensure that fluctuations in exchange markets did not create instability like that of the Great Depression. Hence, although tariff barriers were reduced, tight restrictions on capital movements were retained.

The Bretton Woods system established two international institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The IMF was to provide short-term assistance to countries experiencing balance-of-payments problems. The World Bank was to provide long-term finance for development projects. These institutions, it was hoped, would provide a framework for international capital flows which captured the benefits available from international borrowing and lending without the instability associated with uncontrolled international financial markets.

The Bretton Woods system represented internationalization as opposed to globalization.. The new approach was based on the assumption, supported by the evidence of the Depression and the periodic crises that had preceded it, that uncontrolled capital markets, whether domestic or international, were inherently unstable and destabilizing. Hence, the new approach called for national governments to counteract domestic imbalances in aggregate supply and demand, and for international institutions to manage imbalances in trade and capital flows.

In important respects, the Bretton Woods system was more integrated than the globalized system of the 19th century (let alone that of the interwar period). To the extent that the 19th century system provided any international co-ordination, this was achieved through the combination of European imperialism and the more-or-less automatic functioning of the gold standard. Individual governments pursued policies with little or no regard to any concept of a world economy.

While the Bretton Woods system implied a great increase in integration at the level of government policy, the controls it imposed on capital flows implied a reduction in the integration of private sector activity. Although the system encouraged growth in trade, which consistently outstripped growth in output, this process began from a very low base. Restrictions on migration, imposed earlier in the 20th century, also remained in place.

Although the stringency and effectiveness of capital controls were eroded over time, it was only after the crisis of the early 1970s that neoliberal policies were adopted in earnest. The first round of neoliberal reform involved the abandonment of the Bretton Woods system of fixed exchange rates and of Keynesian macroeconomic management. The second round involved more extensive retrenchment of state activity at the domestic level (privatization, contracting out, deregulation and so forth) as well as the removal of remaining controls on capital flows, foreign investment and so on. The domestic and international components of the neoliberal agenda reinforced each other just as the Bretton Woods institutions and Keynesian macroeconomic policies had done in the 1950s and 1960s. It is this process, rather than technological change, which is crucial in understanding the notion of 'globalization'. To emphasis this point, I will describe it explicitly as 'neoliberal globalization'.

Macroeconomic policy and Tobin taxes

The growth in the volume of domestic and international financial transactions is a significant source of macroeconomic instability. A number of developed countries, including Australia, experienced a boom-and-bust cycle in asset prices in the late 1980s, driven primarily by the over-expansion and subsequent contraction of the financial sector. This cycle was associated with severe and long-lasting recessions. During the 1990s, international financial crises have taken place on an almost annual basis. Countries affected include Mexico, the Asian region and Russia. There has also been an asset price boom in the United States, particularly associated with rising share prices. It is likely that this boom will end with a serious slump.

As well as providing a source of shocks, the growth of financial markets and the removal of restrictions on international capital flows constrains the capacity of national governments to stabilize their economies through fiscal and monetary policies. The return on financial instruments depends on inflation rates, but not, in general, on output growth or employment. Hence, the increasing power of financial markets has been associated with an excessive focus on inflation, at the expense of concern about unemployment.

The idea of a tax on international financial transactions (a Tobin tax) was first proposed by Nobel laureate James Tobin as a method of reducing the instability generated by financial markets and increasing the scope for independent macroeconomic policies. Issues associated with the Tobin tax are discussed in Mahbub ul Haq et al. *The Tobin Tax: Coping With Financial Volatility*, Oxford University Press, Oxford, 1996.

One issue arising from the discussion of Tobin taxes is the possibility that untaxed domestic financial transactions could be substituted for taxable international financial transactions. For this and other reasons, it seems likely that a uniform tax on all financial transactions, domestic and international, would be preferable to a tax applied solely to international financial transactions.

Employment policy

The fundamental problem of employment policy lies in the fact that the natural areas of employment growth are human services such as health, education and welfare services. In the mixed economy associated with the Bretton Woods system, these services have, in general, been publicly provided, or at least publicly funded.

The advent of neoliberal globalization has created chronic problems in the human services sector. On the one hand, attempts at free-market reform have been both unpopular and unsuccessful, to the extent that even the British Conservative Party has disclaimed any intention of privatizing health and education. On the other hand, there is increasing difficulty in raising the tax revenue needed to fund the provision of adequate human services. The rise of neoliberalism increased ideological hostility to taxation. This was particularly evident in the 'tax revolts' of the late 1970s. The liberalization of international financial markets led to greater mobility of capital and thereby made taxation of capital income more difficult.

The combination of growing demands for publicly-funded human services and pressure to reduce taxes was noted in the 1970s and described as the 'fiscal crisis of the state'. This problem is still central to the policy debate, though it is now clearly a chronic problem of scarce resources rather than a crisis which may be expected to lead to a rapid and radical resolution.

The most promising moves towards overcoming the fiscal crisis of the state are the policies of tax harmonization being adopted in the European Union. More general movement away from the 'race to the bottom' in tax levels and service provision is needed.

Global responses

Neoliberal globalization requires a positive global response. The form of this global response is still emerging, but it seems likely to include international agreements on the taxation of mobile capital, national economic policies consistent with full employment, and the reconstruction of an international financial structure conducive to international macroeconomic cooperation.