The Ecologist

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- Going Glocal: Competing in the Triads
- Privatizing the CommonWealth
- Chile's Free Market
- Asia's Tigers or Japan's Dependencies?
- World Bank Subsidies
- TNCs as Aid Agencies
- Scapegoating the Poor for Poverty

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Globalization

Changing Landscapes of Corporate Control

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See inside back cover

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The Ecologist

Vol. 26, No. 4, July/August 1996

Contents

Special Issue

Editorial and Introduction

Feature Articles

Cover Photo: P.T. Sampoerna cigarette factory in Surabeya, Indonesia (Chris Stowers/Panos Pictures).
The Ecologist is printed on recycled paper, whitened with hydrogen peroxide.

Denying the Global a Home

The Editors

It is many centuries now since environmental degradation and social injustice could be blamed solely on local actors — though many still seek to do so. Colonialism and the development era have so enmeshed local political structures into the grids of power that operate nationally and internationally that, whatever problem one seeks to explain, sooner or later one is forced to look beyond the local to the national and, thence, the global. Whether it is unemployment, deforestation, ethnic violence, racism, the oppression of women, militarism or malnutrition, an explanation that ignores the global dimension is likely to do violence to history. It is also likely to diminish the effectiveness of resistance.

Growing food insecurity in the South, for example, cannot be explained (let alone addressed) without an understanding of the hold that transnational corporations (TNCs) exert over the global trade in agricultural commodities or the massive subsidies that enable northern farm interests to dump their agricultural surpluses on world markets to the detriment of rural livelihoods in the South. Likewise, no account of the increasing insecurity of work, North and South, is complete without an understanding of how the liberalisation of world trade — and in particular, the removal of controls on the movement of capital — has increased the bargaining power of capital at the expense of labour (see p.125). Nor can the re-emergence of eugenics as an "explanation" for poverty or the growth of xenophobic chauvinism or the vilification heaped on single mothers be understood in isolation from attempts by the powerful to scapegoat minorities for the poverty and social upheaval caused by the restructuring of whole societies in interests of transnational élites (see p.185).

In the Image of the TNC

Over the last two decades, the economic and institutional powers enjoyed by such élites have been both deepened and expanded. Operating in conjunction with transnationalist interests in the South, northern capital has skilfully exploited the weak bargaining position of indebted Southern countries to force through programmes that further open up the South to northern commercial interests. State enterprises have been privatised; whole sectors of the economy deregulated; tariffs and other trade barriers removed; and controls on the movement of capital of "liberalised". In the North, too, similar policies have been imposed as a result of *ad hoc* alliances between free market ideologues, transnationalist bureaucracies (such as the European Commission) and the business community. Meanwhile, at the international level, lobbying by transnationals has secured new international trade rules through the Uruguay Round of GATT that are effectively intended to create "a world order moulded in the image of the multinationals."[1]

In the process, economic power has become increasingly concentrated in those companies and institutions (such as the World Bank) which have global reach. Multinational corporations in particular have strengthened their dominance not only over production and markets — they now control 70 per cent of world trade — but also over political institutions. During the GATT talks, for example, representatives from the TNCs chaired and staffed *all* of the 15 advisory groups set up by the Reagan administration to draw up the US negotiating position.[1] Likewise, in Europe, it was the heads of Fiat and Philips who drafted the original proposal for the European Single Market.

The state too has grown in power — power which is both increasingly unaccountable to the state's own citizens and increasingly directed against them. Within Britain, local government has largely been reduced to a rubber stamp for national government. In addition, whole areas of public life — such as housing, schools and hospitals — have been removed from their former control by local government or Parliament and placed under the management of "quangos" — quasi-autonomous non-governmental organizations — largely consisting of "Conservative [party] placemen, with a patchy record of increased efficiency more than offset by the loss of accountability".[2] Meanwhile, the state is rolling back many of the civil liberties gained by citizens through centuries of struggle: the Criminal Justice Act, for example, has severely restricted the rights to free assembly, thus curtailing the rights of citizens to protest against government policy or to organize in support of strike actions.

Increasingly, too, the power of the state is used to protect the interests of transnational actors rather than national citizens. As transnational factions within government have become increasingly dominant, so the UK (along with numerous other countries) has largely ceded sovereignty over economic affairs to unaccountable international institutions such as the World Trade Organization and the European Commission through treaties such as GATT and the Single European Act. The UK government has also introduced policies protective of multinational corporate interests: all public works must now be put out to international tender; subsidies and tax breaks have been made available to TNCs in order to entice "inward investment"; and environmental and labour laws onerous to big business have been deregulated.

A New Brutalism

Few of these policies, or the strategies and alliances underlying them, are new. Indeed, the similarities between both the discourse and practice of neoliberalism today and that of free marketeers (such as Adam Smith and Pastor Malthus) in the late 18th century is striking. Then, as now, the emphasis was on extending private property, dismantling the poor laws, imposing "market thinking", and controlling the feckless "lower orders". Indeed, the history of colonialism and development is largely the history of *resistance* to the imposition of such policies and thinking. It has never been an equal struggle and it has often required movements to make compromises that have themselves led to other forms of oppression, not least in the form of state power.

While the global economy is not new, however, the scale and circumstances in which globalization is occurring has enabled capital to pursue "a much more aggressive class politics".[3] Indeed, it is a sign of the times that the powerful now openly voice their disdain for poorer people and appear to accept the growing polarisation of society as an inevitability. Gone is any talk (however disingenuous) of "development" raising living standards for everyone. Instead, it is taken for granted that (regrettably but inevitably) the "triumph of the free market" will be built on the backs of the poor. Jaques Attali, former president of the European Bank for Reconstruction and Development, for example, takes it for granted that the world of the 21st century will be a world of vast inequalities in wealth and opportunities:

> "Money, information, goods and people will move around the world at dizzying speeds . . . Severed from any national allegiances or family ties by micro-chip based gadgets . . . the consumer-citizens of the world's privileged regions will become "rich nomads" . . . These wealthy wanderers will everywhere be confronted by roving masses of "poor nomads" — boat people on a planetary scale — seeking to escape from the destitute periphery, where most of the earth's population will continue to live."[4]

Exploiting Vulnerabilities

There is, however, nothing "natural" or "inevitable" about either the market economy or globalization. Nor, despite their triumphalism, do those at the cutting edge of promoting globalization act in ways which suggest that the project is in any way an inevitability. On the contrary, the persistent and pragmatic preoccupation of government and industry alike with containing resistance to globalization reveals the fragility and vulnerability of the underlying project.

TNCs, for example, can only survive if people buy their products. They are thus acutely aware of the powers that consumers potentially hold over them — hence the effort they put into managing and manipulating consumer demand. Inevitably such consumer power, once mobilised, renders TNCs vulnerable to targeted commercial boycotts and, more devastating still, to movements working to reduce consumption across the board or to develop markets (such as LETS) from which corporations and capital are excluded. Indeed, as unemployment rises and low paid work becomes the norm, the resulting decrease in consumer spending will inevitably unsettle the economic power of TNCs, opening up new opportunities for movements to exert pressure for greater local, democratic-control over the economy.

Likewise, transnationals — for all their global reach — cannot operate without rooting themselves in the markets and societies where they produce or sell — in the phrase of the business gurus, they must "glocalise". They are therefore always vulnerable to local opposition, be it in the form of movements seeking to close their operations, block the infrastructure "improvements" they seek or curtail their access to subsidies. Numerous such movements exist and, to the consternation of TNCs, are finding new ways of working together internationally. Indeed the very global nature of TNC operations makes them particularly vulnerable to cross-border organizing with movements in one country acting to support local struggles elsewhere by placing pressure on TNC subsidiaries or investors in their own countries.

At the national level, too, TNCs are vulnerable to movements seeking to exert national and international controls on their activities. Here, too, there is scope for commons-based movements, or movements seeking to create greater space for the commons, to press for greater local control of local resources by making common cause with other movements committed to what Vandana Shiva has termed "democratic pluralism". As she explains: "Democratic pluralism recognises the anti-democratic nature of the centralised nation-state on which state protectionism of the past was founded. But it also sees the emergence of corporate protectionism as the real threat to democratic rights and economic livelihoods. In this perspective, countering this recolonization requires the reinvention of national sovereignty by democratic processes to create national systems which act in partnership with local communities to protect the natural wealth, the economic livelihoods and the cultural and intellectual heritage of the country."[5]

Indeed, there are few areas where TNCs and their allies are *not* vulnerable to organized resistance. Moreover, there is *no* area where resistance, in some form, is not already occuring. Supporting that resistance and finding new ways to make it more effective is the challenge that faces us if the global is to be "denied a home". What the outcome will be, only time and political organizing can tell. As Lakshman Yapa of Pennsylvania State University has noted in another context,

> "In this story, there is no circumscribed space called 'the alternative' . . . There are thousands of site-specific alternatives that emerge in the substantive details of the story. It is not possible to jump ahead for a sneak preview because there is no 'solution' to be unveiled at the end of [the] critique. The 'solution' lies within an understanding of the detailed structure of the critique: the critique is the solution."[6]

1. Watkins, K., "Global Market Myths", *Red Pepper*, June 1996, p.14.
2. Hutton, W., *The State We're In*, Jonathan Cape, London, 1995, p.5.
3. Fox Piven, F., "Is it Global Economics or Neo-Laissez-Faire?" *New Left Review* 213, 1995, pp.107-114.
4. Attali, J., *Millenium: Winners and Losers in the Coming World Order*, Times Books, New York, 1991.
5. Shiva, V., "The Alternative to Corporate Protectionism", *Bija — The Seed*, Nos.15/16, 1996, p.4.
6. Yapa, L., "Improved Seeds and Constructed Scarcity" in Peet, R. and Watts, M., *Liberation Ecologies: Environment, Development, Social Movements*, Routledge, London, 1996, pp.69-70.

Who Competes?

Changing Landscapes of Corporate Control

Nicholas Hildyard, Colin Hines and Tim Lang

In the drive to become "competitive", companies are restructuring their operations on a global scale. It is not companies which are competing, however, but workers and communities. New technologies, new management techniques and a new freedom of capital to move across national borders have drastically undermined the bargaining power of labour, whilst strengthening that of corporations. Workers are being pitted against workers and communities against communities as companies relocate from one country to another in search of new markets, the weakest trade unions, the most flexible rules on working conditions and the largest subsidies. None of the major "solutions" to the resulting job insecurity, however, hold many prospects for workers. The time has come to question the very notion of export-led growth and enhanced corporate competitiveness as a route to employment and to press instead for an economy that protects people and the commons rather than corporations.

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"The reason [handloom weavers] are attached to [the locale of their work] is that they carry out their work under their own roof, beside their relatives and also more or less when they feel like it. They have an unsuperable horror of the barracks-room called 'common workshop', and would rather give up their trade altogether than submit to factory enrolment".

Contemporary observer of French handloom weavers late 18th century.[1]

"From the age of seven, children in factories had to work 12 to 15 hours a day (or night), six days a week, 'at best in monotonous toil, at worst in a hell of human cruelty'. 'The tale never ended of fingers cut off and limbs crushed in the wheels'."

Description of factory conditions in mid-19th century.[2]

"The range of consultations between ministers and both sides of industry has considerably increased and the machinery of joint consultation has enormously improved. We expect of this government that they will maintain to the full this practice of consultation."

General Council of the UK Trades Union Congress after the election of the Conservative government, 1951.[3]

"Shirley is 49 and has worked as a machinist for a year. She works 39 hours a week. She gets 15 minutes as morning break and 30 minutes for lunch, which consists of sausage rolls. There is no afternoon break unless it is a heat break when the factory gets just too hot. In a normal day, she machine stitches 300 children's garments. For this she takes home £113 — before tax. £16 a day to live on . . . Down the road at the Job Centre a backstreet clothing factory is advertising vacancies. Great news, but the advert shows that 16-year old trainee machinists can get £59 for a 39-hour week. Overlocking, flat-stitching and cover-stitching should take about six months to train on a proper scheme. But at this factory wages are frozen for two years."

Contemporary report on factory work, 1996.[4]

Two centuries and four different forms of industrial organization separate these tales of working life and industrial power relations in Europe.

Handloomers in the 1790s worked at home, weaving cloth under contract to a local "putter out", who supplied them with raw materials for final manufacture. It was not a system that suited industry, because it was the outworkers (mainly women) who regulated the pace of work rather than the "putter out".[5] Interspersing their weaving with other "jobs", they worked by

Mary Evans Picture Library

Spinning yarn in 1783

Illustrated London News/Mary Evans Picture Library

The doubling room at a Lancashire cotton mill in 1851

and large when they wanted, moving from one task to another "on a schedule set by sunlight, weather and season".[6] One day they might weave, another they might go to market. One morning they might be at home, another in the fields. Although these homeworkers were dependent on the outputter for work and had little say over what they received in payment, the outputter was also dependent on them as to when the cloth could be collected. The relationship was certainly unequal, but denying putters out full control over the production process brought an independence to the cottagers which they clung to tenaciously.[7] As long as such homeworkers had access to land (in the form of the commons), few were willing to submit themselves to the discipline of working in a factory, where their labour could be supervised.

It was only in the early nineteenth century — by which time landowners had enclosed most of the commons in Britain and thrown millions of their tenants off the land in order to "relocate" production from subsistence to industrial crops (mainly wool)[8] — that industrialists were able to gain access to a labour force sufficiently downtrodden and desperate for work, even under the regime of the factory floor.[9]

As the factory began to replace the home as the dominant site of production, so it imposed a new way of life on labour regimented not by the workers nor the seasons or hours of daylight but by the factory bosses. Physical abuse, deprivation and the close eye of overseers kept young children and women (both "locked together in a category of worker that was 'naturally' subordinate")[10] working day and night at a pace set by the "tireless, inanimate equipment"[11] of the factory floor. Despite the workers' continual resistance, the relative autonomy they used to enjoy was gradually eroded and eventually lost as factory managers strove to control every detail of their performance, down to the amount of time they were permitted to spend in the lavatory.[12] The factory, in the words of a contemporary pamphlet, became "the workers' prison and the foremen their jailers."[13]

The TUC statement, issued at the start of the "never-had-it-so-good" 1950s and 1960s, belongs to another era. The grinding repetitive work of the factory has not changed — if anything it required less skill — but a century and a half of lockouts, strikes and worker organizing has established a rough equity in the bargaining powers of labour and industry.[14] Workers were no longer viewed by management simply as a pair of hands to be used and discarded. Instead, they were also regarded as consumers whose wages had to be high enough to enable them to buy the goods that "Fordist" mass production techniques were churning out faster and cheaper than ever.[15] Better working conditions were thus part of the industrial landscape.

Moreover, management effectively agreed to treat labour as a "protected" commodity, with regularized collective bargaining replacing competitive labour markets as the means by which wage levels were set.[16] The rules of the game were well established: as long as productivity kept pace with wage pressures, management was prepared to provide job security, higher wages and better working conditions. Central to that bargain, however, was the need to increase exports, since the domestic market alone could not absorb the increased output needed to maintain steadily rising wages. An export-led economy was thus viewed by labour and management alike as key to "full employment" and decent living standards. From the 1950s to the mid-1970s, in almost every industrial country, real wages rose as exports grew.

Thirty years later, that uneasy compromise between labour and industry has been shattered. In Shirley's Britain of today, as in other industrialized countries, real wages are declining even though the productivity of workers is increasing; the unionized workplace has been replaced by the aggressively non-unionized work world of the fast food chain and the discount store; millions are being laid off as businesses "downsize" their workforce; and, in workplace after workplace, "management's rights have been strengthened, work rules tightened, job security reduced and wages hover as close as possible to the minimum set by law."[17] Outworking is back with a vengeance, only this time, the outworkers' labour is supervised and controlled. The majority of outworkers are women and immigrants and they tend to be the lowest paid of a low-paid flexible labour force, their conditions reflecting the double discrimination heaped upon them as wives and mothers who "shouldn't be working" and as foreigners who "shouldn't be here". They are also almost entirely unprotected by labour laws.[18]

Mary Evans Picture Library/Henry Grant

A biscuit factory on the outskirts of London in 1971

HomeNet

Assembling printed circuit boards in West Yorkshire, 1990s

Work Without Jobs

In the new industrial landscape which has emerged, the bargaining power of labour has been drastically undermined compared with earlier this century, whilst that of capital has been strengthened.

In Britain, "loose-change pay and hire 'em, fire 'em management has become the order of the day." Since 1992, there has been no increase in full-time jobs, while those "jobs" which have been created increasingly fail to provide the security that people used to associate with the word. Instead, the "jobs" on offer tend to involve poorly-paid, casual work — three out of every ten new jobs are part-time.[19] In Liverpool, a 16-year-old sales assistant is lucky to get £1.98 an hour; a skilled waiter is unlikely to make more than £3. In 1990, it was estimated that there were some ten million workers in the UK whose wages were below the European Union's "decency threshold". These included 4.4 million part-time workers, of whom 65 per cent were women.[20] Some 40 per cent of Britons now qualify for assistance under EU programmes for industrially depressed regions; in France, the figure is 30 per cent.[21] In 1993, "the poorest 10 per cent of male workers in the United Kingdom received lower pay as a proportion of the average wage than at any time since records began in 1886."[22]

It is not only "blue collar" workers who have been affected. For the first time since the Great Depression of the 1930s, the middle-classes are experiencing the insecurity that has been a permanent feature of working class communities since industrialization. The development of new technologies and management structures have permitted manufacturers to restructure radically their relationship to — and reliance on — office workers as much as shop-floor workers. Companies are eliminating whole strata of middle management to make corporate structures more "computer friendly" by flattening organizational pyramids and creating work teams. Such reengineering can result in more than 40 per cent of middle management losing their jobs.[26]

Meanwhile, income disparities are growing. Thirty years ago, the combined incomes of the richest fifth of the world's population were 30 times greater than that of the poorest fifth. Today, their incomes are over 60 times greater. With joint assets of $762 billion, just 358 billionaires now own more than the combined annual income of the world's poorest two billion people.[27] The gap between rich and poor is widening as unemployment continues to rise. In 1995, the International Labour Organization announced that one third of the world's willing-to-work population was either unemployed or underemployed, the worst situation since the 1930s. In Britain, eight million people have experienced unemployment since the last general election in 1992.[28] In France, average unemployment between 1969 and 1973 was 2.6 per cent; today, one in five adults are unemployed — and one in four of those under 25 years old.[29] Across the Atlantic, things are no better. Manufacturing employment in the US fell by 1.4 million between 1978 and 1990 and the numbers out of work are increasing despite economic recovery (*see* pp.185ff).

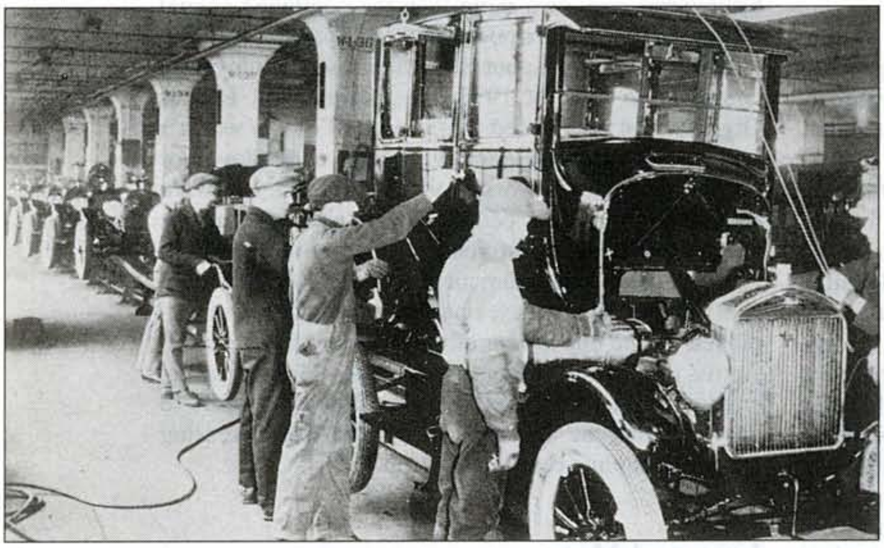
Lean and Mean

Labour's weakened position results in part from the imposition of new technologies and management structures; in part from the means used to overcome opposition to those new structures; and in part from the liberalization of world markets. Whatever the cause, the net result has been to strip away the limited protection from market forces that Fordist regimes afforded workers in the North and to create a new division of labour, both nationally and internationally.

Although companies generally "explain" the introduction of new technologies by citing the need to be competitive, the use of automation to undercut labour has long been a key motivation behind the "modernization" of industrial practices. As early as the 1940s, Ford and other large US manufacturers sought to automate as a means of containing labour's encroachment into areas (such as hiring and firing, disciplinary action and safety) which management viewed as its traditional terrain. "Menaced by the increasing intensity of labour's demands and determined to maintain its long-standing control over the means of production", notes trends analyst Jeremy Rifkin, "America's industrial giants turned to the new technology of automation as much to rid itself of rebellious workers as to enhance its productivity and profit."[27]

Fierce resistance by labour unions ensured that it took many years of patient manoeuvring and opportunism on the part of management before the first automated production lines came on stream. Initial moves came in the 1950s when companies began to take advantage of cheap land and tax breaks to relocate inner city manufacturing plants to suburban industrial parks. Relocation not only weakened the unions by separating plants from city centres where unions were strongest, it also pitted white workers against black workers. Unskilled (predominantly black) labour bore the brunt of the redundancies while skilled (predominantly white) workers were retained.[28]

Relocating abroad (or threatening to) has also been a favoured industry tactic for forcing domestic labour into accepting new technologies and other working practices. Initially, US companies shifted production to their subsidiaries in Europe and Canada, but in the 1970s, South-East Asia and Latin America became favoured sites for relocation, not least because of the generous package of tax breaks and other subsidies offered by host governments. A similar strategy was pursued by European manufacturing companies — in particular, those involved with labour-intensive industries such as textiles, shoe production and electronics assembly.[29]



Mary Evans Picture Library

The Ford assembly line in 1928

Extensive cross-border networking (often with rival companies) has also enabled management to outflank labour. Beginning in 1971, for example, General Motors (GM) began to forge a variety of alliances with Japanese and Korean car manufacturers, including Isuzu Motors, Suzuki, Toyota, Daewoo and Nihon Radiator.[30] The deals enabled GM to source many of its parts from Japanese and Korean factories, enhancing the company's bargaining position with US unions without having to relocate final production abroad. By reducing its reliance on in-house and external US suppliers, General Motors made it more difficult for unions to spread strike action into other industries. When GM announced in 1983 that it would be building a new compact car called Saturn, the United Auto Workers not only agreed to adopt Japanese-style team working practices — previously fiercely resisted — but to adopt a more collaborative relationship with management.[31] The factory where the Saturn was to be built was automated.

Elsewhere, military-style planning has forced through new technologies. In 1985, when print unions in the British newspaper industry refused to accept huge redundancies and new working practices (in particular, the use of computers to replace traditional typesetting), News International, (owned by Australian media magnate Rupert Murdoch), decided to force the issue. Saddled with a new £60 million computerized print plant at Wapping in East London in which the unions refused to work. News International made plans to start production without them. As Andrew Neil, then editor of *The Sunday Times* and a "company man", recalls:

> "Secret contacts were made with the electricians' union to provide a trained workforce: equally secretly, Wapping was made ready for the typesetting and production of all four News International titles — something it had never been built to do. And the government was squared: there would be enough police when things turned nasty."[32]

The company provoked a strike starting in late 1986 by announcing that a new paper would be produced at Wapping under conditions which it knew (and hoped) the unions would not accept. Unable to stop News International from producing its papers, the print workers were eventually forced to climb down: 6,000 of them lost their jobs.[33] The unions were broken.

New Forms of Control

The net effect of the introduction of new technologies has been to weaken labour's bargaining position drastically whilst strengthening that of capital. Thousands of workers made redundant have been added to the growing pool of unemployed "surplus labour", fuelling the domestic pressure on jobs. For those who remain in work, the implications are clear: "Keep a low profile or swap places with someone in the dole queue". In Germany, new technologies enabled manufacturers to eliminate more than 500,000 jobs in a single 12-month period between early 1992 and 1993.[34]

Equally important, the new technologies have facilitated new forms of management which are inherently unfriendly to labour. Since the 1980s, for example, US and European companies have increasingly moved towards the "flexible" methods production first pioneered by Toyota and other Japanese companies in the 1960s and 1970s.

Toyota does not seek to manufacture all the parts and components it needs "in house". Instead, it subcontracts to smaller firms, which then deliver the parts to order for final assembly in highly-automated plants owned and operated by the company. Workers in these "core" plants enjoy full-time, year-round employment and (until recently) considerable job security, with healthcare, pensions and paid holidays. But they make up only a small percentage of the "workforce" that manufactures Toyota's products; the vast majority are "contingent workers" employed by Toyota's 168 first-tier subcontractors, 4,700 second-tier subcontractors and 31,600 suppliers.[35] For these workers, job security recedes by tier: firms in the first tier are specialized enough to warrant support and firm contracts from Toyota; those in the second less so; while for those in the third, contracts are both unpredictable and intensely fought for. The further one moves from the core to the periphery, the lower the wages, the fewer the work-related benefits, the more contingent the work and the more frequent the redundancies.

For companies, such "lean" production methods offer access to labour as and when it is needed without the overheads of a permanent workforce. Moreover, by sourcing parts from as many different subcontractors as possible, companies are able to play one subcontractor off against another, driving down the price of components and ultimately the wages of the workers who produce them.

For example, Nike, the US sports shoe manufacturer, splits its first tier of subcontractors into "developed partners" and "developing sources", both of which are involved in the final assembly of the shoes. The "developed partners" are located mainly in Taiwan and South Korea and work closely with Nike's R&D personnel in Oregon in manufacturing the top-end of Nike's range of running shoes, whilst the "developing sources" are located mainly in China, Malaysia, Indonesia and Thailand, where they produce the company's mass-market shoes, using low-wage, semi-skilled labour. It is company policy to upgrade the "developing sources" gradually so that they become "developed partners" — an arrangement which, according to Nike managers, "keeps pressure on the first tier producers to keep production costs low as developing sources mature into full-blown partners."[36]

Nor is it only the large industrial complexes that are taking advantage of lean production techniques. Subcontractors, too, are fragmenting their labour processes, in some cases taking work out of the factory altogether — shedding their legal obligations as employers in the process.

In the mid-1980s, The Middle Company (TMC), a US contractor to General Motors, redesigned the assembly process of a variety of small auto parts so that the subcomponents could be shipped off to rural families for assembly and then returned to GM for final assembly on cars and trucks. Women make up the majority of the new homeworker labour force, with children supplementing their labour, either by doing the household chores or through helping out with the assembly work itself. The homeworkers are subject to deadlines imposed by TMC, cannot negotiate the piece rate, and sign a lease for equipment provided by TMC. Substantial aid from the state government of Wisconsin helped the company (already one of the richest in the US) to finance its relocation, including the costs of warehouse construction. The costs of labour were also effectively subsidized because although the homeworkers are in reality waged workers for TMC, they are as classed as "independent contractors" and the company is thus able to avoid paying unemployment tax or benefits such as health and life insurance or pension plans.

The mayor of Riverton, one of the towns to which TMC "relocated", is candid as to the motivation behind the move:

> "A lotta [companies like TMC] chose to come out to the rural areas because they felt they could get by with paying lower wages, which they did . . . And of course, the companies came out here to get away from the unions and union wages . . . [The company] said the fastest way they'd pull out of Riverton would be if they unionized."[37]

Going "Glocal"

The downward pressure on wages and job security *nationally* has been exacerbated as economic globalization forces labour to compete *internationally*.

As companies become — or seek to become — players in the global market, so their investment strategies are increasingly dictated by the "logic of globalization".[38] The traditional route for labour-intensive industries has been to relocate most production to

A Volvo and Mitsubishi production line in The Netherlands in 1996

Rob Huibers/Panos Pictures

cheap labour countries whilst retaining overall control, research and development in their home countries. This trend is being modified by the need to develop a strong presence within the major trading blocs — the so-called "Triad" of Europe, the US and the Pacific Rim. This has led to companies investing heavily in those blocs where they are not already established in order to win market share and build the political infrastructure they need to compete.

Companies are doing more, however, than simply setting up "outposts" in each new country of operation. Learning from the experience of the most successful transnational corporations, they are seeking to enter the new markets as *insiders* — a strategy which the Japan Machinery Exporters' Association aptly terms "glocalization".39 Companies are limiting the number of countries they enter but "penetrating each of them more deeply."[40] German multinationals, for example, were until recently organized as "export platforms" under which production was centralized in Germany and goods then exported abroad. Today, the strategy has changed. In the words of a corporate planner for the pharmaceutical giant, Hoechst, the goal is to achieve "integrated production in core markets overseas."[41]

One powerful motive for glocalizing lies in the need to understand local tastes and customs (and how they are changing) so as to compete successfully within new markets. In Japan, for example, the distribution system for cars is so different from that in the US that transplanting a US-style marketing system to Japan would be courting financial failure. As Kenichi Ohmae, a guru of global company management, explains:

> "In the United States, you go to a dealer's showroom. In Japan, salespersons come to your door, as if they were selling Avon products. These home sales visits are becoming less efficient, however, because more and more Japanese women are leaving the house to go to work. No one is home during the day. At the same time, most Japanese adults . . . already drive cars. They do not need salespeople to visit them at home with brochures and pictures, because they see all the new models on the streets . . . This has meant a shift in the business system from an emphasis on sales to an emphasis on service. Dealers now call up their customers to ask if their car is behaving well or to remind them that it is time to get their car serviced or inspected . . . Maintaining the customer relationship through good service is now the key to success."[42]

Above all, glocalization is a political strategy. It is rooted in the recognition that truly effective global reach can only be secured through capturing the local economy. It recognizes that in many spheres the national economy remains as important for any country as it once did.[43] And it builds on that recognition to protect against the "risks of being treated as an "outsider" or being hit by trade or investment barriers and thus losing market share.

"For multinationals to operate effectively at the national and international level, they have to capture the local."

As such, glocalization differs from strategies aimed at simply sourcing products and supplies from a variety of different countries. Rather, as authors Winifred Ruigrok and Rob van Tuder point out:

> "Glocalization is ultimately linked to the Toyotist concept of control. Manufacturers striving for glocalization try to build their competitive advantage on a combination of vertical de-integration of production to local suppliers and subcontractors, and structural control over local suppliers, dealers, workers and governments . . . Glocalization pertains to a company's attempt to become accepted as a 'local citizen' in a different trade bloc, while transferring as little control as possible over its areas of strategic concern."[44]

Webs of Influence

Central to the strategy of benefiting from globalization is the recognition that large as TNCs such as Coca -Cola, Monsanto, Bechtel, Mobil and Ford may be, they are unable by themselves to open up the sites of production and consumption which they seek to exploit. They have always needed allies, and there is thus a long history of TNCs joining with others (even their rivals) when they perceive they can gain from doing so — be it to share research costs, to monopolize markets, to increase their clout within international fora or to place pressure on an individual national government. The alliances that emerge are always contingent, fragile and eminently pragmatic.

During the colonial era, it made sense for TNCs to develop strong links with the treasury and military in their home countries. As the end of the colonial era loomed, links with the colonial authorities were played down and the transnationals began to seek out new allies within the independence movements. When newly-independent countries began to place restrictions on foreign ownership, the wiliest TNCs went underground, working through associate companies, whilst simultaneously lobbying and supporting those — not least their own home governments — who would impose a more "sympathetic" policy environment. With the debt crisis, still other allies have been cultivated — not only among Southern elites but also within the multinational development banks — in order to exploit the weak position of Southern governments and push through programmes that open Southern economies further to Northern capital.

It is the webs created by these numerous, ad hoc and constantly changing alliances — at the national, international and local level — that give TNCs their external organizational advantage over other companies, enabling them to fashion the political infrastructure that permits them to operate across the globe, capture subsidies, manage demand, create new markets, centralize power, enclose new environments, and "evade, digest and regulate resistance".[45]

And where existing networks do not exist to tackle the problem at hand, transnationals (like any other interest group) are adept at creating new ones. In the early 1980s, when the project for greater economic integration in Europe appeared to be faltering, key figures in the European Commission and in the largest European-based multinationals combined to set up a lobbying group called the European Round Table (ERT) to speed up the process. In at the start of the process, the ERT gave Europe's corporate giants a key opportunity to shape the process of economic integration. Indeed, the group's co-founders, Wisse Dekker of Philips and Umberto Agnelli of FIAT, actually drafted the original proposal for a Single Market. Not surprisingly, the European Union that has emerged from the Single Market is driven by business interests. And not just any business interests. The interests that it promotes are those which aspire to pan-European and, ultimately, global reach. Right at the centre of the European Union remains the ERT, still working behind the scenes to ensure that business interests are listened to and taken seriously. When it brings out a new report, whole passages are simply reproduced in subsequent Commission policy papers. It is a group that few in government can ignore. And that alone ensures what the ERT most seeks — "access".[46]

But having access to politicians — whilst undoubtedly useful — does not guarantee that the politicians will implement the policies which the TNCs wish to see implemented nor that the public will buy their goods. Hence, the constant preoccupation of transnationals is to try to extend their networks out of the restricted circles of institutional power and into the streets, fields, factories, housing estates, tenements and villages where people live. They know full well that to operate effectively at the national and international level, they must capture the local. For to lose control over the local is to become an outsider. It is to be bereft of allies and insiders who can help master and manipulate local patterns of control in ways that are friendly to transnational interests. As Daniel Drache of York University, Toronto, notes,

> "companies can outsource; they can decentralize operations; they can relocate. But when all is said and done, even multinationals giants have to put down roots and build strong ties with communities if they expect to excel."[47]

Borderless World

Mergers, acquisitions, joint ventures and cross-border alliances are currently the main mechanisms by which companies are seeking to glocalize. Out of the 4,200 interfirm strategic co-operation agreements that were signed by companies in the period 1980-1989, 92 per cent were between enterprises from Japan, Western Europe and North America. Moreover, "during the 1980s, the Triad accounted for around four-fifths of all international capital flows."[48]

As Harvie Ramsay of the University of Strathclyde reports for European companies,

> "[The trend] is most visible in industries with established global markets, such as electronics, chemicals or motor vehicles. However . . . examples can now be found in all sectoral directions. In the food industry, for instance, expansion by acquisition is the route being taken by all the major European players. Unilever made twenty-two acquisitions worth £300 million in 1992 and, with Nestlé, has led the way for European food companies, but Grand Metropolitan, Allied-Domecq, United Biscuits and, most aggressively, Cadbury Schweppes have all sought expansion in North America and Pacific Rim as well as in Europe in order to keep pace. In retail, too, the desire for expansion has been global rather than merely European among the larger players. Marks & Spencer, Dixon's, Benetton, Sainsbury and Ratner's have all sought to move into the North American markets, though not without setbacks, and many chains are looking to the Far East also. Ikea and the Body Shop have been particularly successful in their internationalisation efforts, the former trading from 100 stores in twenty countries by 1993, while the latter had 1,053 shops in forty-five countries . . . In the vehicle sector, Mercedes-Benz has caused a stir by announcing a decision to shift further commercial production out of Germany, increasing activities in Latin America, the US and Asia, and establishing its first passenger car production facility outside Germany in Alabama."[49]

Indeed, much of what passes for globalization today would be better described as "Triadization", as companies seek out the alliances they need to become embedded as insiders in the major trading blocs of Japan, the US and Europe. Once established, they are able to work through their new acquired allies to secure the policy environment, the insider knowledge of tastes and cultures, the state backing and the political infrastructure they require to protect and expand their economy wherever they seek to produce. But as insiders who are also outsiders, they can maintain close links with their "home" base, allowing still further subsidies to be garnered.

Hit for Six

For labour, the consequent restructuring has a number of implications:

- *First, the mergers and acquisitions that companies have undertaken in the pursuit of global reach are causing major job losses.*

In Europe, Tomkins' 1991 acquisition of the food conglomerate Rank Hovis McDougall led to 22 operations being closed and the workforce cut by 11 per cent; the electronics giant Philips has cut jobs by 68,000 (22 per cent) in five years since 1989; and, in heavy engineering, "the much feted joint venture between GEC and Alsthom has cut its workforce by 6,500 to 73,000 over 4 years to 1994."[50]

> ***"Much of what passes for globalization today would be better described as "Triadization", as companies seek to become insiders in the major trading blocs of Japan, the US and Europe."***

Meanwhile, in the US, where merger mania in the 1980s led to massive job losses, a new round of acquisitions appears to be underway. In the defence industry, the 1995 merger of aircraft makers Northrop, Grumman and Vought led to 14,000 job losses from a workforce of 53,000. The Lockhead Martin merger resulted in the closing of 12 factories and 12,000 redundancies out of a workforce of 170,000. Both these merged groups are involved in still further amalgamations, with more job losses expected.[51]

Banks too are losing jobs to mergers: the 1995 merger between Chase Manhattan and Chemical Bank (to create the US's largest bank with $300 billion in assets) is expected to eliminate 12,000 jobs over the next three years, about 4,000 in New York City alone. According to a study by Deloitte and Touche, a major accounting firm, as many as half a million bank employees in the US could lose their jobs in the next decade as the industry consolidates.[52] In the UK, the current wave of building society and bank mergers suggests a similar pattern.

- *Second, existing regional inequalities are widening as job creation becomes increasingly reliant on inward investment.*

Little of the outward investment made by companies brings new work to those in their "home" countries. It does, however, reduce the availability of "domestic" capital for new investments "at home", a deficiency that must be made up by encouraging inward investment if jobs are to maintained or created. The pattern of inward investment is thus increasingly key to whether or not people have jobs and what kind of jobs are on offer. For firms seeking to reduce labour costs, their objective is to relocate to those areas where labour is cheapest; for those seeking to establish retail outlets, to those areas where incomes are highest; and for those seeking to set up service industries, such as advertising or banking, to wherever other service industries are already concentrated, personal contacts over coffee or lunch being vital to business.[53]

One result is that inward investment is reinforcing existing regional disparities. In Europe, for example, high-technology sectors, such as electronics, are favoured over more "traditional" industrial sectors; areas of cheap or unorganized labour preferred over areas where wages are high or where trade unions are strong. A new division of labour is emerging as the EU workforce fragments into:

"a slimmed down, highly-trained and skilled core of workers for electronics, research and 'sunrise' industries, and a mass of 'flexible' unskilled workers in, for example, building and construction, service industries, garment manufacture and food processing, who can be taken on, laid off, employed part-time and moved around . . . as required."[54]

The result is not one Europe but several. Running from southern Britain though eastern France and western Germany to northern Italy lies the Europe of the service industries, of banking and administration — the so-called "golden banana" stretching from London through Brussels to Milan. Outside those areas (and also within them) lies Peripheral Europe: run down, economically-depressed regions whose industries are "not competitive" and which are deemed fit only to supply cheap labour to the commercial interests that dominate the core.

- *Third, workers — and the communities in which they live — are forced to compete against each other to attract the inward investment that will create jobs.*

As unemployment rises and jobs become more insecure, communities seeking to ensure that new jobs are available and to retain old ones are vulnerable to what has been termed "regulatory arbitrage". To attract new investment, they must bid and counterbid against each other as companies with capital to invest play one regional government off against another in order to gain the best overall package — "the lowest corporate taxes, the weakest unions, the most 'flexible' rules on working conditions, the most lax health and safety regulations."[55]

For example, when US microprocessor chip manufacturer Intel sought to expand in 1992, a site selection team visited six sites, all adjacent to current plants, in California, Oregon, Arizona, New Mexico, Utah and Texas. The new fabrication plant went to New Mexico after an auction in which the six states tried to "out-incentive" each other. New Mexico's winning offer consisted of a package of grants and tax concessions which officials estimated totalled $114 million — $114,000 per job. However, that figure excludes lost revenues due to tax concessions granted to Intel and other incentives such as roads built out of public funds. Taking these into account, the true subsidy, according to a local citizens's group, is closer to $250 million. Moreover, microprocessing is developing so fast that the new fabrication plant is likely to be out of date within six years — at which point Intel will no doubt be looking to rebuild again, putting the local community under intense pressure to come up with new "incentives" to retain the company and the work it provides.[56]

National governments — both North and South — are engaged in the same "race to the bottom". In the UK, it is national economic policy to offer the country as a low wage, deregulated "enterprise zone" with relatively pliant workforces. In a brochure aimed at attracting foreign investment, the government's Invest in Britain Bureau (IBB) highlights Britain's "pro-business environment" and its "liberal and undemanding labour regulations".[57] In addition, the IBB advertises "labour costs significantly below other European countries", a "commitment to reduce the burdens on business", "no exchange on repatriated profits". The brochure continues:

"The UK has the least onerous labour regulations in Europe, with few restrictions on working hours, overtime and holidays . . . There is no legal requirement to recognize a trade union. Many industries operate shift work, and 24-hour, seven days-a-week production for both men and women."

The IBB assures potential investors that "no new laws or regulations may be introduced without ascertaining and minimizing the costs to business." The UK government is also committed to cutting back regulations that it deems to restrict enterprise. Since 1993, 605 regulations have been identified for the axe; these include measures covering health and safety, biotechnology, advertising in sensitive areas, hedgerow preservation, food standards and energy efficiency.[58] This world of work has long been familiar to workers in the South, where governments (under the tutelage of the IMF) have been deregulating industry and setting up "free trade zones" since the early 1970s in an attempt to provide "a favourable climate" for private sector investment. The rights of workers to organize and strike have been restricted; environmental regulations weakened; foreign ownership restrictions watered down or abolished; and TNCs granted freedom from planning and environmental controls and permission to repatriate profits without restriction.[59]

With ratification of the latest GATT agreement in 1994, these deregulated regimes — North and South —

Intel's expanded New Mexico plant, near the communities of Rio Rancho and Corrales, is seventh on the list of industries in the state dumping the most pollutants into the air, and uses between two to three million gallons of water per day, a daily consumption which is expected to rise to nine million gallons.

Adam Wick/Corrales Comment/ Intel Inside New Mexico. South West Organizing Project

Migrant Labour in the Global Economy

The social upheaval caused by the spread of the market economy has long forced people to move in search of livelihoods. In nineteenth century Europe, massive demographic movements to the United States and Australia were fuelled by European industrialization and the enclosure of commons-based agricultural societies.

Today, globalization is exacerbating the same migratory forces as capital washes around the world in search of the lowest wages and the highest returns on investment.

In China, the introduction of market reforms has driven an estimated 100 million people from the land, creating what the World Bank describes as a "floating population" of "relatively mobile, low-cost labour." Tens of millions have trekked into the cities in search of jobs. As *The Independent on Sunday* reports:

> "For some, the arduous journey has secured employed and wages previously unimaginable; for others, it has meant sweat shop factory conditions, the squalor of urban unemployment or an empty-handed trek back home."

The story is similar throughout the South, and increasingly in the North too, as people are evicted by the "wealth-creating economy" from what they thought were settled ways of living. Forced to migrate in search of work, many have no option but to move to the richer enclaves of their own countries or, if they have the right connections (and the courage), to other countries in search of jobs.

In Mexico, where the "liberalization" of agriculture is expected to displace millions of small-scale farmers, thousands have already moved to urban areas such as Mexico City, whilst others have made the often hazardous journey to the US — "El Norte" — in the hope of finding work. Remittances from migrants in the US — an estimated \$3 billion per year — are now one of Mexico's largest sources of foreign exchange and critical for the survival of poorer households.

While displacement due to the market economy is a "push factor", employers' demand for cheap labour is a "pull factor", fuelling migration both within countries and between them. As a source of cheap workers, migrant labour is used to plug "labour shortages" and to defuse wage demands from domestic workers. Agri-business interests in the Southwest of the US have long relied on cheap Mexican labour. As researcher Peter Andreas reports:

> "By the early 1990s, two out of five farmworkers in the US were migrants, a majority of them Mexican. In California, Mexican farm workers comprise an estimated 40 per cent of the agricultural labour force. The use of migrant labour has now spread from California and Texas across the country. One Michigan farmer provides a telephone number which one village in Mexico's Michoacán province can call toll free to find out when to turn up for work."

In San Francisco's Silicon Valley electronic assembly industries, labour costs were kept down, first by recruiting women, then by recruiting foreign-born workers, then by sub-contracting to outworkers (to escape social security and other payments), then by relocating to the South, and now, in some instances, by relocating back to the States.

Of the European countries, Britain, France and West Germany have long histories of recruiting migrant labour from other countries both within Europe and further afield. Since 1955, as Nigel Harris, Professor of Development Studies at London University, notes, Germany has signed agreements "to obtain workers from Italy (1955 and 1965), Greece and Spain (1964), Morocco (1963), Portugal and Turkey (1964), Tunisia (1965), Yugoslavia (1968) and even Korea (1962)." Turkish miners were brought to Belgium's Borinage area and then "wooed by German employers to desert for the Rhur"; 12,000 Moroccans were promised housing to leave France for Belgium, The Netherlands and Germany.

> "Knock-on effects were experienced in the immigrants home countries. Malians and Senegalese went to work in Sicily as Sicilians moved north, and in Spain as Spaniards moved to France. Egyptians and Pakistanis migrated to Greece and Greeks went to work in Germany, Scandinavia and Britain, while Russians and Ukranians took jobs in Poland. Egyptians worked on Jordanian farms, and Jordan's Palestinians worked in the Gulf."

Blaming Migrants

The trauma of migration cannot be underestimated. "Contrary to all the prejudices of the rich that the poor go to the big cities solely in search of 'bright lights' or an 'easy life', it is necessity that drives them there", observes writer Jeremy Seabrook after interviewing Keralan immigrants in Britain. Seabrook points out that many of those from rural societies who are drawn half way around the world to Western Europe "for the privilege of work as domestic servant or factory worker" in Western Europe undergo "a violent reshaping of the sensibility" as they learn to adapt and to become working class.

> "The passing of the years makes the hope of return burn the more keenly, even as it becomes less and less likely, for the money gets all used up in the survival from day to day. British factory life, the culture of the pub, *The Sun* and racism is not seen as a liberation by those who are expected to adapt to it."

Indeed, racism is a daily fact of life for the vast majority of migrants, particularly in times of economic recession.

Migrants often work in groups with living expenses shared between a number of adults, enabling them to survive on wages that nuclear families in the Northern industrialized countries could not live on. "In this way, the multinationals have been able to draw upon older family traditions of people from the Third World in order to 'pioneer' new low wages in non-unionized forms in Western Europe," observes Seabrook. If migrants take low-paid jobs, it is not, as the myth runs, so much because native people are unwilling to do them as because they cannot afford to do so. Nonetheless, in times of high unemployment, migrants are blamed, not the low wages nor the pitting of workers against each other, nationally and internationally.

Selective Immigration

Rather than address the push and pull factors of what is, in effect, forced migration, many countries have instituted immigration controls in an attempt to regulate the flow of migrants. But unable to operate their economies *without* access to migrant labour — whether that be a West Indian nurse or a roving TNC company executive — governments have sought to keep the door open for "selected categories of labour" whilst excluding others. Who is allowed in depends to a large extent on their wealth, skin colour and the relative state of the economy. When demand for labour is high, restrictions are eased to admit the entry of, say, maids, nurses, agricultural workers, sweatshop seamstresses and other sources of cheap labour. When times are hard, however, the portcullises come down.

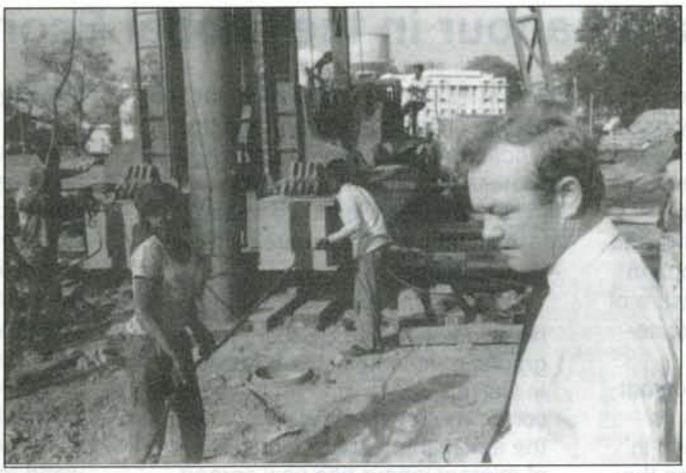
Under European Union rules, for instance, there has been free mobility of nurses within Europe since 1979. Britain also makes special provision for nurses entering from outside the EU under a "working holidays" scheme. This provision has permitted a continuous inflow of nurses from Nigeria, Australia, New Zealand, South Africa and Hong Kong. Some hospitals are now recruiting abroad, advertising directly in the West Indian press, for example. In the US, where nursing pay is well below national norms, 20 to 30 per cent of nursing staff are foreign temporary workers.

But at *all* times, governments make special exceptions for the highly-skilled and the rich. As Harris notes:

"They cannot afford to impede the activity of multinational corporations and the increasing numbers of their staff who are required to move for extended periods between countries or the armies of consultants and other businessmen who constantly cross borders."

Highly-discriminatory immigration laws are the result. Worldwide, some 25 million employees of transnational companies (mostly middle- and upper-management) are estimated to have postings abroad, moving across borders with few impediments. Other workers, however, are only permitted entry to countries if their skills (and willingness to work for low wages) are needed at any one particular time.

In the US, some 2.5 million business people were permitted



Mark Edwards/Still Pictures

Legal and illegal moves

temporary entry to work in 1989; approximately 2.3 million Mexicans also entered the country that year for temporary work, but were forced to do so illegally. In Britain, partners and children are invariably granted permission to join executives working for multinational companies; dependants wishing to join poorer migrants, however, are excluded.

Creating New "Untouchables"

Restrictions on legal immigration have not stemmed migration; they have merely classified more migrants as illegal.

Moreover, despite the rhetoric of conservatives and liberals alike in Britain that "strict immigration control" is necessary to ensure "good race relations" within the country, it generally has the opposite effect. The increased authority given to teachers, doctors, social security officials and employers in Britain, for instance, (as well as immigration officials and police) to check up on illegal immigrants has been described as a *carte blanche* to harrass still further any non-white person — the immigrant, almost by definition, is assumed to be "black".

In the end, "the issue is not about immigration at all". Rather, it is, among other things, about maintaining state boundaries (many of which divide existing cultural groups) whilst simultaneously regulating the global labour market necessary to maintain a global economy. The "cultural identity" that immigration laws seek to protect is a national identity created and sustained by the state for the state. It is not an identity rooted in any local community; nor are such laws concerned with maintaining local identities. As Nigel Harris notes,

"Every major state [has] endeavoured to instil social homogeneity in its people, to force their unruly shape into a predetermined corset of national identity — as witnessed in the social marginalization of languages and accents not recognized as socially acceptable. The French revolutionaries set out to destroy regional languages. The Prussian monarchs endeavoured to Germanize the Polish inhabitants of their eastern domains . . . The Austro-Hungarian emperors found themselves trying to Germanise the empire, while the Magyr gentry attempted to Hungarianize their southern Slav dependencies."

Inevitably, the enterprise created minorities — "those who were excluded on one or other ground from the newly-invented national identity. Jews, gypsies and others, who had been no more than a component in the social mosaic of Europe, suddenly found themselves isolated as foreigners."

If the concern were really about defusing nativism or protecting local cultures, the thrust of policy would be towards building livelihoods that are not dependent on people being forced to migrate; towards ceding control of resources and decision-making to local communities; towards allowing communities to define themselves rather than be defined by others; and to addressing the power structures, both within communities and between them, that permit and encourage discrimination and scapegoating.

Today, globalization and statism are combining to create a new class of "untouchables". Focusing attention on those classified as "foreign", "alien" or "other" is not only diverting attention from the political and economic forces that are driving forced migration; it is also enabling a new world order to be built "on the back of the lowly immigrant."

Nicholas Hildyard

Sources: Harris, N., *The New Untouchables*, I.B. Tauris, 1995; Seabrook, J., *The Race for Riches: The Human Cost of Wealth*, Greenprint/ Marshall Pickering, 1988; Baldwin-Edwards & Schain, M.A., *The Politics of Immigration in Western Europe*, Frank Cass, 1994.

have the protection of international law. Moreover, as journalist Alexander Goldsmith notes, "Under the rules by which countries can initiate challenges to other countries' trading practices or their environmental or consumer laws, an alarming process of mutual deregulation is underway."[60] US corporations lobby the US government to target EU regulations under GATT, whilst their subsidiaries and partners in Europe (with their connivance) lobby the EU to target US regulations. North American interests, for instance, is seeking to overturn European bans on the use of Bovine Somatotropin (BST), a genetically-engineered growth hormone for cattle, and on the sale of furs caught with steel leg-hold traps. Meanwhile, the EU is challenging US fuel consumption standards in cars; food safety laws, including the Delaney Amendment which bans carcinogenic chemicals from food; limitations on lead in consumer products; state recycling laws; and restrictions on driftnet fishing and whaling. "It is a very neat arrangement", comment Ralph Nader and Lori Wallach of Public Citizen, a US consumer watchdog.

> "European corporations target US laws they do not like. US corporations target European laws they do not like. Then European and US corporations attack Japanese laws and vice versa — the process can go on until all laws protecting people and their environment have either been reversed or replaced by weaker laws that do not interfere with the immediate interests of the corporation."[61]

- *Fourth, with capital and companies free to move across borders, the scope for playing workers and communities off against each other in order to gain concessions on wages and conditions has greatly expanded.*

Worldwide, capital and companies are on the move. What began as a one-way dribble of relocations in the 1950s (as Northern companies moved their manufacturing to the South) is now an eddying flow, "with new locations endlessly replacing old as new demands and new advantages emerge".[62] Demands for higher wages in one country are met with threats to transfer production out of the country altogether. In some cases, the threats are real; in others, they are a bluff. Either way, the bargaining position of labour is further squeezed.

South to North relocations, once unheard of, are now increasingly common as companies from South Korea and Taiwan, for example, move to North America and Europe in search of markets or lower labour costs. Fourteen Korean companies have moved to the UK alone in the last six years, investing a total of $2.6 billion. Most recently, Wales won out over Scotland as the site for a new electronics plant. Direct labour costs (at an average of £4 a hour — well below the European "decency threshold") are below those in Korea.[63] The companies benefit in addition from lower indirect labour costs: whereas in Korea, they are responsible for the housing and welfare costs of their workers, in Europe and the US, such costs are paid for by workers themselves or subsidized by the state. The opportunity to reduce these

Romas or "gypsies", many of them made redundant from their factory jobs, work at a dump in Bulgaria, retrieving anything of value from the rubbish trucks for resale and recycling.

"indirect" costs by moving to the North is a growing factor behind South Korean relocations.

Conversely, and more typically, European, US and Japanese companies are moving South. Recently, British Polythene Industries (BPI) dismantled a hi-tech plastic bag factory near the Welsh border and shipped the entire plant to China, with the loss of 150 jobs: in future, the cost of plastic supermarket bags produced by the company will be reduced from £15 per thousand to £12 a thousand. Commenting on the move, BPI's management said, "98 per cent of our production is still here. But if this is successful, we might look at other moves. We have to compete."[64]

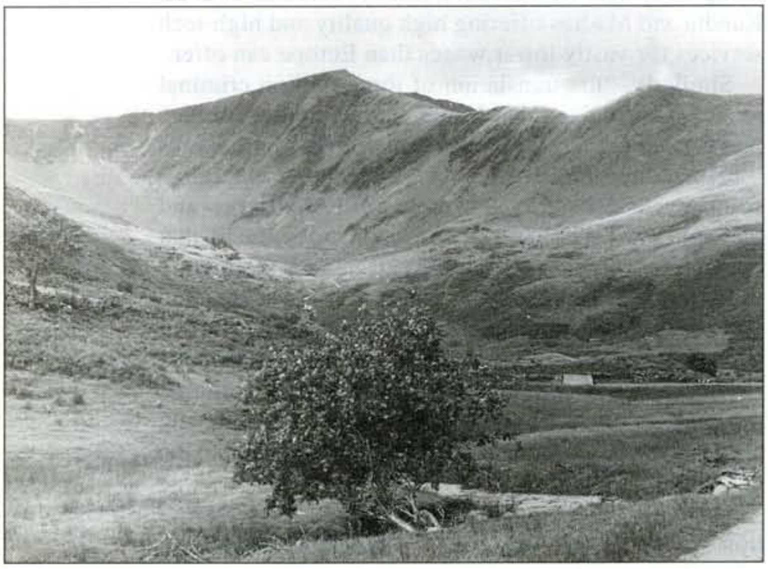
Likewise, IBM is moving its disk-drive business from the US and Western Europe to low labour-cost countries in Asia and Eastern Europe. European companies, such as the National Westminster Bank, Abbey National, British Telecom, Proctor and Gamble, London Transport, Citicorp and Singapore Airlines, turn to India for their computer programming where programmers earn less than $3,000 a year. New Electronic Export Zones are being set up near New Delhi, Bombay, Calcutta, Cochin, Kandia and Madras offering high quality and high-tech services for vastly lower wages than Europe can offer.

Similarly, "the translation of three million criminal records for England and Wales into computer format" was carried out "by 200 touch typists in the Philippines (organized for the British police force by an Australian company, Saztec)".[65] A 1993 survey of 10,000 large- and medium-sized western German companies found that one in three intended to transfer part of their production to Eastern Europe or Asia, because of lower wages and laxer environmental standards.[66] Meanwhile, Italian sportswear and shoe maker Fila has, in the words of one commentator, "found one way of coping with a fundamental problem of European manufacturing. It is trying not to have any."[67] Reports such as this merely add to the disciplining of labour.

Other Northern companies are keeping their production within the North (often because their marketing strategies or industrial organization demand it), but are taking advantage of regional differences in wages or subsidies to play workers off against each other by relocating (or threatening to relocate) from one country to another. In 1993, Nestlé, the Swiss food group, closed its chocolate bar factory in Glasgow, Scotland, and transferred production to Dijon in France; Digital Equipment, the US computer firm, transferred a slice of operations from Galway in Eire to Ayr in Scotland;[68] and Hoover, the US-based consumer goods manufacturer, told workers at its plant at Cambuslang near Glasgow that they would lose their jobs to the firm's plant in Dijon, France, if they refused to accept limited period contracts for new employees, constraints on the right to strike, cuts in overtime, a year-long freeze in wages, flexible working time and the introduction of video cameras on the shop floor.[69] By the time it emerged that the company actually had no intention of moving to Dijon, the Glasgow workers had agreed to the company's conditions.[70]

South to South relocation is on the increase, as companies seek cheaper labour, new markets or, in the case of those involved in agriculture, forestry or mining, more land. In South-East Asia, for example, Thai, Malaysian, US, Australian and other companies are shifting from country to country as wages rise and markets mature (*see* pp.167ff). Thai manufacturers, for instance, are using new inflows of foreign capital to upgrade their domestic plants and "to relocate their lower-skill operations to even lower wage countries" such as Vietnam, Laos and China.[71] Likewise, Nike, the US sports shoe manufacturer, which closed its last factory in Maine in the 1980s, has shifted production from South Korea, where it first established its new factories, to several dozen factories around the world, including six in Indonesia. The move followed strikes in Korea over wages and union rights.[72] High wages and land prices have led other Korean companies, particularly in the garment and toy industry, to move to China.[73] Similarly, VTECH Holdings Ltd, a Hong Kong company with a 70 per cent share of the US market for computer-based educational toys now employs between 11,000 and 13,000 people in China.

"How green was my valley" — especially to South Korean electronics company Lucky Goldstar which secured an estimated £200 million in grants from the Welsh Office and Welsh Development Agency in July 1996 to build its £1.7 billion plant.


Graham Bell

- *Fifth, as free market policies create a pool of "surplus labour", so increasing numbers of people are forced to migrate in search of work, pricing other workers out of the market and creating yet more downward pressure on wages.*

Migrant workers have long been used by capital as a source of cheap labour and a tool for driving down the rates of pay. Britain, for example, has traditionally drawn on migrants from Ireland and the Commonwealth to take up jobs as poorly-paid construction workers, hospital staff, hotel staff and the like. In France, it has predominantly been Belgians, Italians, Poles and Spaniards, as well as workers from the colonies, who have furnished the labour for the dirtiest and most poorly-paid industries.

As free market policies undermine job security and add to already high levels of unemployment, the use of migrant labour is increasing, particularly in those jobs considered "dirty" or "demeaning". In Germany, half the country's refuse collectors are migrants as are half the miners.[74] For industries which cannot relocate to low wage countries (agriculture, construction, hotels and restaurants, and services such as hospitals), migrant labour offers capital a cheap and readily-accessible means of driving down wages. In Germany, tens of thousands of Britons and Irish are labouring on Europe's largest building site, Potsdamer Platz and the surrounding areas where the Berlin Wall used to stand. As *The Independent* comments: "Driven from home by unemployment or low wages, the foreign workers must abide by the rules: no paid holidays, no sick leave, no social security and not even a guarantee that they will get paid at the end of the week." Prepared to accept what by German standards are "slave wages", they are pricing German workers out of the market or forcing them to work at below the expected national rate for the job.[75] The German government is now introducing measures in an attempt to deal with this.

As the demand for cheap labour intensifies, so increasingly sophisticated networks of "labour brokers" have emerged to supply migrant workers. As author Nigel Harris reports:

> "In Japan, the Yakuza (Japan's mafia) have clearly been a key force — in collaboration with gangsters in the sending country — in bringing illegals to the country, often to work in gangster-run enterprises. . . . The Yakuza are said to take half of the daily pay of the illegal workers under their control."[76]

In the Middle East, where migrant labour has been used to supply cheap construction workers, the recruiting networks include the companies undertaking the building work. Korean companies, for example, typically bring their own labour force.[77]

Doubly discriminated against as "aliens" and as the lowest paid of workers, migrants frequently work and live in atrocious conditions and are invariably subject to racist scapegoating, especially during times of high unemployment. As Harris remarks:

> "The misery of the unemployed and the low-skilled in the developed countries is painfully visible in the great cities, nearly as painful now as the poverty of the developing countries . . . The political

establishments need easy targets in order to deflect any anger that might be directed against them . . . and few governments can resist the temptation to blame the immigrant."[78]

- *Sixth, full employment has been abandoned as a goal of governments. Instead, to satisfy the demands of the global financial markets, macroeconomic policy is directed to controlling inflation, regardless of the costs in terms of jobs and social welfare.*

As Daniel Drache notes:

"With capital free to roam the world, a new orthodoxy is in the making. Full employment is no longer the goal of government, but creating inflation-free money is the task that imposes itself on all nations . . . Wealth creation is now regarded as the principal responsibility of the private sector . . . Price stability is made the number one goal because it provides the largest incentive to unleash the 'animal spirits' of private investors."[79]

Low taxation and low government borrowing (which in turn means cutting public spending) are thus the priorities of government.

The need to curb deficit spending is dictated both by narrow free market ideology and by the globalization of financial markets. With capital free to move across national boundaries in search of the highest rates of return, "current real interest rates for long-term government debt are two to three times higher than their average over the last decade."[80] Borrowing money is thus more expensive and requires high taxes if the interest charges are to be met without fuelling inflation by increasing the money supply. To keep taxes as low as possible (and thus attract inward investment), government borrowing for social expenditure has been targeted for cuts.

Austerity programmes have therefore become the order of the day. Yet even though government spending has been dramatically reduced in most countries, "revenues from taxes continue to fall faster than spending cuts", not least because of the tax concessions that governments have made to business in order to attract inward investment. Corporation tax, for example, has been falling in Europe since 1975. The problem is compounded by companies using off-shore tax havens and intra-company trade to minimize the taxes they pay to their host countries. In the US, a 1990 Congressional Committee calculated that just 36 TNCs had used "transfer pricing"[81] to avoid paying $100 billion in US taxes in the 1980s. Similarly, it has been estimated that, in 1992, the 12 major Japanese TNCs manufacturing in the UK avoided paying some £380 million in taxes to the UK exchequer through transfer pricing.[82] Tax revenues are also declining due to high unemployment and the casualization of labour.

Still more stringent austerity measures are in the offing throughout the North if budgets are to be balanced. In the run-up to European Monetary Union (EMU) in 1999, for example, EU countries wishing to participate in the single currency are required to keep their public borrowing deficit below three per cent of annual GDP. If Britain (currently running a six per cent deficit) is to meet that criterion today, government spending will have to be cut by about £18 billion.[83] Moreover, once the single currency has been adopted, excess deficit spending will only be permitted on approval of the European Commission which will assess, among other factors, whether or not the excess constitutes "investment expenditure".[84] The implication is that governments will only be able to borrow money for "productive" spending, such as infrastructure programmes; borrowing money for social programmes which supposedly do not yield a financial return — health programmes or higher pensions and welfare benefits for the unemployed — is unlikely to be permitted. In cases where a member state persistently fails to reduce its excess deficit, the European Council of Ministers, acting on the recommendation of a soon-to-be-created European Central Bank, will have the power to impose structural adjustment programmes and to fine the offending state.


The assembly line at the Apollo toy factory in the Chinese enterprise zone of Guangdong province

Julio Etchart/Still Pictures

For workers, the prospects are grim. What remains of the public sector in Western countries is likely to be sold off or cut back, with dire consequences for jobs. In France alone, thousands of workers in the public sector are predicted to lose their jobs as France attempts to meet the criteria for EMU. In Germany, unemployment is already around 4.25 million and rising. The social programmes envisaged by the EU under the Maastricht Treaty are not likely to bring much comfort. Maastricht's much vaunted "Social Chapter" offers limited rights to those lucky enough to have a job, but none to those who are out of work. It offers vocational training, but no right to education; health facilities within the workplace but no right to them outside of work; work councils but no guaranteed right to organize.[85]

Dream Time

Some Northern advocates of market liberalization acknowledge that deregulation, relocation and the removal of tariff barriers is "causing pain throughout the industrialized West"[86] — the pain being caused in the South is rarely mentioned — but they insist that it is a temporary phenomenon. As industry adjusts to a more competitive

A Woman's Work Is Never Done

More and more women are now joining the paid labour force worldwide. They represent the majority of the workforce in all the sectors which are expanding as a result of globa–lization and trade liberalization — the informal sector, including subcontracting; export processing or free trade zones; homeworking; service industries; and the "flexible", part-time, temporary, low-paid labour force. Even in countries which have low levels of women paid workers, such as the Arab countries, employment is rising.

In many countries in the North, women now account for nearly half the paid labour force. Nearly 60 per cent of these women workers provide half or more of the household income. The highest earners are in France and Germany where more than one woman worker in three brings in the total household income, whereas in Britain, where women are concentrated in low-paid, part-time jobs, they provide the lowest contribution. In the industrialized countries (except the US), there is a clear correlation between the increase in part-time work and in women's employment.

In South-East Asia, women represent up to 80 per cent of the workforce in the export processing zones, working mainly in the labour-intensive textile, toy, shoe and electronic sectors. In Latin America and the Caribbean, 70 per cent of economically active women are employed in services. Many women in South-East Asia are moving from manufacturing into services.

Long excluded from many paid jobs and thus economically dependent on husbands or fathers, paid employment has undoubtedly brought economic and social gains to many women. For many previously inexperienced young women, the opportunity to gain financial independence, albeit limited and possibly temporary, has helped to break down some of the taboos of their societies and proscriptions on women's behaviour. The growing numbers of women in paid employment in Bangladesh, for instance, has led to more young unchaperoned women travelling on buses, walking on the streets and going to cinemas in Dhaka. For women with children, part-time and home work can be a way of juggling earning money and family responsibilities.

Any gains, however, should be seen in a wider context. Declining economic and social conditions both North and South, in particular declining household incomes, have compelled many women to take any kind of paid work to meet their basic needs and those of their families. The jobs available to them are, in the main, insecure and low-paid with irregular hours, high levels of intensity, little protection from health and safety hazards and few opportunities for promotion.

Women's high participation in informal employment is partly due to the fact that many jobs in the formal economy are not open to them: they are actively excluded from certain kinds of work or lack access to education and training or have domestic commitments. The increase of women's participation in the informal sector has been most marked in the countries of Sub-Saharan Africa where sharp economic decline and structural adjustment policies have reduced the official job market drastically.

Job gains for some women has meant losses for others. Female employment in export production is increasing in Bangladesh, Vietnam and El Salvador, for instance, while women in South Korea, Taiwan and Hong Kong are faced with redundancies as the industries which have relied on their labour for three decades (textile, cloth–ing, shoe and electronics) relocate elsewhere. (In South Korea, industries which tend to employ men — steel, petrochemicals, electricity, automobiles, shipbuilding, machinery — have received government subsidies to stay put.)

As domestic markets are opened up to international competition and quotas which restricted the quantity of imports from any one country are abandoned, cheap, subsidized foreign imports are threatening the livelihoods of many women small producers and entrepreneurs in "cottage industries". In countries such as India and Bangladesh, for instance, more than 90 per cent of economically-active women work in the informal sector at jobs such as hand loom weaving.

Far from escaping patriarchal control, the industrial setting invariably replicates it, the head of the factory taking the place of husband or father. To attract investors, some Asian countries such as Malaysia and Thailand emphasize the "dexterity of the small hands of the Oriental women and traditional attitude of submission". Women workers are particularly exposed to sexual

world economy, they argue, the "structural rigidities" of Fordist labour regimes will be stripped away and market forces will restore prosperity.[87]

The view from the World Bank, for example, is that the next century will see a slow convergence of incomes as free market policies begin to lower "the ratio between the wages of the richest and poorest groups in the international wage hierarchy".[88] According to the Bank,

> "Opening up to trade increases the price of labour-intensive goods in poor, labour-rich countries, which, as a consequence, shift their resources to the production of labour-intensive goods. This, in turn, raises demand for labour in poor countries, and hence raises relative wages."[89]

Moreover, as currently low-paid workers in the South earn more, the logic goes, new markets will be opened up for the North, thus ensuring that Northern jobs are not lost through internationally freer trade. Whether eventually wages converge upwards or downwards is, says the Bank, of little concern, since increased trade will bring the price of goods down; even if wages are lower, their purchasing power will therefore increase. The result, predicts the Bank, will be a "win-win" outcome for labour and capital alike.

The Bank's reasoning — like that of other free traders — rests largely on the concept of "comparative advantage", a theory first developed by the British economist Adam Smith in the late eighteenth century and refined by David Ricardo in 1817. According to Smith and Ricardo, nations do best from international trade when their industries specialize. By mass producing those goods where they can make maximum use of the factors of production (whether land, climate, natural resources or labour) which

Mauricio Alberto Cordero/*dollars and SENSE*

harassment, a form of violence which reflects the subordination they have to submit to be allowed to work. Complaints often lead to dismissal.

In general, women are paid less than men, and women's jobs pay less than men's jobs. On average, most women earn 50 to 80 per cent of men's pay, but there are considerable variations. In Tanzania, which ranks first in the world for pay equality, women earn 92 per cent of what men earn; in Bangladesh, they earn 42 per cent. Women also have less job security and fewer opportunities for promotion. Higher status jobs, even in industries which employ mostly women, tend to be filled by men.

In addition, women usually have to continue their unpaid domestic and caring work, such as of children, the sick and the elderly, which is often regarded as women's "natural" and exclusive responsibility. Even when they have full-time jobs outside the home, women take care of most household tasks, particularly the preparation of meals, cleaning and childcare. When women become mothers, they often have no option other than to work part-time or accept home work.

In developing countries, women's share of unpaid work is even greater. In India, for example, women and girls spend more time than men on unpaid subsistence tasks such as carrying water and wood, and cultivating and processing agricultural crops for their families, and 20 hours more per week than men on unpaid household tasks. As a result of structural adjustment policies, public expenditure on education and health has been slashed. Households, particularly women, have absorbed a disproportionate amount of the costs of adjustment by tightly budgeting household finances and caring for the children, the elderly and the infirm for whom the state used to provide some support.

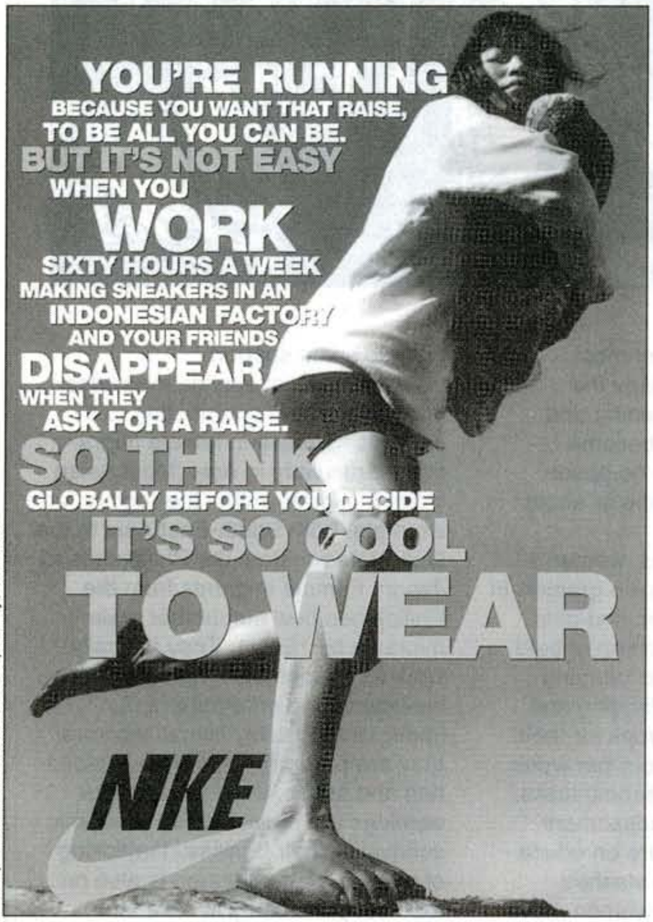
The spread of service industries internationally is contributing to a massive increase in female migration, particularly in Asia. Most Asian women migrate within the region, for example, from South-East Asia to the Gulf States or from the Philippines to Japan. Female migrants from the Philippines now outnumber male migrants by 12 to 1. They typically work as housemaids, nurses, shop assistants and entertainers. As immigrant, possibly illegal, workers, they are particularly open to exploitation and abuse, even though their earnings are crucial to the economic survival of their families. Trafficking of women for prostitution is also on the rise, particularly in Asia and Eastern Europe.

Sources: Angela Hale, *World Trade is a Women's Issue*, Briefing Paper, Women Working Worldwide, July 1996.

are in most abundance locally, countries are able to gain a price advantage over their competitors. Thus, a nation should narrow its focus of activity, abandoning certain industries while developing those in which it has the largest "comparative advantage". If a country has a significant amount of low-cost labour, for instance, it should export labour-intensive products; if it has a rich endowment of natural resources, it should export resource-intensive products.[90] By exporting what they can produce most cheaply and importing what others can produce cheaper than they could, international trade, according to the theory, would grow as nations export their surpluses and import the products that they no longer manufacture. As a result, efficiency and productivity would increase in line with economies of scale and the prosperity would be enhanced.

Ricardo used a semi-fictitious example to illustrate how the theory of comparative advantage works to everyone's advantage. Say Portugal is capable of producing both wine and cloth with less labour (hence less cost) than England. However, Portugal can make the most money by transferring all efforts to the production of its most profitable commodity, wine, and importing cloth from England. This comparative advantage would be large enough to overcome the fact that Portugal can produce cloth more cheaply than England can. From England's perspective, the cost differences between the two products internally compared with the cost advantage of ceasing wine production and just trading cloth mean that England also enjoys a "comparative advantage" by engaging in this trade. Both countries appear to gain.

On this view, the World Bank argues, Latin America should "extend its lead in mining and agriculture and move quickly into the production of technologically-intensive goods"; East Asia in labour-intensive "low skill products"; the "transition economies" of South-East Asia in "medium- and high-technology goods"; the Northern industrialized economies are "expected to continue to shift from producing low- and medium-skill products to high-technology goods and services; and Africa should stick with basic commodities.[91] A new global division of labour will thus be instituted, with the developed economies investing in high-tech industries, whilst the "less developed" economies keep to the less developed industries.



Nancy Bleck/An Adbusters ad parody, Canada

Unnatural Advantages

Even on its own terms, the Bank's prognosis is little short of fantasy — and a deeply imperialist fantasy at that. The simple dualisms dreamed up in Washington fit nowhere. The high-tech production systems that are supposed to be "reserved" for the North, for example, are already well-established in many labour-rich countries of the South. Moreover, the notion that specializing in labour-intensive production will raise wages in labour-rich countries ignores the reality of labour markets in the South. In China, for example, market reforms have driven 100 million people off the land, creating what the Bank itself describes as "a relatively mobile, low-cost source of labour [which] must find their own jobs and have no tenure beyond their contract period." With such a huge pool of "surplus labour" at their disposal, companies are under little pressure to agree to wage rises. Nor is there much prospect of enough of China's "floating population" (the Bank's description) finding the sort of jobs which would enable them to afford western imports: many of the factories where they queue in search of work are automated.

What is entirely absent from the Bank's view of the world — and from Adam Smith's and David Ricardo's original theory of comparative advantage — is any notion of bargaining power. Traders, for example, are assumed to be equal partners, making rational decisions based on objective evaluations of the productive factors available to them and others. Within a market economy, however, there are no transactions amongst equals: some traders enjoy the backing of huge military machines, others access to subsidies not enjoyed by their competitors. Moreover, their bargaining power is largely determined by their past histories. The demise of Portugal's cloth industry in the nineteenth century, for example, had less to do with "comparative advantage" than with Britain's use of its political power to stifle the growth of the textile industries of Portugal in the eighteenth century, thus leaving the market open to British manufacturers. Likewise, Britain's dominant position in world trade during the nineteenth century rested to a large extent on its victorious wars against the Spanish in the sixteenth century, the Dutch in the seventeenth century and the French in the eighteenth century — wars that "helped to ensure that British ships would be free to trade where and when they pleased."[92]

Competitiveness is thus less a reflection of the "natural advantages" enjoyed by traders as of the historical, geopolitical and organizational advantages they enjoy — and, in particular, their ability to exploit those social and political forces that distort markets: state power, subsidies, cartels, externalized costs and political favours. As the political economist William Lazonick points out:

> "History shows that the driving force of successful capitalist development is not the perfection of the market mechanism but the building of organizational capabilities . . . What mainstream economists view as 'market failures', I view as 'organizational successes'."[93]

Success in the marketplace, nationally and internationally, rests primarily on a firm's ability to organize an external and internal political infrastructure that enables it to control labour, ensure access to raw materials, markets and subsidies, manage resistance, and mould a regulatory environment favourable to its expansion.

During the nineteenth century, such organizational advantage rested with the small, specialized, regionally-concentrated, "proprietary" firms that grew and prospered during Britain's industrial revolution. Their "competitiveness" derived not only from their ability to control labour through the factory system, but also from the military and financial backing they received from the British government. Abroad, they could rely on British military power to prise open new markets and then to deny those markets to others by bringing them under direct colonial rule. Within Britain itself, state power was critical to the enclosure of common land (and thus the creation of a labour force for the factories) and to the opening up of internal markets through the construction of canals, waterways and railways, all of which were heavily subsidized by government. Backed by the considerable resources of the British state, and with protected access to the resources and markets of Britain's colonies, British firms enjoyed a "comparative advantage" that, to many contemporaries abroad, seemed virtually unassailable.[94]

By the early twentieth century, however, the "proprietary capitalism" that had made Britain the workshop of the world was proving inadequate to the task of dealing with the complexities of mass production. Organizationally, comparative advantage passed from the specialized, family-financed and managed firm to the vertically-integrated, multi-divisional and professionally-managed corporations that were emerging in the US. Critically, these industrial giants relied upon *planned coordination* rather than market relations to ensure the supply of inputs, on the one hand, and the sale of products, on the other. Instead of relying on outside suppliers, the new "managerial capitalists" gained control over inputs by integrating the suppliers into their own organization; instead of simply responding to market demand as it arose, they set about using their own resources to create demand; and by creating (and regulating) demand, they were able to take advantage of the low unit costs made possible through mass production techniques to undercut competitors and dominate markets.[95] As with Britain's proprietary firms in the nineteenth century, the comparative advantage enjoyed by such firms rested not only on their internal organization but also on their ability to ensure a favourable "policy environment" at home and abroad.

Initially, the market power enjoyed by the huge industrial corporations that emerged through "managerial capitalism" enabled them to ward off competition from Japan and, more recently, South-East Asia. Thus, in the 1950s, when Toyota and Nissan first tried to export cars to the United States, for example, US car makers "used their market power . . . lowering their prices and accepting temporary losses, to crush demand for the . . . Japanese cars."[96] Today, the logic of competition has changed. The vertically-integrated firm is, in most areas of production, giving way to de-integrated, "flexible" production systems epitomized by "Toyotism". Organizational advantage belongs to those firms that can minimize their fixed costs (particularly the enormous costs of researching and developing new products) through alliances with other companies; that can introduce new technologies and management structures to shed labour; that can move swiftly from one niche market to another; and that can speed new products to the market and take advantage of "just-in-time" deliveries to minimize warehousing and inventory costs.

Protecting Whom?

Supporters of the "comparative advantage bringing welfare to workers" thesis ignore this changing institutional environment. For workers, however, the implications are clear. Comparative advantage rests not with employee-friendly firms but with firms that are able to operate with the minimum number of flexible and disposable employees. Such firms are increasingly well-established in all the major markets. Far from offering a route to higher employment, the partioned global economy envisioned by the World Bank for the twentieth century will condemn labour to a world of lean production, contingent work, low wages and decreasing job security; a world that does not require workers on a permanent basis but in which companies use people only as they need them; a world of "just-in-time" employment.[97]

Combine automation with deregulation and the imposition of a global "free market" in which protective barriers, such as tariffs and quotas, are striped away and the prospects for workers are worse still. In a recent study of Japan, McKinsey Consultants calculated that, if all protectionist measures were removed and the consumer could chose to buy products from anywhere in the world, Japan's rate of unemployment would soar from 2.5 per cent to over 40 per cent.[98] Nonetheless, guaranteeing such "openness" is the root idea behind instruments such as NAFTA, the EU and GATT.

Unsurprisingly, protectionist sentiment is on the increase in the North. Its most prominent exponents, however, such as the US Republican Pat Buchanan, do not reject export-led growth as the route to new jobs, higher wages and greater job security, nor do they criticize the organizational form that has brought competitiveness to lean firms at the expense of labour. Rather, they argue for a larger economy, in which a free market "fortress US" and a "fortress Europe" shield their industries behind protective barriers, whilst sallying abroad for new markets in Eastern Europe and the Far East. Meanwhile, the economic and political power of the North will be used to deny the South access to Northern markets, thereby "protecting" northern jobs.

> ***"The time has come to question the very notion of export-led growth and enhanced corporate competitiveness as the route to jobs."***

Such "Might-Is-Right Protectionism" (actually a neo-mercantilism) has little to offer those seeking a better overall deal for labour. The major economic actors have long established the means to hedge against currency changes[99] (and hence devaluation as a means of national economic protection). In addition, inter-company trade allows them to circumvent protectionist barriers. Twenty-five per cent of world trade, for example, takes place within companies and thus escapes national tariffs (it is not even governed by GATT). Other strategies, such as the use of "screwdriver assembly plants" have been used to overcome import duties on products that do not have a minimum local content, have also been employed by TNCs seeking to circumvent protectionist barriers. Tariffs can also be overcome through barter agreements, which make up another 25 per cent of world trade (mineral rich companies exchanging goods for a turnkey contract to build a new factory, for example). Constructing a fortress around the economies of the US or Europe or the Pacific Rim whilst simultaneously permitting the free movement of goods and capital between the fortresses would do little to protect jobs against "foreign competition".

Critically, it would also leave intact the political infrastructure that glocalized companies have built up to give them competitive advantage within Europe, Pacific Rim and North America, and which they are rapidly developing within other potential trade blocs (such as Mercosur in South America). A fortress Europe, in which capital was free to flow between the member states of the EU, would not stop the relocation of companies between peripheral regions, or address the growing polarization between the core and the periphery. Likewise, a fortress America that left intact the corporate structures that currently enjoy comparative advantage would do little to redress the imbalance of bargaining power between labour and capital in an age of flexible production or the relocation of companies within the US. Moreover, the continued commitment to export-led growth would require the reproduction of those very national and international power structures that enable companies to operate beyond their national borders — to the detriment of other economies.

Protecting People

Neither of the major "solutions" on offer — "free trade" or "Might-Is-Right protection" — hold many prospects for labour and the communities they live in. Indeed, the time has come to question the very notion of export-led growth and enhanced corporate competitiveness as the routes to jobs and to find new ways of pressing for a different economy, one that seeks to move from specialization to diversification; that prioritizes self-reliance over trade; that adequately safeguards the environment; that produces for use rather than profit; that protects the economy of the commons rather than the economy of the corporation; and that insists on the right to protect itself precisely because it does not seek to infringe on the rights of others to protect themselves.

Throughout the world, workers and the communities where they live are resisting the new forms of corporate control that are driving globalization, just as they have previously resisted former structures of control. In Korea, China, Russia, Indonesia and other low-wage economies, restive workers are proving a growing problem for local elites and multinationals alike: strikes are increasingly common and new alliances are being formed with other groups, from students to farmers, who are struggling for greater democracy. Cross-border alliances between workers are also emerging: workers at Ford's Ranger Pick-Up plant in Minnesota recently sent money to support striking workers at the Ford plant in Cuatitlan, just North of Mexico City.

Likewise, alliances between Northern and Southern activists have arisen to support local groups resisting the depredations of multinationals such as Cargill, Kentucky Fried Chicken, Shell and Rio Tinto Zinc. New tactics are also emerging as companies prove vulnerable to share-holder actions, consumer boycotts and direct action.

Governments, too, are under pressure as increasing numbers of their citizens begin to resist the "transnationalization of sovereignty". Within Europe, a movement is emerging to challenge the Maastricht Treaty and the European Union's plans for monetary union from the perspective of local rights.

In some cases, the alliances challenging globalization are simply alliances of the disaffected. But in others, a common agenda, based on a commitment to greater local control of local resources, is beginning to emerge. The demand, in the words of Indian activist Vandana Shiva, is for an economy that "protects people not corporations". More specifically, the appeal is for citizens from groupings of countries:

- to organize to dismantle corporate control over their individual economies and workplaces;
- to restrict capital flows — an "invest here to prosper here" policy;
- to localize markets, with long distance trade an option of the last resort — a "site here to sell here" approach — and
- to challenge those power structures, at the local, national and international level, which deny local communities democratic control over their livelihoods.[100]

No one blueprint exists for achieving such change. Indeed, the very nature of "relocalization" implies a variety of responses. Within the European context, however, a number of measures suggest themselves.

- *Firstly*, the subsidies currently used to entice TNCs into locating their automated, "lean and mean", export-oriented enterprises within Europe could be redirected towards subsidizing local production for local use. Subsidizing the local economy, rather than transnational capital, could help to create huge numbers of jobs through the renewal of cities, towns and rural areas and face-to-face caring work in health, education and community support.
- *Secondly*, pressure could be brought at national levels and within the EU to apply existing competition policies (laws intended to prevent companies from establishing monopolies) in order to break up the amalgamated corporate giants that now dominate the European economy and to encourage more independent producers. If a market is defined in a consumer-friendly way, for example, in terms of the distance a shopper might need to travel to shop, then many food retailers would be defined as holding local monopolies.[101] Because markets are defined nationally (and, increasingly, internationally), however, companies are able to claim that they have a small market share when in reality they have massive local or regional control. Contesting that position may prove a fruitful avenue for resisting corporate concentration.
- *Thirdly*, measures could be introduced to tax capital flows and encourage banks, pension, insurance and investment funds to invest their funds in the locality where they are generated. As a first step to controlling footloose money, for example, governments could be pressured to join with others in adopting the so-called Tobin Tax (named after Nobel prize-winning economist James Tobin who recently proposed it), which would tax all international capital transactions, raising considerable funds for national and regional exchequers in the process. Resource taxes and increased energy efficiency could also be employed to encourage and fund the use of long-lasting goods and as a disincentive against resource-intensive long distance trade.

Above all, now is the time for debate, experimentation and some heresy.

1. Quoted in Seccombe, *Weathering the Storm: Working Class Families from the Industrial Revolution to the Fertility Decline*, Verso, London, 1993, p.30.
2. Hill, C., *Reformation to Industrial Revolution*, Penguin, Harmondsworth, 1967, p.264.
3. Statement by Trades Union Congress, London, 1951, cited in Pelling, H., *History of British Trade Unionism*, Penguin, Harmondsworth, 1974.
4. From Edmonds, J., "Victorian Values", *The Guardian*, 11 June 1996.
5. As William Lazonick records, "With the production process carried out in the homes, workers had the power to tie up the capital, primarily raw materials, supplied by the putters out, as well as to appropriate some of that capital as their own. Putters-out sought to use the force of law to speed up the flow of work and reduce embezzlement of materials. But especially in good times, the control of work remained with the workers." Lazonick, W., *Business Organization and the Myth of the Market Economy*, Cambridge University Press, Cambridge, 1992, p.138.
6. In pre-industrial Britain, the word "job" meant no more than a "a small compact portion of some substance: a piece, a lump, a mouthful". Later, its meaning was expanded first to embrace larger "lumps" (such as forkloads of hay or piles of farmyard manure) and then to refer to the act of transporting the "job" in a cart. Only in the 19th century did the word come to mean having waged employment: before then "people worked hard, — very hard — but they did not have jobs to frame and contain their activities." Under such circumstances, mustering a workforce for full-time labour on a specific task was no easy matter. See Bridges, W., "The Death of the Job", *The Independent on Sunday*, 5 February 1995. See also Bridges, W., *Jobshift: How to Prosper Without Jobs*, Nicholas Brealey, 1996.
7. Valenze, D., *The First Industrial Woman*, OUP, Oxford, 1995, p.114 and pp.122-123. As Valenze notes, "[C]ottagers had no say over the terms of their work or the payments they recieved. Manufacturers strove to maximise profits through . . . arbitary wage cutting, seasonal and partial employment, and the withholding of commodities in order to release them at advantageous times." Nonetheless, "cottagers's work arrangements left them free to determine their own pace of work and encouraged attitudes that seemed insubordinate to contemporaries." Indeed "a staunch independence remained central to the social world of laborers in cottage industries", partly because such industries frequently grew up in localities free from the rigid control of large landowners. The income from cottage industry also gave young people, particularly women, a freedom from parental authority.
8. For a discussion of the historical process of enclosure, see *The Ecologist*, "Whose Common Future? Reclaiming the Commons", *The Ecologist* (Special Issue), Vol. 22, No.4, July/August 1992.
9. Even then, it took almost half a century before the factory replaced the home as the dominant site of production; such was the resistance of workers to factory discipline that many preferred to accept lower wages in order to work at home, sutaining the old outputting system well into the nineteenth century. See Lazonick, W., op. cit. 5. Those unfortunate enough to end up in the workhouse were often transfered straight to factories, regardless of their own wishes. See Valenze, D., op. cit. 7, p.98.
10. Valenze, D., op. cit. 7. Valenze also notes, "Employers did not offer a 'living wage' to the female or the child since they assumed that she was dependent upon a household headed by a male and therefore did not depend only on her wages for subsistence."
11. Landes, D.S., *Revolution in Time: Clocks and the Making of the Modern World*, Harvard University Press, Cambridge, Mass., quoted in Lazonick, W., op. cit. 5, p.139.
12. Seccombe, W., op. cit. 1, pp.86-87.
13. Perrot, M., "The Three Ages of Industrial Discipline in 19th Century France", *in* J.M. Merriman, (ed.), *Consciousness and Class Experience in 19th Century Europe*, New York, 1979, p.161.
14. Although the factory system enabled industrialists to "solve" the uncertainties associated with the outputting system, by bringing labour together in one place, it created another form of uncertainty by making it easier for workers to organize, further increasing the need for direct management control over the labour process. See Braverman, H., *Labour and Monopoly Capital*, New York, Monthly Review Press, New York, 1974, pp.57-58, cited in Ruigrok W., and van Tulder, R., *The Logic of International Restructuring*, Routledge, London, 1995, p.38.
15. As Henry Ford, founder of the Ford Motor company famously put it, "If you cut wages, you just cut the number of your customers."
16. Drache, D, "From Keynes to K-Mart" *in* Boyer, R. and Drache, D., (eds.), Boyer, R. and Drache, D., *States Against Markets*, Routledge, 1996, pp.41-42.
17. Ibid., p.45.
18. Boris, E and Prügl, E., "Introduction" *in* Boris, E and Prügl, E., (eds.), *Homeworkers in Global Perspective: Invisible No More*, Routledge, London, 1996, p.6.
19. Edmonds, J., op. cit. 4, 1996.
20. Harris, N., *The New Untouchables: Immigration and the New World Order*, I.B. Taurus, London, 1995, p.33.
21. Drache, D., op. cit. 16, p.43. Drache notes, "The deterioration in living standards [has] forced the EU to revive its structural aid to industries in industrially depressed regions. Eligibility for Objective 2 aid requires an unemployment rate higher than the EU average, a higher percentage of industrial employment than the EC and a decline specificaly in industrial employment."
22. Harris, N., op. cit. 20, p.26.
23. Rifkin, J., *The End of Work: The Decline of the Global Labour Fource an the Dawn of the Post-Market Era*, G.P. Putnam's Sons, New York, 1995.
24. Cavanagh, J. and Broad, R., *Understanding North-South Political Economy in the 1990s*, Institute for Policy Studies, Washington DC, November 1994.
25. Edmonds, J., op. cit. 4.
26. Kapstein, E.B., "'Workers and the World Economy", *Foreign Affairs*, May/June 1996, p.22. In Germany, the unemployment rate between 1969 and 1973 was below one per cent; today, at four million unemployed, it is approaching 10 per cent — the highest it has been since the 1930s. In Belgium, the unemployment rate has quadrupled over the past 20 years.
27. Rifkin, J., op. cit. 23.
28. Ibid.
29. Ruigrok, W. and van Tulder, R., op. cit. 14 pp.125,129,281.
30. Harrison, B., *Lean and Mean: The Changing Landscape of Corporate Power in an Age of Flexibility*, Basic Books, New York, 1994, p.180.
31. Ibid.
32. Neil, A. "The Guts and Glory", *The Guardian*, 8 January 1996.
33. Sutton, K., "Sound of the Last Post", *The Guardian*, 8 January 1996.
34. Rifkin, J., op. cit. 23.
35. The figures are for 1980. See Harrison, B., op. cit. 30, p.156. In Japan as a shole, only about 30 per cent of the labour force has permanent employment. See Lazonick, W., op. cit. 5, p.41.
36. Donaghu, M.T. and Barff, R., "Nike just did it: International subcontracting and flexibility in athletic footwear production", *Regional Studies 24*, December 1990, pp.537-552. See also Brookes, B. and Madden, P., *The Globe-Trotting Sports Shoe*, Christian Aid, December 1995.
37. Gringeri, C., Making Cadillacs and Buicks for General Motors, *in* Boris, E. and Prügl, E. (eds.), op. cit. 18, p.181,183.
38. Amin, A. and Tomaney, J., "The Challenge of Cohesion" *in* Amin, A. and Tomaney, J. (eds.), *Behind the Myth of European Union: Prospects for Cohesion*, Routledge, London, 1995, p.22.
39. Ruigrok, W. and van Tulder, R., op. cit. 14, p.178. Akio Morita of Sony uses the term "global localization" (see Ohmae, K., *The Borderless World: Power and Strategy in the Interlinked Economy*, Fontana, 1990, p.10.). Anita Roddick of the Body Shop refers to "multilocalism".
40. Ohmae, K., op. cit. 39, p.38.
41. Quoted in Sally, R., *States and Firms: Multinational Enterprises in Institutional Competition*, Routledge, London, 1995, p.49.
42. Ohmae, K., op. cit. 39, p.74.
43. Petrella, R., "Globalisation and Internationalisation: The Dynamics of the Emerging World Order" *in* Boyer, R. and Drache, D., op. cit. 16, p.67.
44. Ruigrok, W. and van Tulder, R., op. cit. 14, pp.179,188.
45. Kerski, A., "Pulp, Paper and Power: How an Industry Reshapes its Social Environment", *The Ecologist*, Vol. 25. No.4, July/August 1995, pp.142-149
46. Hoedeman, O. and Doherty, "Misshaping Europe: The European Round Table of Industrialists", *The Ecologist*, Vol. 24, No. 4, July/August 1994, pp.135-141. Access is defined by the ERT's secretary as "being able to 'phone Helmut Kohl and recommend that he read a report." It means "John Major 'phoning to thank the ERT for its viewpoints." It means "having lunch with the Swedish Prime Minister just prior to the Swedish decision to apply for EC membership."
47. Drache, D., op. cit. 16, p.57.
48. Petrella, R., op. cit. 43, p. 77.
49. Ramsay, H., "Le Défi Europén", in Amin, A. and Tomaney, J. op. cit. 38, p.183. See also Harrison, B., op. cit. 30, p.164. Harrison notes: "The merger wave in Europe began in ernest during the mid-1980s . . . One accounting firm counted 1,200 mergers and aquisitions amongst major corporations in 1988 alone . . . In 1992, France's Elf-Aquitaine, a petroleum giant, acquired a chain of refineries and gasoline stations in eastern Germany, Switzerland's Nestlé aquired the manufacturer of France's famous Perrier water, Germany's Lufthansa and Air France merged their four-star hotel chains, and Italy's state-owned cement giant, Italcementi, aquired a 45 per cent share of what had been France's largest cement producer, making Italcementi a $4-billion multinational corporation overnight."
50. Ramsay, H., op. cit. 49, p.184-185.
51. *The Financial Times*, 9 January 1996.
52. Lewis, J, "The Making of Banking Behemoths", *Multinational Monitor*, June 1996, pp.8,11.
53. Sheppley, S. and Wilmot, J., "Core Vs. Periphery", in Amin. A and Tomaney, J.,

op. cit. 38, p.56. See also *The Economist*, "Single Market, Single Minded", 4 May 1996.
54. David, K.A., *Europe 92: Reflections from the Underside, The Challenge to Community Organizing*, World Council of Churches, Geneva 1992, p.17.
55. Leys, C., "On top of the World", *Red Pepper*, No. 25, June 1996, 1996.
56. SouthWest Organizing Project, *Intel Inside New Mexico: A Case Study of Environmental and Economic Injustice*, SouthWest Organizing Project, New Mexico, 1995, pp.36,45.
57. Invest in Britain Bureau, *Britain The Preferred Location: An Introduction for Investors*, Dept. of Trade and Industry, London, 1993, p.7.
58. Goldsmith, A, "Seeds of Exploitation: Free Trade Zones in the Global Economy" *in* Mander, J. and Goldsmith, E. (eds.), *The Case Against the Gloal Economy and For a Turn Toward the Local*, Sierra Club Books, San Fransisco, 1996, pp.267-273.
59. Lang, T. and Hines, C., *The New Protectionism*, Earthscan, London, 1993, p.81.
60. Goldsmith, A, op. cit. 58, p.272.
61. Nader, R. and Wallach, L., "GATT, NAFTA and the Subversion of the Democratic Process" *in* Mander, J. and Goldsmith, E., op. cit. 58, p.98. Wallach and Nader also note, "Laws of other nations — such as Canadian cigarette packaging requirements, Thai cigarette sales limitations, Danish bottle recycling laws and Canadian reforestation requirements — have been formally challenged as nontariff barriers under existing free trade agreements or threatened with future challenges under the Uruguay Round rules."
62. Harris, N., op. cit. 20, p.57. Harris notes "The system appears to change continuously . . . The manufacturing location — as opposed to particular companies (which are created and destroyed as relocation occurs) — might start in Hong Kong in the 1950s, move on to Taiwan and Korea in the early and mid-1960s, to parts of Latin America, to Israel and Portugal, and to Sigapore in the late 1960s, to Malaysia and Thailand in the 1970s, to China, Bangladesh, Sri Lanka, Mauritius in the 1980s. In the 1980s particularly, the geography became even more scrambled, as Hong Kong firms moved manufacturing capacity to southern China: Japanese, Korean and Taiwanese capital opened capacity in both China and southeast Asia, in Sri Lanka, the Caribbean and the United States (in search of technology and markets). Activities which began on the Mexican border moved on to the interior, to the Caribbean and to East and Southeast Asia — and might easily return if the conditions are favourable."
63. Dobson, R., "Asian Tigers Lured by Low Pay in the Valleys", *Independent on Sunday*, 26 May 1996.
64. "Another kind of export", *Independent on Sunday*, 7 May 1995.
65. Harris, N., op. cit. 20, p.63.
66. Genillard, A., "German Plans to Shift Production Abroad", *Financial Times*, 31 May 1994.
67. "Can Europe Compete?", *The Financial Times*, 7 March 1994. See also "Labour price falls offshore", *The Financial Times*, 25 February 1994.
68. Ramsay, H., "A Capital Idea: Multinationals, Labour and Europe's Single Market, *Global Labour*, No.1, May 1993, p.9. Ramsay notes, "The decsion followed fierce lobbying between the British and Irish governments. The decision to transfer to Ayr led to accusations of illegal inducements from 'Locate in Scotland', a government agency."
69. Buchan, D., "French Promise to make Hoover pay dear", *The Financial Times*, 4 February 1993. See also Ramsey, H. op. cit. 68.
70. Ramsay, H., op. cit. 68, p.9.
71. Robinson, R. and Goodman, D.S.G., *The New Rich in Asia: Mobile Phones, McDonalds and Middle Class Revolution*, Routledge, London, 1996, p.154. See also Mallet, V. "Success brings problems", *Financial Times*, 24 September 1993. Thailand's Charoen Pokphand group is now one of the largest investors in China and has stakes there in everything from motorcycle factories to feedmills.
72. An Indonesian shoe worker's pay rate is US$1.03 per day, well below the US shoe industry average of $6.94 per hour. This wage is less than the Indonesian goverment's figure for minimum physical need. The labour costs to manufacture a pair of Nike shoes that sell for $80 in the US, according to one estimate, is approximately 12 cents.
73. Harris, N., op. cit. 20, p.68.
74. Ibid.
75. Karacs, I., "Berlin rebuilt by low-wage British labour", *The Independent*, 7 June 1996.
76. Harris, N., op. cit. 20. See also *Financial Times*, 10 July 1989.
77. See also Andreas, P., "Border Troubles: Free Trade, Immigration and Cheap Labour", *The Ecologist*, Vol. 24, No. 6, Nov/Dec 1994, pp.230-234.
78. Harris, N., op. cit. 20.
79. Drache, D, op. cit.16, p.47.
80. Ibid., p.49.
81. Transfer pricing is the price used for internal sales of goods and services between the divisions of a business enterprise. Transnationals use this to make their profits appear minimal in countries where taxation is high in order to maximize the after-tax profitability worldwide. TNCs also make use of over 30 international off-shore financial centres where taxation in real terms is low or non-existent. It is estimated that over half the world's financial transactions by value involve an off-shore centre, either directly or indirectly. While sections of the business world maintain pressure to cut social welfare, they are apparently blind to this "corporate welfare
82. Breverton, T.D., "Rules Under Different Vision of Economy and Society — The Economic Vision", paper presented at "The Evolution of Rules for a Single European Market", Exeter University, 8-11 September 1994. See also Keegan, W., Laurance, B. and Wintour, P., "Our Missing £17 billion", *The Observer*, 14 July 1996.
83. People's Europe Campaign, *The Single Currency — Axing Labour's Programme*, House of Commons, London, 1996.
84. *L'Union Européenne: Les Traités de Rome at de Maastricht, Textes Compares, Article 104C and Protocol on The Excessive Deficit Proceedure, La Documentation Française*, Paris, 1995, pp. 63 and 210. Article 104c, para. 3 states: "If a Member State does not fulfil the requirements [to keep public borrowing below 3 per cent of GDP] the Commission shall prepare a report. The report of the Commission shall . . . take into account whether the government deficit exceeds government *investment* expenditure . . ." (emphasis added). The inclusion of the word "investment" legitimizes a distinction between "productive" and "non-productive" expenditure.
85. These criticisms are drawn from Weber, F., "Impact of the Social Charter", *Europe 1992: The Challenge to Urban Organizing*, Dublin 1991, pp.34, 37. Webber made the criticisms with reference to the European Social Charter, the predecessor to Maastricht's social chapter. However, they can be applied equally to the Social Chpater.
86. Employment Policy Institute, "Introduction", *Economic Report*, Vol. 9, No. 5, June 1995. Two senior economists at the World Bank have also acknowledged the role that economic liberalization has played in creating unemployment in the North: "There is no doubt that part of the rise [in unemployment in the North] is due to increased competition from developing country imports. Most analyses conclude that trade with developing countries can explain only 10 to 30 per cent of the industrial countries labour market difficulties . . . [Other calculations] suggest that trade with developing countries during the past two decades reduced the demand for unskilled workers by between 3 million and 9 million, or 1 per cent and 3 per cent of total employment. See Diwan, I and Revenga, A., "Wages, Inequality and International Integration", *Finance and Development*, September 1995, pp.10-11. See also Wood, A., *North-South Trade, Employment and Inequality: Changing Fortunes in a Skill-Driven World*, Clarendon Press, Oxford, 1994.
87. Prügl, E., "Home-based Producers in Development Discourse" *in* Boris, E. and Prügl, E., op. cit. 18, p.45.
88. See, for example, Diwan, I and Revenga, A., op. cit. 86, pp.10-11. The authors stress, however, that "international inequality will change only slowly under any realistic scenario." Indeed, at best, the "ratio between the wages of the richest and the poorest groups in the international wage hierachy . . . could fall from an estimated 60 to 1 in 1992 to 50 to 1 by 2010." If free market policies are not adopted, says the Bank, the ratio of labour incomes could "rise to about 70 to 1".
89. Ibid., p.8. The Bank predicts that, by 2020, Africans will nonetheless still earn 50 times less than North Americans.
90. Drache, D, op. cit.16, p.36.
91. Diwan, I and Revenga, A., op. cit. 86, p.11.
92. Lazonick, W., op. cit. 5, p.3. The nineteenth century German protectionist, Freidrich List, went as far as to accuse Adam Smith of "writing as if the nations of the world did not exist". See Cowen, M.P. and Shenton, R.W., *Doctrines of Development*, Routledge, London, 1996, p.163.
93. Lazonick, W., op. cit. 5, p.8.
94. Friedrich List warned that, without unless the state protected German industry, Britain's industrial advance would leave the German people with nothing to do other than furnish an English world with "children's toys, wooden clocks, philosophical writings, and sometimes an auxillary corps, who might sacrifice themselves to pine away in the deserts of Asia or Africa, for the sake of extending the manufacturing and commercial supremacy, the literature and language of England." Cited in Cowen, M.P. and Shenton, R.W., op. cit. 92, p.163.
95. Lazonick, W., op. cit. 5, p.27.
96. Ruigrok, W. and van Tulder, R., op. cit. 14, p.42
97. Nancy Hutchens, a human resources consultant, draws an analogy between the new contingent workforce emerging in the 1990s and the just-in-time inventory revolution that swept the business community in the 1980s. "The revolution in the 1990s", says Hutchens "is toward just-in-time employment . . . companies will use people only as they need them." Cited in Rifkin, J., op. cit. 23.
98. Ohmae, K., Address to the Japan Society, Toronto, 2 December 1993, cited in Drache, D., op. cit. 16 p.52.
99. As the global management guru Kenichi Ohmae notes, "By becoming, in effect, an insider in key markets, a global corporation can make its costs independent of home-country currency — that is, at a par with those of domestic competitors in each of its markets. But it can also pull off the trick of using cheaper sources of inputs from elsewhere in the world, something local players cannot easily duplicate . . ." See Ohmae, K., op. cit. 39, p.109.
100. Hines, C. and Lang, T., op. cit. 59.
101. See Lang, T. and Raven, H., "From Market to Hypermarket: Food Retailing in Britain", *The Ecologist*, Vol. 24, No. 4, July/August 1994, pp.124-129

From the Many to the Few

Privatization and Globalization

Brendan Martin

The roles of the state and ordinary citizens in defining, protecting and promoting the public interest are being whittled away by a worldwide push towards privatization and public sector commercialization. Contrary to the rhetoric of free marketeers, privatization has delivered neither improved services nor greater control by "ordinary people" over the former public sector. Instead, it has allowed corporate interests to increase their hold on the main levers of economic power.

For more than a decade, an alliance of "free" market interests — from the World Bank and the International Monetary Fund (IMF) to neo-liberal politicians, transnational corporations and conservative think-tanks — has carried out a sustained assault on public services. Ostensibly hostile to the view that governments should structure and regulate the economy, these interests have insisted that market competition best defines and serves the "public interest". They argue that the role of government should be restricted to minimizing impediments to the private sector which can then generate wealth to the benefit of all as it "trickles down" through the economy.

North and South, this agenda is reflected in a package of policies aimed at "privatizing" the state. In the South, the IMF took advantage of the debt crisis of the 1980s to "insist that debtor countries remove the government from the economy as the price of getting credit."[1] The resulting Structural Adjustment Programmes (SAPs) required governments to redirect spending away from public services and publicly-owned enterprises into servicing debt (*see* Box, p.146). State industries were sold off to private companies (the SAP loan agreements even specifying which industry should be sold and when); public services were "contracted out"; development projects "franchised" to private companies; state spending slashed; user charges for basic services introduced or increased; and markets "deregulated". In the North, similar measures (although not officially labelled structural adjustment programmes) have been introduced as well, supposedly to cut deficit spending and to raise efficiency.

A Transnational Agenda

The diverse weaknesses displayed to one degree or another by public sectors in most countries have provided plenty of ammunition for this offensive, while the failure of "communist" systems to deliver efficiency, equity or democracy has strengthened the right's claim that "free markets" and free people are indivisible. However, privatization programmes were not designed to solve the deficiencies, real and exaggerated, of state ownership and management: rather, they were directed towards meeting the needs of transnational capital in a rapidly globalizing market.

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SAPs and Privatization

Privatization — defined broadly as a change in the economic and social role of the state and in its capacity to provide more than a minimal level of safety net services — is at the heart of the Structural Adjustment Programmes (SAPs) which have been foisted by the World Bank on indebted Third World countries and the former "communist" countries of Eastern and Central Europe and the former USSR.

These bitter programmes of redirecting public spending away from services towards subsidizing export businesses (often foreign-owned ones) and debt servicing were sweetened with promises that they would create more wealth which would soon "trickle down" to the poor people who were losing jobs, income and public services. In reality, resources have "flooded up" from the poor to the rich, both within Third World countries and between them and the North. The relationship can reasonably be termed "neo-colonialist".

Typically, structural adjustment programmes — whether in the South or in the former "communist" countries — have three features. The first involves preventing certain kinds of management of the economy by the state by getting rid of price controls, withdrawing state involvement in the marketing and distribution of resources, eliminating investment controls and ending controls on financial systems so that supposedly "unfettered" market forces determine aspects such as interest rates.

The second area is usually defined as "integration into the world market". It involves a country abandoning any aspiration to economic self-sufficiency in favour of specialization in sectors in which it is said to have a "comparative advantage" compared to other countries. In the Third World, this has generally meant concentrating on exploiting agricultural and mineral resources and on manufacturing where the "advantage" stems from low pay.

Four specific sets of measures are associated with this second objective: to institute exchange rates which lower export prices; to cut import tariffs; to redirect state spending into subsidizing export production; and to provide subsidies to foreign companies to set up in a country, typically by creating "free zones" in which they are exempt from taxes, labour codes and other regulations.

The third feature of structural adjustment programmes is aimed explicitly at altering the state's field of responsibility through contracting out or transferring state-owned enterprises to the private sector, and cutting costs.

According to research reported by the director of the Institute for Development Policy at Britain's Manchester University, Paul Mosley, up to the beginning of 1986 only 13 per cent of structural adjustment loans to 21 "less developed countries" were specifically attached to conditions for divestiture of state-owned industry or agricultural marketing facilities, while 62 per cent required various forms of deregulation. By early 1992, however, the Bank's own figures showed that three out of every four such loans had divestiture conditions specifically attached.

By transferring state-owned sections of a national economy to the private sector, privatization enabled transnational corporations to integrate further their operations. By reducing public spending on health, education and social services, privatization freed up public money for new business subsidies. By stripping away public interest obligations imposed by regulation, privatization enabled companies to cut costs in an increasingly competitive economy.

In the process, power and wealth have become increasingly concentrated in a few unaccountable transnational bureaucracies and corporations; the ability of nation states to protect and promote the public interest has been undermined; and the authority of their citizens has been usurped. Indeed, arguably the most significant change in power resulting from privatization has *not* been from public to private, nor from state to market, but from local and national political agencies to global concentrations of economic power, unchecked by any of the principles or processes of democratic government.

From the Many to the Few

More than 80 countries have introduced ambitious programmes to privatize their state-owned enterprises. The World Bank recorded a total of 6,832 sales between 1980 and 1992, most of them in the former "communist" countries after 1989.[2] According to the International Finance Corporation (the private sector division of the World Bank), annual privatization receipts increased 30-fold in "developing countries" from 1988 to 1993, when they reached US$29 million. This figure does not include the tens of thousands of enterprises privatized through mass voucher schemes in the former "communist" countries.

The pace of privatizations is quickening: worldwide, annual privatization receipts are expected to reach US$100 million in 1996, a 50 per cent increase on 1995, according to a survey by the Organization for Economic Cooperation and Development (OECD).[3]

In some cases, these privatizations involved public share flotations to small investors; in others "buy-outs" by local management; and in still others the transfer of ownership to local entrepreneurs. But although some privatized industries and services were acquired by workers, individual shareholders, small business or even cooperatives, it is big companies which were favoured overall in the neo-liberal divestiture. The vast majority (and the most valuable) of the privatized assets are now controlled by transnational corporations.

Under-capitalized in comparison with their trans–national rivals, many of which operate in effect as cartels, few companies formed through management buy-outs have been able to survive independently. In Britain, for example, there was a spate of bankruptcies among firms set up as a result of management buy-outs of local authority service departments. In sectors such as refuse (solid waste) collection, the small, new companies have found themselves losing out to loss-leader or "low-ball" bids (*see* Box, p.148) from their larger, better capitalized competitors, which benefit from more favourable access to finance.

Similarly, share flotations to the public and employees have failed to prevent a concentration of ownership. Although the number of people in Britain holding shares in stock market companies has risen as a result of privatization, most individual investors buying shares in a public company tended to sell again soon after its flotation to cash in quickly on the certainty, in almost every case, of an immediate profit. Moreover, the majority of shares were set aside for institutional investors, the proportion of shares on the stock market held by them edging upwards with each flotation.

In the Third World, privatization has also failed to "spread ownership", the vast majority of state enterprises being sold "to a domestic or foreign purchaser, or to a joint-venture consortium or both."[4] Local elites and foreign transnationals have been the main beneficiaries. In Mexico, a group of 37 businessmen, who between them controlled 22 per cent of the country's gross national product, were the major buyers in all but one of the country's public sector sell-offs. As writer Laura Carlsen reports:

> "Few nationals [have] the money or international contacts to buy government-owned companies. This constrains the number of eligible bidders, weakens bids and means that the few who are able to purchase previously state-owned enterprises can extend their economic reach, an unwelcome prospect given the extreme concentration of wealth and power in Mexican society."[5]

Elsewhere, transnational corporations have been major buyers, using privatization to squeeze out competitors in the domestic or export market.[6] In Eastern and Central Europe, for instance, tobacco and food transnational Philip Morris, the maker of Marlboro cigarettes, has bought up tobacco firms in former Czechoslovakia, while its rival BAT (British American Tobacco) has set up joint ventures in Russia and the Ukraine, and towards the end of 1992 was exploring the possibility of further acquisitions in other former Soviet republics, Poland, Bulgaria and Romania.[7]

Motor manufacturers and engineering companies have also been buying into Eastern and Central Europe. In former Czechoslovakia, Volkswagen took over parts of Skoda and BAZ, Siemens other parts of Skoda while Mercedes-Benz and Iveco moved into trucks. In Slovenia, Renault bought Revoz, while in Poland, Fiat went into a joint venture with FSM.

Foreign companies have been accused of "cherry-picking" — buying only the best companies and then only if they can get them cheaply. In one controversial transaction, the US company, General Electric, took a 50 per cent stake in the Hungarian company, Tungsram, which had eight per cent of the world's light-bulb market, for just $150 million — even then, General Electric was well covered by risk insurance put up through the US government. The name of the Dutch-British company, Unilever, crops up regularly as a buyer of privatized companies around the world, as does that of PepsiCo.

Integrated TNCs, Fragmented Services

Other transnationals which have benefited from privatization are less well-known, some of them achieving transnational status only as a result of public sector sell-offs and establishing a base in one public service from which to build up interests in others. Compagnie Générale des Eaux (CGE), for example, is now "the world's leading provider of utility-related services",[8] with 173,000 employees working in 1,600 subsidiary companies producing an annual turnover of nearly US$20 billion. CGE bought into British water when it was sold off in 1989 so as to reach beyond that utility and take advantage of compulsory competitive tendering whereby local authorities are compelled by law to put local services out to tender. Where CGE has failed to win its bids, it has used its financial power to ease out rivals. For instance, finding that another firm was winning more refuse and street cleaning contracts for British local authorities than CGE was winning through its subsidiary, Onyx, it simply took over the rival firm, UK Waste Control.

CGE's strategy is not only diversification but also integration. In 1992, Onyx and another CGE subsidiary, Générale de Chauffe, undertook a joint venture to transport clinical waste to an incineration plant the latter was building. Two years earlier, CGE had acquired American Medical International, the largest owner of private hospitals in Britain. As CGE's 1990 annual report explained: "The role of Group management is to identify the strategic opportunities — including opportunities created by synergies between the companies."[9] In the UK, Générale des Eaux now:

> "operates water companies; hospitals; refuse collection services; waste-to-energy plants; housing management; financial administration; road and bridge building; car parks; cable television; mobile phones; and is bidding for a railway franchise."[10]

"Privatization is not simply a change of ownership. It is a change in the role, responsibilities, priorities and authority of the state."

Like CGE, many of the British companies that have emerged from privatization are transnationals following similar strategies. As the Public Services Privatization Research Unit reports:

> "The UK conglomerate BET . . . was originally mainly involved in public services as a cleaning contractor. But it has since spread into catering for schools, providing office services for the Department of Social Security and is now bidding for hospital management contracts."[11]

UK companies also extend their range by adding new subsidiaries and buying public sector bodies and through takeovers and new ventures. For instance, in 1995, Welsh Water and North West Water bought their corresponding regional electricity companies, Swalec and Norweb, expecting to make savings through redundancies. North West Water aims to diversify further into gas, telecommunications and computer services.

North West Water has also linked up with US construction giant Bechtel, selling its construction and engineering division to Bechtel in return for the US company agreeing to bid with North West Water on infrastructure projects worldwide. Welsh Water, meanwhile, has taken over the running of the water and sewage system in South Bohemia through a 36 per cent stake in a company

Cartels, "Low Balls", Backhanders and Hand-Outs Privatization in the UK

The UK has opened up more of its public services to private operators than many other countries through wholesale sell-offs and through "contracting out". The theory has been that there will be more competition, more private finance and less bureaucracy. In practice, the private companies frequently act as cartels rather than competitors, combining resources to tackle large-scale projects and to ensure that they have state guarantees against financial default.

Most of the companies involved in providing public services have an annual turnover of more than £1 billion. But again and again, they have combined with each other and with other companies to form joint ventures, thus avoiding competition and ensuring higher profit. In 1990, the Office of Fair Trading launched an enquiry into 11 grounds maintenance contractors accused of operating a cartel. The enquiry found that they had colluded with each other over a period of some 15 years in a secret "unlawful agreement" to fix prices on contracts worth more than £10 million per year and to control 40 per cent of the contracts issued by the Property Services Agency which was responsible for managing most government buildings.

Low Balls

The Office of Fair Trading has also been investigating loss leader (or "low ball") bids in which:

> "private sector companies may be tendering for local authority contracts on a predatory basis, accepting short-term losses so as to eliminate competitors with the expectation of subsequently making monopoly profits".

Companies have also acted to exclude public sector bodies — the most significant competitor and the one least likely to join a cartel — from tendering for public services. In this, they have been aided by government which has legislated to exclude public sector bids from more and more areas. For example, the government's Private Finance Initiative, which is intended to introduce private operators into many public services, especially the National Health Service, specifically excludes any in-house bids.

Contractors and Corruption

Competition is further undermined through corruption, which appears to go hand in hand with government contracting and privatization. It has been rampant for many years in the most established areas of contracting, defence and construction, but is allegedly also the norm whenever public services are contracted out. The result is usually a higher rate of return for the company, more costly public services and the subversion of democratic processes.

One of the largest investigations in Britain into corruption involved the Ministry of Defence's director of ammunition procurement, Gordon Foxley, who was sentenced to a four-year prison term in 1994 for accepting bribes for the award of ammunition contracts. *The Independent* newspaper reported:

> "Despite a mammoth investigation by the [Ministry of Defence] police, the extent of Mr Foxley's corruption has not been discovered. Mr Foxley was convicted of taking £1.3 million in bribes in return for awarding contracts, mainly to foreign companies. In all, in the worst case of corruption involving a [Ministry of Defence] official, he is thought to have pocketed over £3.5 million".

A Pile of Guarantees

The UK government justifies privatization and contracting out on the grounds that it pulls private capital into the public sector. In practice, however, private companies risk little of their shareholders' money, raising funds instead from banks. This includes borrowing from public institutions such as the World Bank or the European Bank for Reconstruction and Development, which lend to multinational subsidiaries rather than to local public sector bodies.

Banks usually insist that the repayment of loans be guaranteed by the government. Companies also demand government guarantees before agreeing to invest in public sector projects. For larger infrastructure projects, government guarantees are almost essential as companies are reluctant to invest if the government does not cover much of the risk.

The ultimate guarantee is a government promise to keep paying for the service or product, regardless of the relative cost of alternatives. The risks are thus assumed by the public, whilst the profits go to private companies.

The contractual relationship itself between private and public sector provides one form of public guarantee. Local councils, for instance, have found that if they need to make spending cuts, they cannot make them in contracted-out services because they are contractually obliged to continue making the payments as specified.

By contrast, if a company finds that a contract or concession it has undertaken proves to be unprofitable, it can simply abandon the work or go into liquidation. The government or local council, however, has the political responsibility to carry on the service somehow.

In 1990, for example, the supermarket chain Asda took over shopping services for pensioners in some London boroughs. The councils saved money by cutting the number of home helps they employed to call on the pensioners. When Asda hit a financial crisis, it suddenly cut the shopping service because it was uncommercial.

Companies also demand that unfavourable agreements with public authorities be renegotiated. British Gas, for example, has asked the government to subsidize (or consumers to pay more towards) the £1.5 billion it faces from having to buy gas on long-term contracts at prices higher than it can sell. Ultimately, it can go into liquidation to enforce this demand.

Nicholas Hildyard & Sarah Sexton

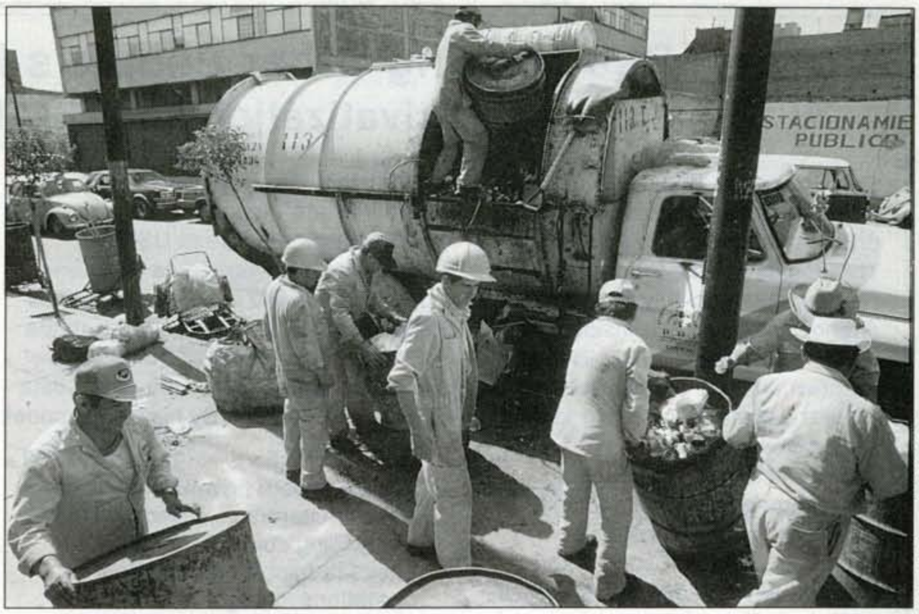
Source: *The Privatisation Network: The Multinationals Bid for Public Services*, The Public Services Privatisation Research Unit, London, January 1996.

called SCVK. And Thames Water, which serves London, formed a consortium with CGE, to bid for the water and sewage contract in Adelaide, South Australia, which it won in October 1995. Thames is also active in Thailand, where an employees' trade union published leaflets criticizing a deal giving Thames the water concession in Pathum Thani province near the capital, Bangkok, because the British company planned to institute excessively high water charges.[12]

A number of water privatizations have led to scandals over corruption, some of it proven. A former French minister, Alain Carignon, for instance, was jailed, fined and banned from public office for accepting a bribe from CGE's rival, Lyonnaise des Eaux, which has taken over the water supply in Buenos Aires.

In the United States, too, a number of transnationals have emerged as a result of privatization. Here, the main focus has not been full-scale sell-offs, but the contracting out of municipal functions. Waste Management Inc. (WMX) and Browning Ferris International (BFI), both of which have interests in cleaning and collection of garbage and in landfill sites, illustrate the trend. Both have been the subject of several anti-trust actions and other investigations by federal authorities in their home country, but these have not stopped Waste Management winning contracts in Argentina, Saudi Arabia, Venezuela, Thailand, Australia and New Zealand.[13] The company's attempts to enter Europe have been less successful, except in Italy, where it has secured contracts in Venice, Turin and Milan.[14] Like other "service" transnationals, Waste Management has branched out from its core activity — waste collection — into other service industries.

In Britain, Waste Management Inc. or its offshoots run not only the refuse collection of Wirral but also the architect's department of Cheshire County Council, the water of Wessex, and the Derby Royal Infirmary.[15]



Mark Edwards/Still Pictures

Refuse collectors in Mexico City. Since Mexico began introducing free market policies in 1988, average real wages in the country have dropped nearly 60 per cent, and nearly half the population now live at poverty income levels. The number of super-rich Mexicans, however, has swelled. Forbes *magazine listed just one Mexican billionaire in 1987, 13 in 1993 and 24 of them in 1994. Together, they are worth approximately $44 billion. Their wealth stems from nearly one thousand state enterprises, the equity values of which have rocketed in Mexico's stock market boom in the 1990s since they were privatized.*

Utilities for Whom?

The contracting out of urban sanitation is well under way in the Third World, too, aided by the World Bank and other development agencies. In Latin America, waste disposal in a number of cities, including Buenos Aires (Argentina), Caracas (Venezuela), Santiago (Chile) and Sao Paulo (Brazil), has been contracted out. In Bogotá, Colombia:

"Sixty per cent of solid waste disposal . . . is now handled by private contractors including French and Argentinian multinationals. The private contractors were provided large government grants to start their service while public trucks and transfer stations were left in disrepair. When a group of union members offered to bid on a contract they were told they were not eligible for the grants."[16]

Even if governments have been reluctant to contract out public services, debt and a resulting lack of public funds for investment have undermined their ability to resist the pressure to sell or hand over management of such services to the private sector. The justification for privatizing water, for example, has generally been that years of neglect by governments unable or unwilling to fund investment had led to decaying water mains and sewers; to restore the infrastructure, an injection of capital was needed. But the price of dealing with the decay through privatization rather than through increased public investment has been a yawning gap in who has access to water.

In some places in Africa, water costs 30 times more for the poor than for the better-off, often because subsidies to poorer users have been cut back or abolished. In Britain, the Office of Water Supplies (the public sector body set up upon privatization to regulate prices) expects tariffs to double in real terms by the year 2005 to make up for years of underinvestment and to meet higher environmental standards. Yet pipes continue to leak while the burden on water users increases to pay shareholder dividends and large pay rises to company directors. A survey by the *Independent on Sunday* newspaper of 10 privatized water companies revealed that, since privatization in 1989, they had between them amassed 237 criminal convictions for pollution (mainly of rivers), making them the worst polluters in Britain.[17] Another survey by the opposition Labour party showed that the average pay and benefits packages per year of water company executives is £432,821 (US$650,000), at least five times their level before privatization.

The number of people in Britain disconnected from the water supply because they are unable to pay the increased water charges trebled between 1991 and 1992. The effects include serious health hazards, as Ian

Rearranging Other People's Economies

Privatization and USAID

Since the early 1980s, USAID has played a leading role in spreading privatization around the world. Through its Private Enterprise Bureau, set up in July 1981, the agency has used its considerable influence — particularly in Central America and the Caribbean — to "create a climate amenable to private sector development".

Specifically, it has sought to encourage governments to shift away from import-substitution economic policies to more export-oriented ones; to deregulate labour laws, including minimum wage and employment rules; to lift banking restrictions, including limits on lending rates; to promote investment incentives; to privatize government services and parastatals; and to open up "government-dominated" sectors such as education, health and agriculture to private sector participation.

According to Henrietta Holsman Fore, when she was head of USAID's international privatization programme, the aim is to plug public sector gaps in "global integrated capitalism".

Lobbying Within

Initially, USAID espousal of free market policies was strongly resisted within the Agency, as well as by many Representatives in Congress. Special two-week training courses had to be set up and new blood recruited from business. Another way around the problem was to privatize the privatization work. In 1985, USAID set up a Center for Privatization as a semi-autonomous body comprising six consultancy firms.

A similar strategy has been used to overcome governments' resistance to embracing USAID's free market medicine. In Egypt, Ecuador, Costa Rica and, more recently, Nicaragua, the agency set up and funded business associations and other pressure groups to lean on their governments to hasten policy reform.

Your Place or Mine?

In Costa Rica, USAID's influence over government policy became so strong that the agency was dubbed "a parallel state". Indeed, such was the wafer-thin line between USAID's policies and governments that Kenneth J. Lanza, USAID's urbane and genial administrator, in an interview with the author, frequently used the word "we" when he appeared to mean the Costa Rican government. By his own account:

"Our negotiations . . . began in 1983 looking toward privatization of state-owned enterprises called CODESA, the holding company for 47 enterprises ranging from ferry boat operations to sugar mills to aluminium companies to stock market to transportation, heavy industry, you name it . . .

"The problem was there was no law or framework to begin approaching the activity . . . So we sat down with the government and began to lay out a plan for how best to undertake CODESA's privatization, where we should begin, what steps were necessary, what kinds of financial resources would be required, what the political opposition might entail, how that might be mitigated, just essentially laying out the panorama of problems we might anticipate. What we bought to the table was a vision of the way things could go, resources and the push to get things done . . .

"We managed to close, transfer, liquidate or sell 42 of the enterprises . . . Our negotiations in 1983 were followed by a conditionality agreement we signed with Costa Rica. In exchange [for balance of payments support] we negotiate conditionality which they agree to adhere to and upon which we transfer funds. Part of the conditionality agreement was to undertake privatization."

Conditionality

Such conditionality has also been a central feature of USAID loans to other countries. In the case of Panama, for example, the US agreed to provide "program assistance", much of it to pay for repairs to buildings damaged by the US invasion in 1989, only on condition that the government provide "in form and substance satisfactory to AID":

"(a) A plan to manage public sector finances, describing actions already taken and projections for the medium-term with respect to revenues, expenditures, salaries, savings, reduction of internal debt and investment.

"(b) A letter identifying the first public enterprises to be privatized under the grantee's economic program and describing a plan to implement these privatizations.

"(c) A plan to lower tariffs, eliminate quantitative trade restrictions and reduce the number of products subject to price control as part of a strategy to improve commercial and trade policies.

"(d) A plan to improve the com–petitiveness of Panamanian products on world markets."

Should the Panamanian government fail to comply with any of these provisions, it is required to "immediately refund to AID all grant funds with interest."

Corporate Welfare

The chief beneficiaries of such policies have not been the poor in the countries where they are imposed but US corporations. During the 1980s, USAID spent more that $1.5 billion in Costa Rica — equivalent to some $500 for every man, woman and child in the country — but as of mid-1987, almost half of AID credit project support to exporters had gone to foreign-owned businesses.

The pattern has been repeated in Eastern and Central Europe where, between 1990 and 1992, US spending topped $2 billion. The largest sums went into enabling direct US investment in privatized assets. For example, a Polish-American Enterprise Fund was set up, with capitalization of $240 million. Its purpose, according to a State Department document, was to "take equity or debt positions in new private businesses, joint ventures or recently privatised enterprises." Similar investment funds have been set up by USAID in the other former "communist" countries.

Gregory reported in *The Guardian*:

"The phrase used by a caretaker at a Birmingham tower block to describe conditions after one in seven of its tenants had been disconnected was 'quite a stink'. Unable to flush the toilet, tenants were defecating in stairwells and throwing excrement out of the window."[18]

The company concerned, South Staffordshire Water, disconnected 20 times more homes in 1992 than it did during the previous year. Since then, the increasing use of pre-payment meters has led to such a rise in disconnections that the British Medical Association has warned of health risks and called for a ban on disconnections.

Privatizing Healthcare

Despite the decline in services as a result of privatization, governments North and South are pushing to extend the process. As David W. Young of Boston University reports for healthcare:

"Faced with shrinking public resources and dissatisfied with the quality and cost of care provided by public hospitals, many Western European countries are moving toward privatization . . [which] is taking on many different guises, ranging from contracts with private laboratories to perform certain types of tests, to agreements with hospitals to provide care for all patients in given geographic areas."[19]

In Britain, means testing of the elderly has been introduced before residential care is provided to them by the public sector. State-run healthcare increasingly relies on charitable bodies for care and finance. More than 1,300 elderly patients have been moved into private nursing homes, some of which have been leased or even given to charities or private trusts.[20] As one commentator noted in 1992 after a public appeal for funds to build a London children's hospital:

"For the first time since the creation of the NHS [National Health Service in 1947], charity had been relied upon to build a public hospital. During the past two or three years, numerous other appeals have been launched for the NHS, many for traditional charitable purposes such as medical research, but many others for 'core' activities such as building programmes, running costs and life-saving services. In 1951 the idea of sponsoring a hospital cot seemed absurd; today it is pressed on the general public as imperative."[21]

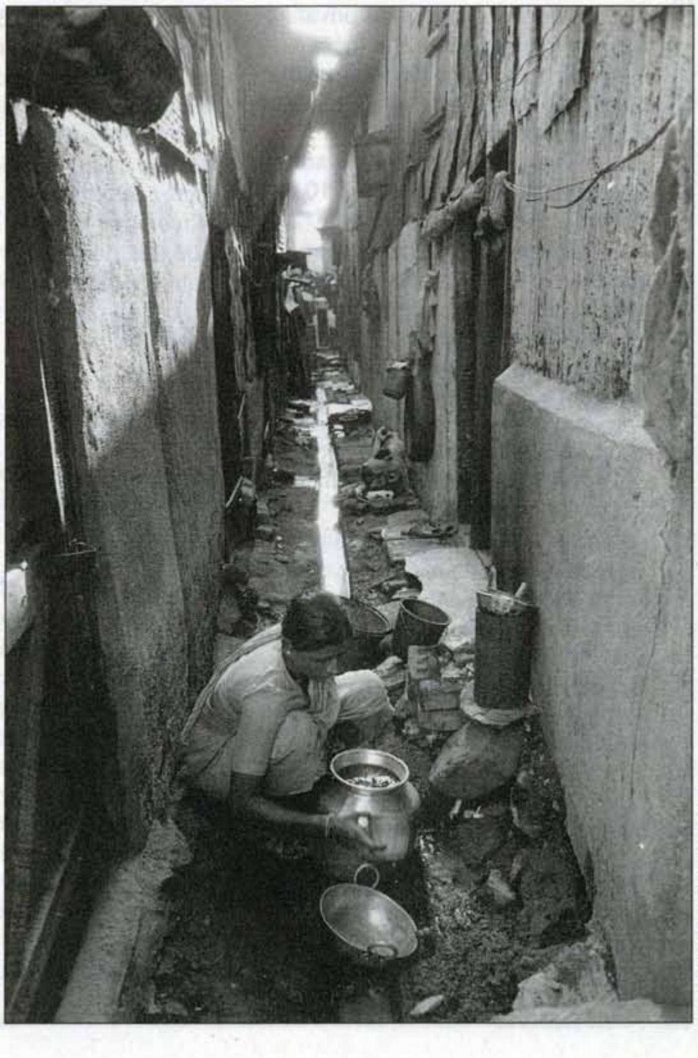
In the South, instituting or raising "user fees" in health and education has long been a component of structural adjustment programmes. In particular, the World Bank has required governments to institute charges for "curative services" (that is, everything but public health, vaccination and contraception) which "reflect the cost of providing them." Another required Bank "reform" is to "encourage the non-government sector (including non-profit groups, private physicians, pharmacists and other health practitioners) to provide health services for which consumers are willing to pay." A third is to demand that governments "provide insurance or other risk coverage." Whether public or private schemes are preferable the Bank does not say, but it does recommend "competition to keep costs and premiums low" and that insurance "should cover only costs that might be termed catastrophic for an individual." Neither condition is compatible with equitable or comprehensive coverage.[22]

As far as most of the world's people are concerned, who live off the land or work in the informal sector, all this amounts not to two but to three tiers of service: one for the rich, one for formal employees and none at all for everybody else. The result, as author Adoulaye Bathily describes for Senegal, where privatization and cuts in public service expenditure have been a condition of World Bank loans, is an increasingly divided society:

"The public health and education services seen narrowly as unproductive are being abandoned by the state, which is trying to privatize them so that the health and education of every Senegalese man and woman will depend on how much money he or she has. In short, no health for the poor and more health for the rich! No education for the children of the poor and more quality education for those of the rich."[23]

In Zaire, there were "sharp falls in the demand for curative contacts, prenatal and under-five clinic visits"

Washing pots in an open drain in Bombay. For over one hundred years, it has been known that good sewerage and water supply are critical in the control of water-borne diseases such as cholera. The private sector in general, however, has not repaired decaying water mains or sewers.



Mark Edwards/Still Pictures

Fat Cats Purr
Costs, Efficiencies and Quality

The economic benefits of private companies taking over public services lie in assumption that private operators are more efficient managers, more technically advanced, and bring capital investment.

In practice, the main savings are made by cutting labour costs, either by reducing the number jobs or by lowering pay and conditions, or both. In Britain, for example, the privatized water and electricity utilities have:

> "sacked nearly 25 per cent of [their] workforce, some 100,000 workers . . . since privatization. All of these jobs could have been sustained in the cash distributed as dividends had it instead been applied to paying wages at the average rate prevailing inside the companies."

Although privatized utilities have been extremely profitable, they have displayed great irritation when the media or parliament or the official regulator (set up at privatization) have suggested that there might be a wider public interest than paying dividends to shareholders or hefty fees to directors.

In November 1995, for instance, Thames Water announced a 10 per increase in pre-tax profits and 12 per increase in dividends after a summer when the water for many of their customers had been cut off. However, the company:

> "rejected calls by the watchdog [regulator], OFWAT, to commit to sharing between customers and shareholders any efficiency gains over and above those assumed when price controls are set."

A company spokesperson said regulators "should not get involved" in the dividend plans of the companies while the group finance director said, "We do not intend to get locked into a mechanism or formula that shares our outperformance with customers."

Not a Drop to Drink . . .

Indeed, there were repeated examples in 1995 of how the privatized companies' financial objectives are indifferent to, or conflict with, technical standards of service. Virtually all the water companies found themselves unable to cope with two months of drought. Hosepipe bans, standpipes in the street and cutoffs were widespread — but profits and dividends continued to rise.

Yorkshire Water decided that it would be too expensive to find and repair the leaks in its water distribution system. It saved money by contracting out work such as the cleaning of channels designed to capture rainfall into reservoirs — the channels are now badly-maintained and blocked up. Its main strategy to deal with the drought of the summer was to ask consumers to be more frugal with water. The company's chief executive suggested people could go without baths for weeks or months. Local businesses were asked to consider closing down for extra days or moving their operations outside Yorkshire.

For the shareholders, this strategy has paid off. In 1995-1995, Yorkshire made record profits of £160 million and paid dividends of £64 million, plus a special "efficiency" dividend of £50 million. For the second year running, the company's profits were higher than its total investment, so it did not have to borrow a penny. There were further increases in profits and dividends in November 1995 — by which time 600,000 people in Yorkshire had been notified that their water supplies might be cut off on a rota basis in the middle of winter.

Let There Be Darkness

Meanwhile, with electricity, the National Grid was so short of power on two occasions in 1995, once in July, the other in November, that it nearly had to make power cuts. These shortages were not caused by sudden surges in demand, but by insufficient spare generating capacity because some systems had been shut down.

The privatized generating companies, National Power and Powergen, which run the power stations, and the National Grid, which transmits the electricity, have reduced reserve capacity in a quest to maximize their financial returns to such an extent that constant supply is not ensured.

In an extension of the logic of a private market, London Electricity and the National Grid have explored the possibility of charging people cheaper electricity rates in exchange for accepting the risk of being cut off without notice:

> "The companies have sent out 13,000 surveys at a cost of £75,000 asking individuals which of several options they would find least inconvenient. One is an unannounced blackout between 6am and 9am on a summer weekday. Another is a 24-hour power cut with 48 hours notice. The cuts would be rewarded with bills reduced by up to 30 per cent."

Those people who have an incentive to take up this offer are primarily those who cannot afford to pay the full rate for an uninterrupted supply. The poor would be offered a cheap and unreliable service while the rest would enjoy a secure supply, confident that any power cuts would fall on the poor. The private companies would reduce their costs and increase their profits by not having to spend extra to maintain full power at all times.

The UK government says it has "no mandate to challenge such plans" and that it is up to the electricity companies "to run their business as they see fit. It is not for central government to comment on".

The lesson would seem to be clear. Private companies do not accept risks; they expect guarantees of income. Political choices as to *who* should be expected to pay — and pay how much — for essential services are not avoided by privatization. Nor are the social costs of privatization, in particular the costs to people and government of unemployment and of charging consumers more for public services accounted for.

Sarah Sexton & Nicholas Hildyard

Source: *The Privatisation Network: The Multinationals Bid for Public Services,* The Public Services Privatisation Research Unit, London, January 1996.

after user charges were introduced.[24] In Ghana, urban utilization of health services fell by more than half and rural utilization by a third in the first year of higher charges.[25] Another study reported:

"Women's time constraints, cuts in the health services and/or the introduction or increase in user charges lead to lower utilization of ante-natal care, immunization and curative services. The situation is well illustrated in a study from North Zambia where poor women say that they cannot afford to be ill both because of the increased costs of treatment and because of the costs incurred through staying away from productive activities."[26]

The New Geography of Power

Privatization does more than disadvantage workers, poorer people and communities economically: it also removes the democratic accountability of service providers from the people who use and depend on them. The neo-liberal development model not only constricts *what* can be decided: it shifts *who* decides. Institutional and economic power is now concentrated in the hands of transnational business and remote quasi-state bodies, such as the World Bank, the IMF and GATT, which are unchecked by any of the principles or processes of democratic government, such as elections, accountability or transparency. As these new global concentrations of power have grown in influence, the ability of nation states to manage their countries' affairs has been significantly undermined.

This suggests the need for two dimensions of change. On the one hand, international organizations from the World Bank to the transnational corporation itself must be made accountable to the people whose lives they shape. Campaigns to end apartheid or the promotion of baby milk powder have shown how concerted international action can affect the policies of such institutions. International trade union links point to another way.

But there are limits to the extent to which the internationalization of economic affairs can be democratized. For that reason, it is all the more essential that the authority of national and local states is democratically restored. A fundamental role for states in safeguarding and providing for the economic and social welfare of their citizens is a condition of democratic government. This does not imply retreat into "Balkanization" or nationalism — on the contrary, those are the far more likely outcomes of failure to address these issues since, one way or another, people will insist on retrieving the power they have lost. What it does imply is a balance of power between the various levels of human society — from global to local communities — with decisions decentralized as much as possible.

What is called for is a new mix of state, the market and civil society to return power and resources from the few to the many. Exactly how that might be secured must vary according to local circumstance. But as much as different parts of the world have distinct challenges, they also have much in common. We do not need to live in Utopia to demand that the state should be efficient and effective in its use of society's resources and flexible in responding to its changing needs and wishes. That is why the project of establishing a balance between state, market and society must find expression in the way in which state institutions carry out their functions and relate to the people they serve.

Ladybower reservoir in the Derwent Valley, South Yorkshire. In Britain, water privatization has worked against rather than in favour of water conservation. More than 20 rivers, vital to local ecology, economy and amenity, have dried up since the regional water utilities were sold off in 1989, not because of drought but because the privatized companies have no incentive to discourage waste and every incentive to extract water as cheaply as possible, even if that means over-extracting.

To reject both statism and neo-liberalism, however, is not simply to find an optimum balance of public and private. It is not just the extreme expressions of that dichotomy which are false but the dichotomy itself, not least in its neglect of society. It is characteristic of both outlooks that they either deny (as Margaret Thatcher did)[27] the very existence of society or else subsume it into one or other of the categories they do recognize. For the neo-liberal, individuals make rational economic and social choices only through the market. For the statist, the state is the sole custodian of society's interests and its decisions their only reliable expression, with or without free elections. While the one ideology seeks to subordinate state to market, and the other the market to the state, both subordinate society's will and the means of its expression.

The alternative is that both state and market should be the servants of society rather than society being the slave of either. The key concepts at the heart of such an approach — democracy and citizenship — are far from new. But every stage of the world's economic development has required their redefinition. Whether the next century will be marked by unity and harmony rather than division and conflict depends in no small part on what democracy and citizenship are to mean in an age of globalization.

This article is drawn from *In the Public Interest? Privatization and Public Sector Reform*, Zed Books, London, 1994.

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Eight for the Price of One

Britain's Nuclear Privatization

In July 1996, the British government sold off the largest industrial sector remaining in public hands after its widespread privatization programme — eight of the country's nuclear reactors. Together, they generate about 15 per cent of the country's electricity and now comprise the world's only pure nuclear utility, British Energy.

A £4 million advertising campaign depicting discus and javelin-throwing athletes (a timely conflation with the centennial Olympic Games) promised "a final burst of energy". The sale, however, turned out more to be a final whimper in Britain's electricity privatization, "one of the biggest industrial restructurings attempted in the developed world".

The sell-off raised £1.4 billion — half the cost of building just one plant, the new Sizewell B Pressurized Water Reactor (PWR) in Suffolk and far less than the £2.4-2.8 billion the government had expected.

On the first day of trading, shares slumped — the first time in 12 years of state sell-offs that shares fell immediately. Individual investors recorded losses, even with the share discount offered by the government which amounted to a subsidy from the public purse of £13.75 million. The government also promised a total dividend of £96 million in the first year, less than the company's anticipated profits.

In addition, British Energy opened share trading with only five of its eight reactors working. The best-performing advanced gas cooled reactors (AGRs) at two stations, accounting for 25 per cent of the new company's installed capacity, were shut down just days before flotation for emergency safety inspections — welding cracks had been found in pipes carrying gas from the reactor to the turbines that generate electricity.

At a third plant, Sizewell B, engineers found leaks in fuel pins (the alloy tubes containing uranium pellets at the heart of the reactor) during a statutory maintenance check 12 months after the plant became fully operational. As *The Observer* commented:

"Given that Sizewell B is meant to be the newest, poshest, smartest, techiest plant in the British energy stable, this is pretty shocking: it's like taking an N registration [new] car to the garage for its first 6,000-mile service and discovering its gearbox is already wearing out."

A former director of British Nuclear Fuels (BNFL), Harold Bolter, concluded:

"This is not so much a case of the government selling off the family silver as it is disposing of a canteen of old and unwanted cutlery for the best price it can obtain".

Try, Try Again

The British government first tried to privatize nuclear power in 1989 when the rest of the country's £37 billion integrated electricity industry was broken up into separate parts — transmission, generation and supply — and sold off.

Just before that flotation, the nuclear stations were withdrawn from sale and a moratorium placed on new construction. The City believed that the nuclear industry was a sufficient disincentive not to buy the rest. Their concerns were not so much the risk of another Chernobyl as the costs of nuclear electricity generation itself, including finding the money for another three PWR stations besides Sizewell B, and the costs of the "back end" of the fuel cycle — spent fuel reprocessing, management and disposal of radioactive waste, and the decommissioning of nuclear plants.

As energy analyst Gordon Mackerron points out, the government was apparently unaware of the expensive, finanically-risky and politically-difficult status of British nuclear power, regarding it instead as a cheap, highly-desirable and politically-reliable source of power generation — until investors pointed out otherwise. All governments in the UK have been strong supporters of the nuclear industry, sponsoring and nurturing its technology since its early development in the 1950s.

In 1994, to the surprise of many, the government announced its intention to try again. It hived off eight of the newer AGR and PWR plants into two companies, Nuclear Electric and Scottish Electric, under a holding company, British Energy, which carefully avoided the word "nuclear" in its title "just in case that might appear too frightening".

The 11 remaining older and obviously unsellable Magnox power stations stayed in public ownership, becoming the responsibility of British Nuclear Fuels which runs the THORP reprocessing plant at Sellafield, and which has effectively become the nation's nuclear "black hole" corporation in which to dump the nuclear "back end".

The government maintained that whoever bought British Energy would have to finance the eventual decommissioning of British Energy's plants. But British Energy will pay "a mere £16 million" a year into a fund for these long-term costs. Although these are unknown and uncertain (no nuclear power plant has yet been decommissioned in Britain), the amount to be put aside is already considered inadequate. The actual costs — which will have to be paid by the public — are estimated to be more than £3 billion.

In announcing the sale of British Energy, the government confessed that new plants were unlikely to be built without significant government support because of the high capital costs — a clear admission that an unsubsidized free market would have killed the nuclear industry long ago.

The government maintains that British Energy had to be sold off to pay for the decommissioning of the older Magnox plants. The fossil fuel levy, a 10 per cent tax on all retail sales of fossil-fuelled electricity introduced in 1990, was supposed to finance this, but went largely on keeping Nuclear Electric liquid instead, in effect financing Sizewell B. The bulk of expenditure on decomissioning has now been postponed for 135 years while old reactors are "temporarily" buried under mounds of concrete and earth,

Critics maintain, however, that the sale was a "dash for cash" to finance tax cuts before the next national election.

Even though "this has got to count as one of the most cack-handed privatizations ever witnessed", the whole process did at least make transparent the high costs and risks of nuclear power in Britain.

Sarah Sexton

Source: *The British Electricity Experiment: Privatization: The Record, The Issues, The Lessons*, edited by John Surrey, Earthscan, London, 1996.

Free Market Miracle or Myth?

Chile's Neo-Liberal Experiment

Joseph Collins and John Lear

Although the process of free market structural adjustment took root in Western industrialized countries before spreading the world over in the 1980s and 1990s, the Latin American country of Chile was in fact one of the first countries to be thoroughly subjected to free-market policies. From the 1970s onwards, public companies were privatized, price controls lifted, government spending cut, and barriers to foreign trade lifted. As a result, unemployment rose while wages fell. The country's widely-acclaimed economic recovery and expansion in the past decade have depended on the exploitation on non-renewable natural resources such as forests and fish and on the intensified exploitation of a low-waged labour force. Chile's long experience of the free market clearly illustrates the economic and social impacts of a model being widely promoted and adopted around the globe today.

Chile has moved farther, faster than any other nation in South America toward real free-market reform. The payoff is evident to all: seven straight years of economic growth. You deserve your reputation as an economic model for other countries in the region and in the world. Your commitment to market-based solutions inspires the hemisphere.

President George Bush in Chile
6 December 1990[1]

I challenge you to find another country in the world that has such nice stats. It's almost too good to be true, and people wonder where the downside is.

Curtis W Kamman
US Ambassador to Chile
10 May 1992[2]

By the early 1970s, Chile, a country of 14 million people, had developed a large middle class[3] accompanied by social policies and political systems comparable to those in the United States and many European countries. After a military coup in 1973 in which the democratically-elected socialist President Salvador Allende was killed, Chile was turned into a free market experiment under the 17-year politically-repressive dictatorship of General Augusto Pinochet.

The results of the experiment — according to free marketeers — are a shining success: Chile's economic growth, particularly from 1985 onwards, is often hailed as a "miracle", as is its boom in exports, positive trade balance, comparatively low inflation rate, increased foreign investment and debt repayments.

Officials of the World Bank, International Monetary Fund and US government, editors of the most influential US media (in particular the *New York Times*), multinational corporate executives and prominent neo-liberal economists all hold up Chile as a development model for other countries — ranging from Russia to India, Ghana to Bolivia — to emulate. As *The Economist* says:

> "Tucked away between the Andes and the Pacific Chile almost resembles an Asian tiger mistakenly attached to a different continent."[4]

Social and economic realities in Chile, however, are at odds with the rhetoric and claims of the free marketeers. The "miracle economic growth" refers to *recoveries* from two depression-like recessions in 1975 and 1982 which were in large part attributable to the free market model itself. The

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country's foreign debt shot up from $5 billion in 1975 to $21 billion in 1985; its forests and fishing resources have been plundered to step up exports; the percentage of Chileans without housing has increased; a pioneering and much-praised national healthcare system has been gutted; workers' rights to organize and bargain collectively have been greatly curtailed; and the sell-off of government-owned companies has reduced the money available to the public sector by several hundred million dollars. All in all, the rich have got richer and the poor have got poorer.

Privatizing the Common Wealth

The free-market policies imposed by the Pinochet-led military junta were drawn up by the "Chicago Boys", a group of Chilean economists trained at the University of Chicago in the United States (*See* Box, p.159). The main policies were to privatize government-owned companies, lift price controls, give free rein to private enterprise, slash government budgets especially for consumer subsidies and social services, and pull down barriers to foreign trade and corporate investment.

Between 1975 and 1989, Pinochet's Chicago Boys sold off government ownership in 160 corporations, 16 banks and over 3,600 agro-industrial plants, mines and property holdings, many of them at bargain prices and in government-financed deals.[5] The public assets were sold off in two waves: the first wave from 1975 to 1981 focused on the banks, the second from 1985 to 1990 on the remaining large public companies such as electric utilities, communications networks and the national airline.

Buyers put down as little as five per cent of the purchase price, covering the rest with a long-term, low-interest credit from CORFO (Corporación de Fomento), the government development agency founded in 1939.[6] Despite supposed antagonism to government subsidies, they were sometimes allowed to use the company to be purchased as collateral.

One of the first companies to be privatized was the national cement company, INCESA, which was sold in 1978 to Bio Bio Cementos, a Chilean company, for just under $3 million. This sum, according to a government internal audit at the time, amounted to 10 cents on the dollar for the value of INCESA's assets on the books. At the time of the sell-off, INCESA's working capital alone exceeded the sale price by more than $1 million.

Mario Marcel, an economist for the Chilean think-tank CIEPLAN, calculated that the 12 state companies privatized during 1986 and 1987 were sold off with an effective subsidy to the buyers from the national treasury of between 27 and 69 per cent (depending on how the company's value was determined). Economists Gustavo Marin and Patricio Rozas estimate the loss to the national treasury from the sale of three of the largest public companies in the late 1980s — Chile's most important manufacturing corporation, CAP (Compania de Acerros del Pacifico — the Pacific Steel Company); Chilectra (the national electricity company); and Soquimich, the nitrate and fertilizer company — at $1.4 billion.[7]

The public coffers lost out not only from undervalued sales but also from earnings forfeited. For instance, sugar refining company IANSA, which had a conservative book value of $81 million, was sold for $34 million. IANSA profits for the first three years after privatization (1986 to 1988) totalled $52 million, far in excess of the purchase price. Soquimich, meanwhile, was sold off in 1987 for $120 million, an amount which would have been recuperated in under three years given the 1988 dividend levels. In the case of the electric company, ENDESA, which was privatized in 1988, internal auditors put the total loss at almost $1 billion.

Overall, the losses to the national treasury from privatizations during the years 1985 to 1989, according to a conservative CORFO estimate, surpassed $2 billion — Chile's GDP in 1987 was less than $20 billion.[8]


Nancy Durrell McKenna/Panos Pictures

A Mapuche family return to their village in their own transportation. For those Chileans who benefited from Pinochet's economic reforms, however, personal transportation was more elaborate. From the late 1970s until 1982, they borrowed dollars and went on a shopping spree, buying imported cars and domestic appliances. The number of cars in Chile tripled between 1975 and 1982, mirroring the tripling of the foreign debt to $16 billion.

The revenue from sales of public corporations, however, provided one-time boosts to government finances, allowing General Pinochet to balance the national budget from 1986 through 1988, please the IMF, make timely payments to foreign creditor banks and to cut taxes. Since most of the companies sold were revenue earners — estimates of lost government revenue range from $125 to $200 million annually for 1990-1996 — these gains were brief and illusory; an accounting sleight of hand papered over government budget deficits.[9] Sergio Bitar, the Minister of Mining in the Allende government, describes the privatization process in Chile as:

> "the greatest diversion of public funds that has occurred in our history, without the consultation of public opinion or accountability to a congress."[10]

Popular Capitalism?

Proponents of privatization, particularly during the second wave, claimed that the sell-offs would lead to "popular capitalism" because employees could acquire shares in the companies being privatized by drawing on their workers' compensation funds or in lieu of wage increases and other benefits.

In 1989, however, the total number of employees holding shares in privatized companies was 30,000, well under one per cent of the Chilean labour force,[11] while employee stock holdings tended to be a distinct minority of a company's total shares. Many workers who were able to take up share offers quickly sold their stock because of their need for cash. In Chilmetro, a regional electric company, workers purchased seven per cent of the stock when the utility was privatized, but within a few months had sold all but three per cent.[12] Only in one company have "worker capitalists" gained a seat on the board of directors.

In the case of electric company ENDESA's privatization, stock was also made available to government employees outside the company to buy on similar terms as those for ENDESA employees. As a result, the largest percentage of the utility company's shares, about 21 per cent, went to members of the armed forces who now form a rear guard of property owners staunchly opposed to bringing such companies back into the public domain or even to reviewing the process of privatization.

Rather than workers, it is multinational corporations which have gained a stronghold over the Chilean economy, privatization having made them more powerful in the country than ever before.

An official who has observed three decades of changing public and private sector roles from within CORFO, engineer Raul Saéz, comments that the free market government simply handed over "natural" monopolies like electricity and telephones to the private sector and foreign capital without establishing any regulating power or any other significant counterweight that might substitute for the absence of market competition. "These new financial groups are as powerful as the drug lords in Colombia, powerful enough to bring down any government" which might attempt to regulate them, he says.[13]

Working on the "Free" Market

Besides privatization, the "modernization" of industrial and labour relations has been central to the free market project in Chile.

In the aftermath of the 1973 military coup, many Chilean manufacturers expected not only to retain their protected markets and government investment subsidies but also, as an added bonus, to benefit from the fact that the labour movement would be kept in tight check — Chilean workers have a history of struggle and social achievement dating back to nineteenth century mineworkers' organizations, the forerunners of present-day trade unions.

> ***"The Chicago Boys' definition of economic freedom was highly selective: businesses were 'free' to move capital and raise prices, but workers were not 'free' to present collective demands or strike for better working conditions."***

After the coup, at least 2,200 union leaders were fired, 110 killed and 230 jailed.[14] The Rettig Commission, set up to investigate human rights violations under Pinochet, reported in 1991 that workers were the segment of the population most targeted for government repression.[15] From 1973 through 1978, practically every labour right for organized and unorganized workers was suspended; factory owners were allowed to fire any worker without cause. All the tools of collective bargaining, including the right to strike, were outlawed.

The Chicago Boys were determined to give Chile a radical initiation into free trade and unfettered market forces. They dropped tariffs on imported goods from over 100 per cent to a level of 10 per cent across the board by 1980. The country was flooded with cheap, imported consumer goods against which many Chilean producers could not compete. Between 1979 and 1982, in the middle of the "Chilean miracle," more than a fifth of manufacturing companies failed and manufacturing employment dropped by over one fourth. Faced with foreign competition and dwindling profits, some of Chile's economic elite went into debt to remain afloat. Others, contrary to free market theory, moved their capital from manufacturing into highly-speculative areas being favoured by government policy — finance, commerce, or land and property.

When the bottom fell out of the economy in 1982, (see Box, p.159) the trend toward bankruptcy accelerated, expanding to all sectors. Manufacturing and construction were particularly hard hit, with production dropping by 19 and 28 per cent respectively. In the textile industry alone, an estimated 35 to 45 per cent of companies failed.[16]

Some business owners responded to the crash by "rationalizing" their production processes: a few purchased new machinery and technology; some employed new marketing techniques; others imported more components. By far the most important rationalization, however, was the lowering of labour costs through massive layoffs, intensifying the work pace, lengthening the work day for remaining employees and pushing down wage levels to well below historical levels. For the decade before 1981:

> "out of every 26 workers released by the manufacturing sector, 13 joined the lines of the openly unemployed, five became members of the urban informal sector, and eight had to work for $30 a month in a government emergency employment programme."[17]

Extended days became commonplace in commercial shops and service industries. In 1990, many restaurant and hotel employees worked 12 hour days, 72 hours a week, according to the Federation of Hotel and Restaurant workers. In Santiago, most restaurant workers are let off for a couple of hours without pay during the "dead period" in the afternoon between lunch and dinner. As Antonio Gonzalez, an official of the Federation, asks:

> "What can they do for two hours? They don't have the time or money to visit their homes in the *poblaciones*, so they go to the 'flippers' [video arcades] or the 'topless' bars which line certain streets in downtown Santiago."

In manufacturing, employees are now commonly paid

The Chicago Boys

In June 1955, four professors from the economics department of the University of Chicago — Theodore Schultz, Arnold Harberger, Simon Rottenberg and Earl Hamilton — arrived in Chile's capital, Santiago, to launch an extensive programme of technical cooperation, funded by the US government, between their university and Chile's Catholic University. Their "Chicago school of economics" was renown for its advocacy of stringent, anti-Keynesian, free-market policies.

A centre for economic research was created within the Catholic University with professors from the University of Chicago teaching in Chile and Chilean economists going to Chicago for postgraduate studies, some on full scholarships.

These "Chicago Boys" were sons of the Chilean right. As journalist Pamela Constable and political scientist Arturo Valensuela point out:

> "Middle and upper-class students at the Catholic University in the 1950s and 1960s, [they] shared a conservative religious background, a visceral rejection of socialism, and a contempt for Chile's free-wheeling, mass democracy."

While they were students at the University of Chicago, all these sentiments were reinforced. Under the tutelage of the Chicago economists — most notably, Professor Arnold Harberger and Professor Milton Friedman — the students were immersed in free-market doctrines which ran counter to the Christian Democrat and Marxist ideas held by most of their peers.

Many of these Chicago Boys took on the theoretical certitude of their mentors and returned crusader-like to Chile. They rapidly gained footholds in academia (primarily the Catholic University), conservative think-tanks, influential media organizations such as *El Mercurio*, Chile's leading newspaper, and prominent corporations.

Shock Treatment

During the night of 11 September 1973, while fighter planes flew low over Santiago in the miltary coup, the lights burnt at the conservative Lord Cochrane publishing house. Inside, photocopying machines whirled non-stop, spewing out copies of a thick document known to the Chicago Boys and their sympathizers as "the brick", a 500-page plan for reversing the economic policies implemented in Chile over the previous half century. The plan's authors wanted copies on the desk of every general in the new military regime before noon the next day.

Eight Chicago Boy economists and two like-minded colleagues had been diligently meeting and drafting the voluminous document for months. They had been called into action by a group of high-ranking Navy officers and business leaders, galvanized by their sense that the military would soon overthrow President Salvador Allende. Their efforts were financed by SOFOFA, Chile's main private industry lobby, which in turn received funding from foreign companies as part of a "war plan" to destabilize Allende's government and prepare a "replacement government."

After the coup, however, the Chicago Boys' rise to power was neither immediate nor smooth. The junta placed in decision-making positions only those on whom they could rely fully; proven loyalty was the first criterion for selection, aptitude only second. Thus, the several Chicago Boys who were called to serve within the military government were at first only advisers or directors of technical departments.

But by 1975, the Chicago Boys were beginning to advance, at least 15 of them gaining top policy-making positions in Pinochet's government. By this time, "Chicago Boy" had become a household name, even among the poor.

Following a visit to Chile by Chicago University gurus Friedman and Harberger, General Pinochet appointed Sergio de Castro, a leading Chicago Boy and Harberger's close associate, as the Minister of Economy, replacing Fernando Leniz, a businessman who was a major obstacle within the government to the radical free market advocates. General Pinochet went on to decree that all economic policy would be centralized under the Minister of Finance. This "superminister" was the newly-appointed Jorge Cauas, an ardent convert to the University of Chicago doctrines.

The Chicago Boys (in particular de Castro and Cauas) wasted no time in working out the details of implementing free market policies in Chile. In April 1975, General Pinochet announced his approval of the Chicago Boys' plan which quickly became known throughout Chile as "el tratamiento de chock" — shock treatment. As *Business Week* commented, "an already severe anti-inflationary policy was turned into one of Draconian harshness." Milton Friedman's "only concern" with the plan was "whether it would be pushed long enough and hard enough."

By 1981, however, there was an almost eight per cent growth in the economy and virtually all the key free market reforms were in place. In the national and international media, the deep recession of 1975 was a distant memory.

The Bubble Bursts

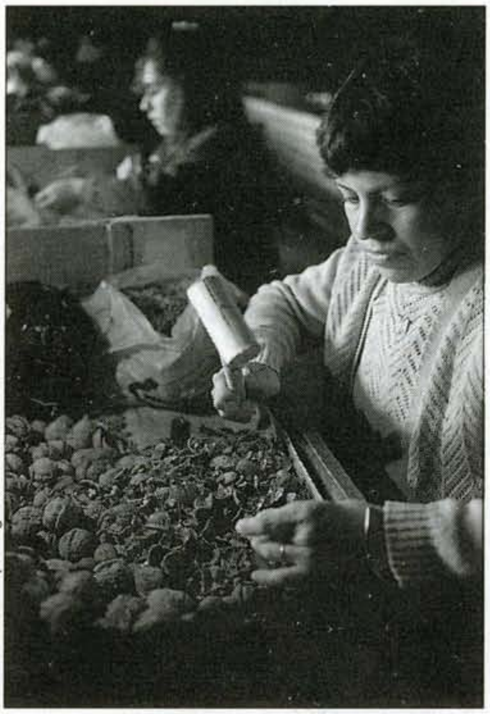
By the end of 1981, however, the strength of the economy and the legitimacy of the government — or at least of the Chicago Boys — were in serious doubt. The recession in the United States, brought on in part by President Ronald Reagan's monetarist policies (also inspired by the Chicago school of economics), proved just how vulnerable an open economy could be to shifts abroad. The global tightening of credit and higher interest rates burst the bubble of prosperity in Chile.

Starting in November 1981, a series of banks and businesses began to fail, including several of the principal conglomerates that had benefited most from the privatization of government-owned companies and sweeping financial and business deregulation. Gross domestic product dropped by 14 per cent in 1982, and official unemployment rose to over a third of the labour force. Suddenly the Chilean "miracle" had little to show for itself except a heavily indebted and failing private sector and an economic base incapable of supporting such high levels of debt.

The military government bailed out the private sector, intervened massively in the financial sector and absorbed the debts of many large businesses, restoring them to soundness before selling them off to private interests. Other companies were sustained through preferential exchange rates so as to pay their dollar debts. The government wound up taking on as public debt some $16 billion in foreign loans, most of which had been originally incurred and recklessly spent by private Chilean conglomerates.

Under Pinochet, Chilean fruit exports boomed. The country has remained a major supplier of temperate fruits — grapes, nectarines, plums, peaches, pears and apples — to North America and Europe. More than 95 per cent of grape imports to the US are from Chile. Highly perishable exports prompted Cardoen Industries, better known for its weapons and explosives, to produce refrigerated containers for sea and air shipments. Almost all Chile's orchards are less than one hundred miles from a seaport. Over half of Chile's fruit exports are controlled by five transnational companies.

Most of the estimated half a million jobs created by the fruit industry are temporary and seasonal. Over two-thirds of the labour force in Chile is now employed on a temporary basis, 60 per cent of whom work in the fruit sector.



Julio Etchart/Reportage

Packing dry fruit.

In the late 1980s in a major fruit-growing valley, temporary workers, employed for about three months of the year, were paid between \$2 and \$4 per day; one hectare (2.5 acres) of grapes in the valley earned the owner just under \$5,000.

Many of these workers used to be smallholders or agricultural workers who were evicted from plots in Chile's central valley region to make way for commercial producers. Many temporary fruit workers migrate from north to south each year, following the peak moments in the harvest.

Workers complain of crowded, squalid barracks and limited washing and sanitary facilities, critical for those regularly exposed to pesticides. Imports of pesticides increased more than eight-fold between 1976 and 1986. Some 80 per cent of workers in the fruit industry say the problem of health was either "very serious" or "serious".

by the piece rather than for a given number of hours. In a typical, small, semi-clandestine sweatshop, four women are paid 50 pesos for each dress they sew, garments which consumers then pay ten thousand pesos for (about US\$30). By sewing 20 dresses over a 12-hour day, a worker can eke out the (low) minimum wage.

Those who lost their jobs were forced into unemployment or, at best, into temporary or casual work. A typical sight in Chile now is workers lining up every Monday at construction projects in order to underbid each other for the week's work.[18] The accelerated expansion of some industries after 1984 — primarily export industries such as fresh fruit, forestry and fishing — was largely based on hiring large numbers of impoverished workers and their families at low costs on a temporary basis. In the Santiago *población* of La Pintana, women board fruit company buses at 4 am to pick fruit two hours away, one of the rare employment opportunities available to them a few months of the year. Again, workers are paid by the box picked and/or packed, a type of payment which often imposes such a step-up in the pace of work that few workers can sustain it for very long.

Union Busting

Pervasive fears of unemployment and repression were essential elements in implementing a free labour market in Chile. But the junta and its advisers realized that fear alone would not ensure for long the cooperation of workers who were becoming increasingly open in their opposition to the new policies.

The Chilean authorities were also concerned about international pressure. In the United States, the country's main labour federation, AFL-CIO, led a campaign during 1978 and 1979 to boycott Chilean products. While Pinochet grumbled about an international "communist" conspiracy, even multinational corporations (which relished the iron-fisted guarantee of labour peace in Chile) were reluctant to invest in a country which restricted worker organization by force rather than by law.

Thus, in 1979, a small group of businessmen and US-trained economists in the Ministry of Labour hammered out a new code on labour relations within just a few months. The Labour Code allowed employers to fire workers at will, individually or en masse, for "business necessities", eliminating, according to the architects of the code, the "monopoly" many workers had on their jobs. Employers could hire or lay off workers not only during economic recessions, but from one month or season to the next.

The right to organize was extended only to workers employed for at least six consecutive months. Seasonal and temporary workers — an overwhelming majority of workers in agriculture, forestry, construction, many service industries and the informal urban labour market — were and remain excluded. Labourers in these areas can organize only if employers consent. They almost never do.

Permanent workers can form a union if at least 25 workers and 10 per cent of all employees agree,[19] but unions are prohibited during the first year of a business's existence. A single union is forbidden to dominate a particular workplace, so one company will have several unions or a non-unionized majority. According to neo-liberal theory, this maximizes the choices for workers; in practice, it invariably divides the labour force of a particular company between rival unions or, more commonly, between those organized and those not. Benefits negotiated for one group are not automatically extended to other workers. As a result, the size of the average union in 1985 was half what it had been in 1970.[20]

The new Labour Code made striking — or even the threat of a strike — an ineffective bargaining tool for workers, because employers could resort legally to lockouts, hiring strikebreakers and negotiating individually with striking workers.

High unemployment levels strengthened employers' leverage over workers still further. When 300 workers from the Madeco company went on strike in 1983, 7,000 unemployed people responded to the company's call for replacements. The strike quickly failed.[21] Given the labour regulations and the high unemployment levels that characterized Chile throughout the Pinochet years, strikes were at best symbolic and, at worst, suicidal. During 1984-85, fewer than three per cent of collective negotiations resulted in a strike.[22]

Income disparity worsened as a result of these policies. Between 1978 and 1988, the richest 10 per cent of Chileans increased their share of national income from 37 to 47 per cent; the next 30 per cent of middle-income households saw their share shrink from 23 to 18 per cent. The income share of the poorest fifth of the population dropped from five to four per cent.[23] By 1990, five million Chileans, almost half the population, lived in poverty, far more in absolute and relative terms than at any time since 1964.[24] The free market policies may have stimulated growth, but not equity.

Marketing Health

The position of workers and poorer people was further undermined by the imposition of free market policies in healthcare. Back in 1918, Chile began to develop government health insurance for non-military public workers when employees of the publicly-owned railway began receiving free or low-cost medical care. The country continued to be a pioneer of equal access to health services for all.[25]

Access to healthcare is now based on income. Between 1979 and 1985, the government sharply reduced government and employer contributions to healthcare services, passing more and more of the costs on to users through wage and salary withholdings and co-payments.

Seven per cent of the gross pay of every person formally employed is now withheld for healthcare. The employee decides where this deduction goes. Since 1981, one option is into a "plan" or contract offered by an ISAPRE (Instituto de Salud Previsional), a health insurance company modelled on those in the United States. Another is to the public sector's National Fund for Health, FONASA, (Fundacion Nacional de Salud) and a third option is to the public healthcare facilities, the

Healthcare for the Few

The ISAPREs in Chile illustrate what happens when the private sector is given free rein in providing healthcare within the free-market model.

- **The essence of an ISAPRE's profitability is discrimination.** Most of the 30 or so ISAPREs do not themselves operate health services facilities: they sell health insurance, and in the profit-seeking logic of the marketplace, they sell insurance only to those least likely to need it. Most ISAPREs screen out people with certain congenital diseases and pre-existing cancer and those thought to be at high risk of contracting AIDS. They refuse applicants over 60 or 65 years of age or charge them very high premiums; by 1990, only two per cent of ISAPRE subscribers were retired. Psychiatric and dental care are rarely covered. The ultimate safeguard for the ISAPREs is that the annual premium for customers who have used healthcare services over the course of a single year is substantially hiked or the customers are dumped with little prospect of buying coverage from another ISAPRE. ISAPREs initially rejected women of child–bearing age or required women to certify that they were not pregnant when they took out insurance.

- **Government interventions have consistently favoured ISAPREs to the detriment of the public health system and the public purse.** When ISAPREs were authorized legally in 1981, they took off slowly. The government intervened to expand their market. In 1983, it increased mandatory health care withholdings from four per cent of wages and salaries to five per cent, and then to six per cent in 1984 and to seven per cent in 1986. The 1986 Health Law mandated the public system (FONASA) to take on the payment of all medical and maternity leaves and of neo-natal care for those insured under ISAPREs. It was also decreed that FONASA reim–burse wages lost by ISAPRE subscribers due to illness after the tenth day of absence from work and during the 90 days of maternity leave. Since ISAPRE members tend to be distinctly higher earners, it is more expensive to cover their leaves of absence than those of people who are not with an ISAPRE. Yet again, the majority of Chileans, lower middle class and lower income, wind up subsidizing the higher-income minority.

- **ISAPREs are allowed to use public facilities** for emergency cases and major procedures such as heart and brain operations, thereby avoiding costly investments in such facilities.

- **Private medical care insurers, by their very nature, do not invest in preventive health care.**

- **Advertising and sales expenditure have become a major part of the "costs" of privatized medical care.** In 1989, one sixth of ISAPREs' expenditure went on advertising, sales and related administrative expenses. Many ISAPRES spent more than that, some over one third. The most profitable ISAPRE in 1989, Banmedica, spent more than twice the industry average on advertising.

- **It is meaningless to argue that ISAPREs give "more efficient" or even "better" health care than the public system since they have so many more resources.** In 1989, the ISAPRES had 6.5 times more financial resources per person than the public system. ISAPRE clients consume 70 per cent of the total deductions for health care, even though they are less than 15 per cent of the national population. With the public system so run into the ground, most Chileans today would choose to be in the private system (if they could afford to do so).

remnants of the national health service, the SNS (Sistema Nacional de Salud).

According to neo-liberal free market proponents, one advantage of these changes is that they foster the rise of private, for-profit providers of health services which have to compete with each other in the medical marketplace and are thus forced to provide better care and to keep costs down. In addition, less comes out of the public purse for health services, while the elimination of employers' expenditures on health benefits should enable more workers to be hired and Chilean industries to become more competitive in world markets.

But while a greater number of healthcare systems (both public and private) offering an array of options at various prices is now *available* to each person, they are not necessarily *accessible* to that person.[26] The determining factor is not "choice" but one's ability to pay. This is clearly indicated by looking at who takes advantage of which "options". The health insurance companies, the ISAPREs, have captured most of the high-income Chileans while the public system has wound up with all the low-income workers. Almost three-quarters of the ISAPREs' clients are in the top 30 per cent of Chileans by income, while 41 per cent of those in the public system are in the bottom 30 per cent.[27] The average income of an ISAPRE client is about seven times that of the average wage earner in the public system.[28] In 1989, 21 per cent of the users of the public system — over two million people — were too poor to have withholdings or make co-payments.[29]

> ***"No industry can remain competitive based purely on low wages for very long — there will always be a country that can provide cheaper labour."***

A beleaguered public health services system, however, is supposed to attend to the health needs of 70 per cent of Chileans, not to mention 100 per cent of the nation's public health costs (environmental health, sanitation control and occupational safety). It has become grossly under-resourced: the government cut back sharply its contribution to the public system on a per-person basis by 43 per cent between 1974 and 1989.[30] Between 1973 and 1988, the number of employees in the public health system was slashed from 110,000 to 53,000, even though the number of people dependent upon it grew by one million during the same period.[31] The remaining SNS employees have seen their real wages fall while they are assigned greater workloads in deteriorating working conditions.

Investment in equipment and facilities has also been drastically cut. As a percentage of the public system's budget, investment declined from 9.7 per cent in 1974 to 3.3 per cent in 1987.[32] Throughout the 1980s, an average of less than $1 million per year was spent on maintaining and building public health facilities.[33] A doctor at the Central Emergency Hospital admitted:

> "We don't even have enough sheets. We have to tell patients' relatives to bring sheets syringes, medicines. It's embarrassing and it's demoralizing to work now in a public hospital. The patients we see here and their families — they have to sell everything, their furniture, everything, to afford the medicines. Sometimes, it's better not to tell them that, yes, we could do something to cure you or your loved one because you know they won't be able even with the help of relatives and friends to come up with the money for the medicines."

The sharp curtailment in government funding for healthcare together with the flight of higher-income people from the public system have made for inefficiencies. A patient who has to stay in hospital for seven days waiting for an X-ray takes up space and other resources. Excessive waiting periods mean that many patients end up in emergency care, placing their lives in extra jeopardy and using up more resources. One hospital administrator said that an ulcer is not likely to be attended to until it bleeds when it will be treated as an emergency at a greater financial cost. Between 1974 and 1987, the greatest increase of all categories of medical treatments was in "emergencies", accounting for 40 per cent of the total.[34]

The net impact of healthcare privatization has been to shift most of the cost of health services on to the consumers. In 1989, over 81 per cent of all health expenditure in Chile came from the wallets of consumers themselves (up from 19 per cent in 1974). The government contributed only 17 per cent (down from over 61 per cent in 1974). Employers contribute only 1.6 per cent at most — by and large voluntarily at that; yet in 1974, their mandatory contributions had amounted to over 19 per cent of total health expenditure.

This shift does not fall evenly on all Chileans. Middle-class and poorer Chileans have seen dramatic increases in what they must pay for health insurance and services. Many higher-income Chileans are likely to be paying less; those 15 per cent of Chileans with higher incomes who are with ISAPREs contribute not a peso to the public system. By the late 1980s, the government was paying for only 38 per cent of the public system's budget. It is the comparatively low wage earners in the public system — mostly hard-pressed lower middle-class Chileans — who subsidize heavily the healthcare of over two million poorer Chileans. In the words of Dr Raul Donckaster of the Medical Association, "Son los pobres que ayudan a los mas miserables" — It's the poor who help the poorest.

The Privatization of Social Security

The privatization of the national social security system was the last and perhaps the crowning achievement of the seven "modernizations", as the Chicago Boys referred to their free market reforms.

Social security in Chile had its origins in the 1920s when the Congress, pressured by the growing organization of industrial and mining workers and under siege from a reform-minded military, established three government-backed mandatory programmes called *Cajas de Prevision* ("Foresight Chests") — one for industrial workers, another for public employees and the third for office employees.[35]

These *cajas* were designed for workers who earned less than a certain income on the assumption that the risk of disabilities and unprotected old age was greater among those on low wages. By 1973, over 75 per cent of working Chileans were in the various social security systems. Many blue and white collar workers of different political views felt strongly about the solidarity implicit in the *cajas*. Obligations were shared by workers, employers and the government, and each group had its representatives among the directors of a *caja*. Although benefits were linked to salary levels, redistribution occurred from higher to lower paid employees, since low-income workers often received more in pensions than they had paid in, and from one generation to the next, since withholdings from active workers helped pay for the pensions of retirees. Workers received small wage supplements according to the number of their children, and women could retire with fewer years of payments into the system, an acknowledgement of the value to society of their unremunerated work of raising children.[36] The *cajas* had hospitals and recreational centres serving all employers equally, and accumulated pension funds were invested in low-interest housing loans for affiliates.

According to the Chicago Boys, the government-operated social security system needed to be replaced with privately-owned investment companies because the *cajas* discriminated through their diversity of benefits and retirement requirements; because many *cajas* experienced deficits and considerable payment evasions; and because they were administratively inefficient. By 1980, however, many of these problems had been eliminated by various reforms proposed before 1973 but enacted after General Pinochet came to power.[37]

In 1980, however, private pension fund companies, AFPs, (Administradoras de Fondos de Pensiones) were set up as a mandatory replacement for the government social security system. Formed solely to manage retirement funds, AFPs compete for employee retirement withholdings which are held in individual accounts and invested in stocks and bonds approved by a government commission. When an employee retires, she or he can choose either a programmed withdrawal of accumulated funds or an exchange of the balance of accumulated funds for an annuity from an insurance company.

The switch to AFPs reversed 50 years of a steady increase in the percentage of Chileans covered by social security. In 1991, the proportion of the labour force not covered by a pension scheme was 35 per cent, compared to 25 per cent not covered by the *cajas* in the early 1970s.[38] Almost half of the almost three million AFP affiliates are not up-to-date with their payments and are therefore ineligible for most benefits.[39]

This drop in coverage is partly related to the changing structure of work in Chile; a greater proportion of the workforce is now engaged in informal work or seasonal labour or is self-employed, all activities which easily fall through the cracks of protective coverage. Those with an AFP must have at least 20 years of regular payments to qualify for the minimum retirement pension, a requirement which excludes large numbers of workers, particularly women, who make up much of the informal and seasonal labour force. The workers left out are often those most in need of protection against old-age impoverishment. Although the government does provide public assistance to retirees who do not qualify for the minimum pension, in 1992, this was less than half the minimum pension, and by law could be given to only 300,000 people a year.[40]

Julio Etchart/Reportage

A fishmeal plant at Talcahuano in southern Chile. The country experienced a spectacular growth in fish exports as a result of free market policies. The total catch in 1971 was 1.5 million tonnes; by 1989, it had risen to almost 6.5 million tonnes, pushing Chile to fourth in the world in terms of catch — and pushing the country's marine resources to the brink of irreversible depletion. The majority of the catch went for fishmeal, an industry based in the Northern industrialized countries and fueled by the worldwide demand for animal feed. After the sardine catch, the basis of the fishmeal boom, declined preciptiously from 1985 onwards, the industry turned to saurel, stocks of which have now begun to fall.

Popular Capitalism Again?

Free market advocates refer to the private pension funds as the "indirect" arm of "people's capitalism," propelling privatizations and leading to a democratization of ownership in industry.[41] Again, the reality is otherwise.

AFPs invest their funds in a variety of financial instruments approved by a government commission. After 1985, AFPs were allowed to invest in public companies being privatized, and by 1989, they had acquired a 32 per cent share of them. Defenders of AFPs and privatization claim that the 2.9 million Chileans who pay into AFPs are in effect owners of the privatized corporations. But Chileans who pay into their retirement accounts have no say as to how their funds are spent.

With the severe recession of 1982-1984, four of the largest AFPs failed and passed into government control. When they were resold, many controlling shares were bought by US financial consortia. A Bankers' Trust holding group, for instance, (which includes three other international banks holding Chilean debt) owns a 40 per cent controlling interest in the largest AFP, Provida. The US company, Aetna, controls 51 per cent of the next largest AFP, Santa Maria, while the American International Group controls 99.96 per cent of the AFP Union. These three foreign companies together control 65 per cent of all AFP stock and 55 per cent of the retirement funds of Chileans.[42]

There are many interlocking interests among these companies. Bankers' Trust, for instance, also owns 98.5 per cent of the huge National Insurance consortium, which sells workers' compensation insurance to its own

Tree Market Policies

Chile's free market policies have had dire consequences for the environment, particularly for the country's forests. The neo-liberals' stated goals were to curtail sharply the direct role of government in forestry and to let market mechanisms determine prices and direct the use of resources. Yet government intervention and subsidies were in fact central to reorienting the benefits of forestry production away from the rural population towards a handful of national and foreign companies.

New policies directly or indirectly translated into government interventions on behalf of Chile's largest economic conglomerates, some of which, such as Matte, already had significant investments in forestry while others used government concessions to create new forestry empires, Vial and Angelini, for instance. All restrictions on size and ownership of land holdings were lifted.

Part of the forestry land expropriated under agrarian reform initiated by the Allende government (around 7.5 million acres) was handed back to the original owners and the rest sold or auctioned off to interested buyers. The government sold off its own considerable forestry land holdings as well as its share of the trees planted under earlier pacts, often to third parties instead of to the original partner.

The large conglomerates picked up valuable assets for low sums. Ordinary farmers were not allowed to purchase land they were living on if they had any outstanding debts to the government. Most did, thanks to a combination of Allende's pro-smallholder policy of generous loans and the deep post-coup recession. At the same time, new smallholder beneficiaries of agrarian reform, often indebted and without access to further credit or inputs, were soon forced to sell their plots.

The government also sold off its interests in the principal forestry processing plants in the country. Like the privatizations in other areas of the economy, these companies were sold at a discount, according to one estimate at least 20 per cent below their value. They ended up, together with privatized forestry land, in the hands of a few large conglomerates.

Exports of forestry products were permitted in any form: trees could be cut and shipped out as logs, with no processing into higher-value products such as lumber, pulp, paper or furniture. In 1988, the volume of tree trunks exported from Chile was three times that of lumber, although a cubic metre of trunks fetches barely a third as much as that of lumber.

To encourage new plantings, the government forestry agency, CONAF (Corporacion Nacional Forestal) reimbursed 75 per cent (later 90 per cent) of the estimated costs of planting after one year, with additional reimbursements for the costs of pruning and maintaining plantations. Between 1974 and 1990, total subsidies for planting exceeded \$88 million. In 1988, 48 per cent of the area remibursed for planting was owned by the ten largest forestry companies in Chile. A single company, Arauco-Constitucion (part of the Chilean Angelini conglomerate) owned 18 per cent of the land planted with government subsidies. No other agricultural sector, not even the table grape industry, receives such regular subsidies. This has attracted much national and foreign investment.

To ensure a constant supply of quality trees, pulp and lumber businesses have progressively acquired land and plantations near their industrial complexes and as a result do not depend on buying trees from small landowners. Empires have been carved out of once public lands and by buying out smaller owners. The Matte and the Angelini conglomerates (the latter in alliance with New Zealand multinational Carter Holt Harvey) together own over 40 per cent of the area in tree plantations. Another seven foreign-based conglomerates (including Shell, Saudi Arabian group Bin Mahfouz, and Marubeni of Japan) own another nine per cent of the area in plantations. In wood processing, Matte and Angelini together control 63 per cent of the industry; the top 10 companies combined control a total of 80 per cent. In the leading forestry region of Concepcion, Matte and Angelini control more than 70 per cent of all forestry-related activities. Since the wood chip boom began in 1987, Japanese companies have entered the field, purchasing large tracts of native forests and planning wood chip factories. These processes have expelled countless people from rural areas. With no access to credit and often greater planting costs, small property owners have found it difficult to combine forestry with farming and other activities. Moreover, many cannot maintain their farms, since the surrounding plantations often diminish groundwater supplies and spray pesticides which poison nearby livestock.

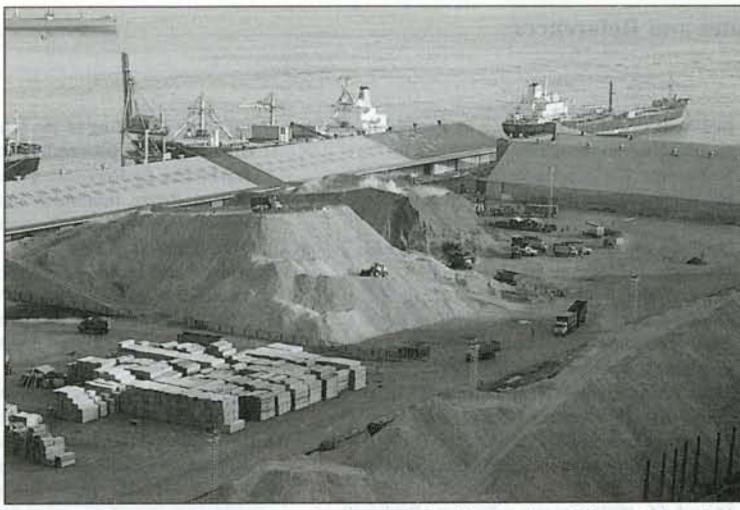
Although Chilean law prohibits clearcutting of native forests, forestry companies regularly get around this ban by declaring a property to be brush or "severely degraded" forest. They then clearcut or burn in order to replant pine. The severe reduction in staff at CONAF has made enforcement in the expanding forestry industry almost impossible.

The destruction of native forests of great ecological diversity has left various plant species close to extinction. Burning and clearcutting the forests destroys the habitat of a variety of indigenous animals and birds and gives rise to deep erosion. The replacement of native forests by continuous stretches of single-species plantations has caused further ecological damage only now becoming evident — including a pronounced drying-up of waterways and ground moisture, undermining the well-being of nearby farmers and the local population.

Monocultural plantations are particularly vulnerable to plant diseases and rodents whose natural predators have disappeared. Plant–ation owners live in a constant fear of exotic diseases, and of rabbits and moths that could wipe out their pine trees. In their battle against diseases and pests, they resort to importing pesticides and chemicals that are prohibited in their country of manufacture, such as Agent Orange and 1080 poison. Through the food chain, the chemicals are passed on to other animals including humans. Paper pulp plants dump untreated chemical wastes directly into rivers and bays. Air pollution in mill towns like Constitucion often reaches dangerous levels. In free market Chile, there are virtually no penalties for such environmental destruction. The costs are paid for by society at large.

AFP as well as to several other AFPs. This allows Bankers' Trust to capture a larger share of the insurance and administrative costs deducted from workers' pay. At the same time, Bankers' Trust effectively determines investment decisions for the Provida funds, which can be funnelled to the 13 privatized corporations in which Bankers' Trust has a stake, whether they are the most prudent investment or not. Other economic groups have woven similarly complex webs. There are no government restrictions on such obvious conflicts of interest.[43]

As the lucrative investment opportunities provided by privatizations come to an end, the international companies that control the AFPs have been pushing for government permission to invest AFP funds in foreign stock markets, arguing that this will provide Chilean workers with the highest rate of return on their pension funds. The lure is powerful, but many Chileans consider this an outrageous suggestion, given the need for productive investment within Chile and in social areas such as housing.


Julio Etchart/Reportage

Mountains of woodchips being loaded from San Vicente harbour for export to Asia and Europe where they are converted into paper products, primarily computer paper. Wood chip factories — dubbed "high tech termites" — require minimal industrial infrastructure to turn trees into chips.

Natural Resources

In addition to marginalizing people, free market Chile has plundered its rich forestry and fishery resources. Sell-offs of public lands and infrastructure concentrated natural resources still further in the hands of wealthy national and foreign interests. Contrary to its rhetoric, the government handed out subsidies to encourage tree planting; but its distribution of them through the market rather than targeting beneficiaries resulted in the subsidies going mostly to forestry conglomerates who were able to concentrate ownership of forest lands still further (*See* Box, p.164). The growth of the wood chip industry and government subsidies for planting non-native pine and eucalyptus trees have led to the levelling of native forests.

The pattern has been similar in fishing. While tens of thousands of small fishermen have seen their livelihoods threatened, a single conglomerate now accounts for over 70 per cent of fishmeal production, the country's largest fish export. A handful of foreign-owned factory trawlers account for half of the hake catch, the second most important fish export. Unrestricted access to fish and boom-and-bust cycles have exhausted one fish species after another; by 1990, over 60 per cent of the resource base of the fishing sector was serious degraded.

Years of free market style "boom" in these industries have reinforced a pattern characteristic of underdeveloped economies: in 1990, more than 90 per cent of Chilean exports were based on the exploitation (in most cases overexploitation) of natural resources with only limited generation of employment and ties to other industries. Such shallow growth produces figures which look good in the short-term, but does not lay the groundwork for more significant development in the longer term.

Change and Continuity

Chile's free market policies have concentrated economic wealth, income and control. They have made the country's economy more, not less, vulnerable to economic difficulties and market whims and vagaries in Japan, North American and Western Europe. While espousing a "hands off" policy, the government has repeatedly intervened in the marketplace, invariably supporting big business interests.

Throughout Pinochet's dictatorship, social movements including organized labour and women's movements struggled for democracy. From the mid-1980s onwards, national protests increased, eventually leading to negotiations for a plebiscite which took place in 1988. General Pinochet lost the vote for people's confidence in his policies. The presidential election held a year later was won by Patricio Aylwin, a Christian Democrat supported by the Centre and the Left who gained 55.2 per cent of the vote compared to 29.4 per cent for Hernan Büchi, Pinochet's hand-picked successor. On 11 March 1990, the dictatorship finally gave way as the Concertación — the coalition of political parties that had led the campaign against Pinochet in the 1988 plebiscite — became Chile's new ruling government.[44]

The new government acknowledged the "social debt" to those Chileans who had yet to benefit from the economic "miracle", declaring that many of the "miracles" were in fact "problems". The Concertación actively intervened to reduce poverty by raising the minimum wage and other social policies. As a result, UN statistics show that the number of Chilean households in poverty dropped from 35 per cent in 1990 to 33.5 per cent in 1992.[45] Yet the Chilean economy has continued to reproduce inequality and to focus on market-led export growth. As Chilean economist Alvaro Díaz points out:

> "In spite of the increase in the real incomes of workers and of the poorest 40 per cent of the population, there has been no significant change in the distribution of national and personal income. The share of national income attributable to wages in fact fell between 1990-92 and the richest 10 per cent of all Chileans continue to receive around 45 per cent of the total."[46]

The authors' book, *Chile's Free-Market Miracle: A Second Look*, is available from Subterranean Books, PO Box 160, Monroe, Oregon 97456, USA, Tel: +1 (541) 847 5274; Fax: +1 (541) 847 6018, $15.95 plus $2.50 postage & packing within US, $3.00 outside.

1. First sentence is from a speech by President George Bush to the Chilean Congress in Valparaiso, Chile, 6 December 1990. The other two sentences are from his speech at a state dinner in Santiago that evening.
2. Quoted by David L. Marcus, *Miami Herald International Edition*, 10 May 1992.
3. See Lomnitz, L. and Melnick, A., *Chile's Middle Class: A Struggle for Survival in the Face of Neoliberalism*, Lynne Reinner Publishers, Boulder Colorado, 1991.
4. "NAFTA's progress: Next stop south", *The Economist*, 25 February 1995, p.59.
5. *Memoria Corfo* 1987.
6. Bitar, S., *Chile para todos*, Planeta, Santiago, 1988, p.77.
7. Marcel, M., "Privatizacion y Finanzas Publicas", Coleccion Estudios Cieplan, 26, 1989, p.41; Gustavo Marin, "Privatizaciones en Chile: de la Normalizacion de 'Area Rara' a la Ley del Estado Empresario", Documento de Trabajo #24, Pries-Cono Sur, Santiago, 1989, p.19.
8. Authors' interview with a CORFO official, Santiago, December 1990. During the Pinochet regime, CORFO officials were not permitted to use the word "losses" in their annual reports in relation to privatizations, referring instead to "negative results". See CORFO, *Memorias*, 1985-1989. In the case of the publicly-owned copper company, CODELCO, however, the military government pursued self-interest over ideology. As the Constitution introduced by Pinochet provided for 10 per cent of CODELCO's gross revenues to go to the armed forces, the company remained in public hands. Copper has long been one of Chile's main exports; in the 1960s, it was 80 per cent of exports by value. The mines had been by and large owned by US companies such as Kennecott and Anaconda until the copper industry was nationalized by the Allende administration in July 1971, creating CODELCO. Private foreign investment in copper mining increased dramatically in the 1980s, so that the roll-call of foreign companies operating in Chile is a Who's Who of the mining world. By the early 1990s, over half of copper output was again in private hands. By the year 2000, Chilean mines are expected to account for an estimated 42 per cent of world copper production outside the former Soviet bloc.
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13. Authors' interview with Raul Saéz, Santiago, January 1991.
14. Figures from a 1975 survey of 16 Chilean organization attending a meeting of the International Labour Organization in Switzerland, cited in Delao and Traslaviña, *La Herencia*, p.76.
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16. Winn, P. and Ibañez, M.A., "Textile Entrepreneurs and Workers in Pinochet's Chile, 1973-1989", Institute of Latin Amereican and Iberian Studies, Columbia University, New York, 1989, p.4.
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Neither Market Nor State

The Development Debate in South-East Asia

Walden Bello

Fast-track capitalism has brought huge growth rates for the newly-industrialized countries of East and South-East Asia. But the assertion that such rapid growth is due to free trade and free market policies is a myth. The explanation lies in a combination of protection, state intervention and a massive infusion of Japanese capital following the relocation of Japanese companies to South-East Asia in their search for cheap labour. As a result, the region's economies are now subordinate to, and dependent on, Japan.

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The explosive economic growth in the Asia-Pacific region over the last few years continues to fixate the attention of economic policy makers, corporate leaders and academic thinkers throughout the world. For the US economic and political establishment, East Asia has moved from being a partner in the Cold War to a serious economic rival. In Europe, government and corporate circles worry about the contrast between their own lacklustre economic performance — now termed "Eurosclerosis" — and East Asian dynamism. In the South, many countries have already replaced socialism with "Asian capitalism", while those which are beginning to move away from centralized socialism are assured by World Bank economists that the formula of NIC (Newly-Industrialized Country) capitalism will transform them into growing, dynamic economies.

Within East Asia itself, "fast track capitalism" has been accompanied by a regionwide consensus among government technocrats, private interests and establishment intellectuals that:

- much of East and South-East Asia has left or is leaving the Third World;
- high-speed growth will mark the region far into the twenty-first century; and
- East Asia will increasingly "drive" the world economy as the US and European economies continue to be marked by weak or low growth.

But there is also is intense debate about the causes of this high-speed growth and the policies which will sustain it, as well as criticism of the growth's impact and direction.

The Free Market Explanation

Within establishment circles, two competing schools have emerged to explain the "East Asian Miracle." One sees Asian economic growth as the flowering of free market policies; the other attributes it to a combination of neo-mercantilism, protectionism and government activism that could be termed "state-assisted capitalism."

The free market model of East Asian development is espoused by economists connected with the World Bank, International Monetary Fund (IMF) and the "Eminent Persons' Group" identified with the Asia-Pacific Economic Cooperation (APEC) initiative. In their view, the market has been the central mechanism of rapid growth in Japan and the NICs; freeing market forces still further from government controls is the key to more dynamic growth.

This free market, free trade approach is institutionalized in World Bank and IMF Structural Adjustment Programmes (SAPs) which promote radical deregulation, sweeping privatization, trade and investment liberalization, export-oriented trade and investment strategies, containment of wages and cuts in government expenditures. Supposedly inspired by the East Asian experience, SAPs have been introduced over the last decade to Sub-Saharan Africa, North Africa, Latin America and South Asia.

State-Assisted Capitalism

Critics, however, maintain that hardly any of the countries in the region achieved "NIChood" by following the free market formula (except possibly Hong Kong and Singapore which are really dependent urban economies masquerading as national economies). Instead, they claim that state intervention in the NICs, particularly South Korea and Taiwan, has been the central factor in the take-off of these economies. Strategies pursued included:

- strategic economic planning managed by government, exemplified by 5- to 10-year plans;
- government targeting of specific industries for development and generous subsidies to private enterprises to support these industries;
- planning the move from the development of consumer goods industries to intermediate goods and capital goods enterprises so as to build strategic economic depth;
- reserving the domestic market for local entrepreneurs by maintaining tight restrictions on imports and foreign investments;
- limiting the entry of foreign imports into the domestic market while aggressively winning and dominating export markets, resulting in a growing trade surplus; and
- bold, Keynesian-style manipulation of macroeconomic mechanisms such as deficit spending, loose credit policies, massive foreign borrowing, and strict undervaluation of the currency relative to hard currencies in order to keep exports competitive in world markets.

While the mix and choice of these policies differed from country to country — Taiwan for instance, did not engage in massive foreign borrowing but relied on its massive dollar reserves built up from exports — the main thrust of economic policy in all the key NICs (South Korea, Taiwan, Indonesia, Malaysia and Thailand) was government leadership of the economic process via active, interventionist policies which disciplined the private sector and controlled the market. As economist Alice Amsden wrote in her classic study of Korean industrialization, "not only has Korea not gotten relative prices right, it has deliberately gotten them wrong."[1]

> *"Active, interventionist government policies in the NICs discipline the private sector and control the market."*

Market mechanisms did operate, but were deliberately distorted and inefficiency tolerated in the short-term. For instance, South Korean technocrats did not follow the free-market principle of consumer sovereignty — "Give the consumer the best product at the lowest price" — as they sought to strengthen the country's national economic sovereignty. Instead, the price of Korean-made computers in the domestic market, for example, was three to four times that in export markets so that local conglomerates and monopolies could recoup the losses they incurred in competing with the Japanese abroad.

And in contrast to the neo-classical dictum that macroeconomic stability is a key condition of growth, proponents of state-assisted capitalism see imbalance as a necessary feature of development. The heavy and chemical industry drive in South Korea in the 1970s, for instance, provoked short-term dislocations and triggered inflation, but also laid the basis for South Korea's push to export capital-intensive, high-tech products such as microchips and cars in the 1980s.[2]

There is perhaps no greater testimony to the profoundly anti-liberal and closed character of South Korea, regarded by many as the most successful NIC, than US Trade Representative Mickey Kantor's description of Korea of "one of the toughest markets in the world" for US exporters, as well as a "particularly difficult market in which to invest."[3]

It is untrue — or at least an exaggeration — to assert that the high rates of economic growth over the past decade in the "near NICs" — Thailand, Malaysia and Indonesia — are due to these countries' adoption of liberal economic policies.

South-East Asian Growth

Asserting that the rapid growth of the North-East and South-East Asian NICs is due to free trade and free market policies is, in fact, a myth drawn up in the recesses of 1818 H St NW, Washington DC — the World Bank's headquarters. The truth behind this economic success is found a couple of streets away at the junction of 17th St and Pennsylvania Avenue NW at the US Trade Representative's Office, which regularly attacks these economies as being among the most closed in the world, among the most difficult for foreign investors, and among the most pervaded by state intervention.

Protectionist and interventionist policies were not a barrier to rapid growth, but may, in fact, have contributed to growth in Korea, Taiwan, Malaysia, Thailand and Indonesia. In the successful NICs, short-term efficiency in production was subordinated to the longer-term goal of building up strategic industrial capacity, that is, to developing "dynamic" rather than "static" comparative advantages in selected capital- and technology-intensive industries in order to make their countries less subject to the vagaries of world trade and investment flows.

Thailand

Of all the large economies of South-East Asia, Thailand is the closest to a market-dominated economy. But while key sections of the Thai economy are export-oriented (for instance, processed foods, particularly fish and fruit, electronics and textiles), the economy as a whole is not the open and export-oriented one so beloved of proponents of structural adjustment and liberalization. In a recent study, the World Bank itself points out that:

> "The tariff structure in Thailand has tended to give higher nominal protection to finished goods than to inputs. The 1974-80 period was characterized by high and variable nominal rates of protection, increased use of non-tariff barriers, price controls and domestic content requirements. In the 1980s, several changes were introduced into the tariff regime, including the introduction of special taxes and surcharges. These changes were introduced primarily because of revenue considerations and have left the protection structure practically intact. The only significant reforms are the setting of the maximum tariff at 60 per cent and the reduction of the dispersion of effective interest rates.[4]

But these latter reforms have had little impact in reorienting the economy, says the report — although Thailand supposedly underwent World Bank-guided structural adjustment in the mid-1980s. "Hence", concludes the Bank, "Thailand's trade regime remains basically inward-oriented and has not been adequately reformed to ensure greater competitiveness by domestic industry nor to reduce the built-in, anti-export bias."[5]

Thailand's trade policy, in fact, became more protectionist in the mid- and late-1980s as Thai technocrats sought to move the country onto a second stage of import substitution.[6] In the auto industry, for instance, domestic content regulations were intensified so that engines for locally-assembled pick-up trucks and motorcycles had themselves to be assembled in the country after 1989.[7]

Yet this period was precisely when Thailand began to record such dazzling economic growth rates of 8-12 per cent per year that the World Bank's negative comments about the country's protectionist trade regime seemed to be simply doctrinaire quibbling. Multinationals could take advantage of the country's protected domestic market only by placing their production facilities firmly in Thailand; the resulting inflow of foreign investment, encouraged by the protectionism, helped trigger the high rates of growth.

Malaysia

In Thailand's southern neighbour, Malaysia, there was some privatization and deregulation which favoured private interests in the late 1980s. But as of 1990, only 100 of Malaysia's 800 state firms, set up to lead the heavy industry drive in the late 1970s and early 1980s, had been sold to private interests.[8]

The most successful Malaysian enterprise of the last decade was between a state firm and a Japanese automobile firm of the multinational Mitsubishi group. They formed a state-directed joint venture, the Proton Corporation, to produce the Proton Saga. The company's development exemplified all the "sins" of state intervention.[9] Discriminatory treatment was one: the Saga car was exempt from various taxes while tariffs were hiked for other cars assembled in Malaysia. By the mid-1980s, the Saga cost about M$4,000 less than its competitors. Another transgression was strategic industrial targeting:


Mark Edwards/Still Pictures

A textile factory in Indonesia

the company aimed to produce a car with some 4,000 to 5,000 components so that the Saga would provide extensive backward and forward linkages for the rest of the national economy. A third offence was the compulsory local sourcing of components to encourage the growth of local supplier industries, a practice also adopted by Thailand and recently banned under the World Trade Organization. The Proton Saga has now captured two-thirds of the domestic car market and the joint venture maintains a profit.

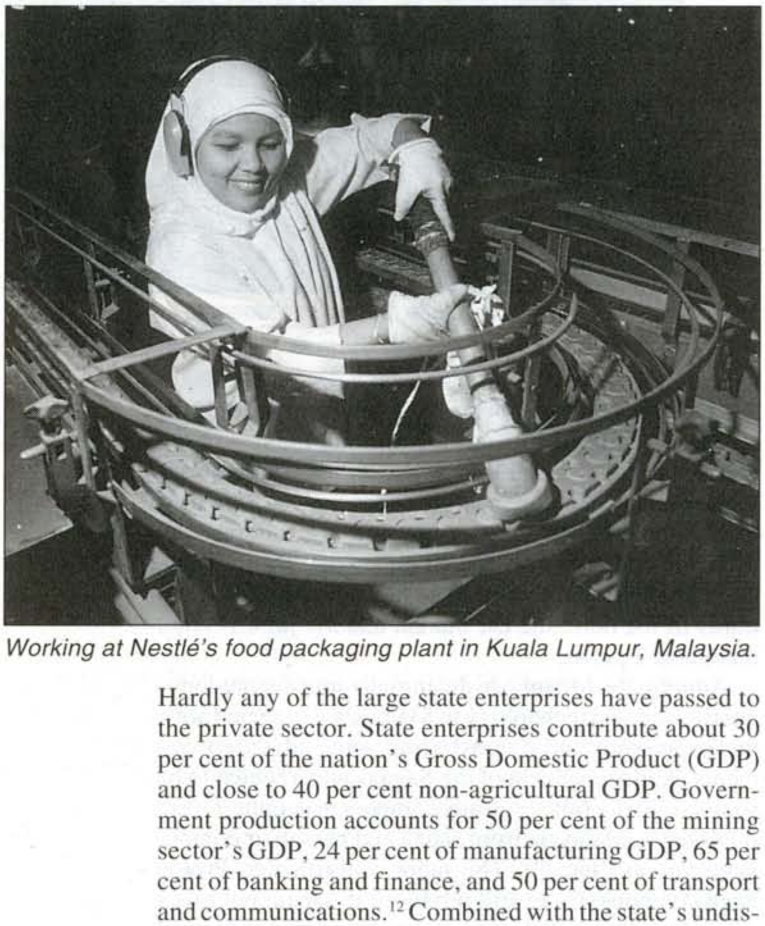
Admittedly, Mitsubishi did initially transfer predominantly outdated technology to Malaysia, but seems now, under pressure, to be transferring some advanced elements. And 80 per cent of the Saga is now reputed to be sourced locally (although any component suppliers have migrated to Malaysia from Japan and pass their components off as "local"). The more sophisticated Proton Saga components are still produced in Japan, but many accessories like headlamps, alternators, tyres and wheel rims are now produced by local assemblers, and the Proton Corporation has reportedly moved towards local production of some engine and transmission parts.[10]

Indonesia

As with Thailand and Malaysia, Indonesia's 6-8 per cent growth rates over the last decade are said to be due to economic liberalization. But while some liberalization has indeed taken place — for instance, the devaluation of the currency, cuts in subsidies for basic food items and fuel, more liberal rules for foreign investors, some reduction in tariffs, elimination of some quantitative import restrictions and some banking deregulation — these moves have been limited.

Effective protection rates for many key industries (petrochemicals, mining, oil and gas, pulp and paper, agriculture) remain high. Foreign investment is encouraged but subject to many restrictions; strategic sectors (telecommunications, civil aviation, nuclear power, electricity and seaports) are still closed to 100 per cent foreign ownership; the minimum foreign investment is $250,000; and wholly foreign-owned ventures must divest themselves of a certain share of ownership after 15 years in favour of local capital. Despite some reforms enacted in 1994, the US Trade Representative's Office complains that:

> "national treatment [ie. equal rights with local investors] is still generally not granted to majority foreign-held enterprises, and the government imposes performance requirements on some foreign producers . . . In practice . . . investment applications, even in meeting all legal requirements, can be delayed or not approved with little or no explanation."[11]


Mark Edwards/Still Pictures

Working at Nestlé's food packaging plant in Kuala Lumpur, Malaysia.

Hardly any of the large state enterprises have passed to the private sector. State enterprises contribute about 30 per cent of the nation's Gross Domestic Product (GDP) and close to 40 per cent non-agricultural GDP. Government production accounts for 50 per cent of the mining sector's GDP, 24 per cent of manufacturing GDP, 65 per cent of banking and finance, and 50 per cent of transport and communications.[12] Combined with the state's undisputed control of macroeconomic policy (there is no organized countervailing power from the private sector) and the massive aid resources coming in,[13] the state continues to be a critical driving force of the Indonesian economy.

Indeed, there has been a resurgence in the last few years of regulation in finance and industry and a continued concentration of resources on the development of strategic capital intensive industrial projects. These include the Palapa nationwide telecommunications system, which has two orbiting satellites and 50 earth stations, the Krakatau Integrated Steel complex, a floating fertilizer plant, and a shipbuilding complex which produces a range of vessels from hydrofoil patrol boats to oil tankers. The World Bank has been critical of these ventures, just as it was of South Korea's POSCO Steel Plant, now one of the most efficient plants in the world, and Malaysia's Proton Saga.

Clearly, state-oriented economic nationalism continues to be a strong force within the Indonesian government. It is a misconception to think that because President Suharto's government came to power 30 years ago with an anti-communist agenda that it has also been free-market oriented. Instead, free marketeers and protectionist nationalists have been equally ensconced in government and have vied for influence over the last few decades.

The economic nationalists who aim to create a heavy industrial nucleus via import substitution around which to build the economy are believed to have the upper hand at present. The most prominent representative of this statist and protectionist current is Technology Minister B. J. Habibie, whose pet industry is the IPTN aircraft corporation. This recently launched Indonesia's first domestically-produced aircraft, the N-250, a 70-seat medium-range turboprop whose test flight impressed even Western sceptics.[14] Europe's Airbus company and the US Boeing corporation, however, are not likely to be pleased because the next aeroplane, the N-2130, is a jet aircraft which will compete for the lucrative Asian airline business. The statement of US economist Robert Wade seems to hold true in the case of Indonesia:

> "There is reason to worry whether the World Bank's refusal to countenance selective industrial policies for industries with high entry barriers reflects an underlying unwillingness to help developing countries enter industries that are already well established in the West, especially when Western plants have excess capacity . . . Given the governance structure of the World Bank, it is not difficult to understand why."[15]

This is not to say that the nationalist protectionist lobby is without its problems. Corruption often accompanies it, as Suharto's children and cronies advance self-serving projects under the guise of building up national industry. In early 1996, for instance, President Suharto's youngest son was granted preferential tax breaks to manufacture a cheap national car, a move which upset Toyota, the manufacturer of Indonesia's most popular current model, the Kijang.

Structurally Adjusted Decline

The experience of the North-East Asian NICs (South Korea, Taiwan) and the South-East Asian ones (Thailand, Malaysia, Indonesia) contrasts with that of the Philippines, which until recently was known as the "sick man of Asia". It is Asia's most structurally-adjusted economy, having received over 15 IMF and World Bank loans supporting structural adjustment since 1980.

During the first phase of adjustment in the early 1980s, a major tariff reform and liberalization programme brought down the average rate of protection for agricultural and manufacturing products by a third or more.[16] Liberalization also required import restrictions to be lifted on some 3,000 items over a six-year period. Approximately two-thirds of these changes were made before the combination of economic and political crises (particularly surrounding the ousting of dictator Ferdinand Marcos) in the mid-1980s forced the trade liberalization programme to be suspended.[17]

The second phase of structural adjustment in the mid-1980s consisted of severe cuts in government expenditure, currency devaluation, and the institutionalization of the payment of $26 billion foreign debt as the priority of national economic policy. In this phase, the IMF and the World Bank made emergency structural adjustment and stabilization loans in exchange for the government implementing draconian measures. The government immediately used these loans as interest payments on commercial loans.

All these measures, combined with a global economic downturn during the mid-1980s triggered a decade-long economic recession in the Philippines from which the country only emerged in 1994, and weakly at that. Adjustment in the Philippines exhibited very similar dynamics to those in SAPped countries in Africa and Latin America. The country became stuck in a trap: low investment, increased unemployment, reduced social spending, reduced consumption and low output interacted to create a cycle of stagnation and decline, rather than one of growth, rising employment and rising investment, as envisaged by World Bank theory. To borrow the words of economist Rudiger Dornbusch, the economy fell "into a hole".[18]

Mike Schroder/Still Pictures

Rapid economic growth in South-East Asia has had negative environmental and social impacts. Thailand's capital, Bangkok, for instance, has come to such a standstill that planners are considering setting up a new politico-administrative capital outside the Bangkok metropolitan area. Air and water pollution are extensive. The lower reaches of the Chao Phraya river, which flows through Bangkok, are now "biologically dead" while the Gulf of Thailand is believed to be in a state of irreversible crisis. Government planners are seeking to decentralize pollution by decentralizing industry. The rundown of Thailand's natural capital as a result of rapid economic growth has led to "resource imperialism"; Thai entrepreneurs, for instance, lead the plunder of timber resources in Burma, Laos and Cambodia. The gap in average income between rural and urban people in Thailand widens each year. While Bangkok prospers, the Northeast of the country stagnates, with a significant part of the latter's population converted into cheap labour for the industrial sector based in the capital region. Many Northeastern villages are now largely made up of grandchildren and grandparents, sustained by remittances from a middle generation that is, for all intents and purposes, resident in Bangkok.

The impact of the recession on Philippine society and the environment was severe. By the late 1980s, some 70 per cent of the population was estimated to be living below the poverty line. According to a World Resources Institute study, structural adjustment:

> "created so much unemployment that migration patterns changed drastically. The large migration flows to Manila [the capital] declined and most migrants could turn only to open access forests, watersheds, and artisanal fisheries. Thus the major environmental effect of the economic crisis was overexploitation of these vulnerable resources."[19]

Despite these negative impacts, the Philippines initiated another third phase of adjustment and liberalization in the early 1990s. The centrepiece of this was the reduction of tariffs to an upper limit of five per cent and the elimination of all quantitative restrictions, measures which were synchronized by Philippine authorities with the country's tariff reduction commitments under GATT, the Asia-Pacific Economic Cooperation (APEC), and the ASEAN Free Trade Area (AFTA). This liberalization has been part of a wider programme of free-market reforms which include deregulation, a foreign investment law that eases most restrictions on foreign capital's freedom of movement, and sweeping privatization during which the most valuable government-owned land and most profitable government-run firms, like the Petron Oil company, have been sold off.

Although liberalization and structural adjustment policies contributed to such prolonged economic stagnation, Filipino technocrats — who are probably the most doctrinaire free-marketeers in South-East Asia — still regard liberalization as the cause of their neighbours' high growth rates and consider its radical replication in the Philippines as the key to achieving NICdom by the year 2000.

Japanese Investment

The explanation for the growth of the South-East Asian economies in the last decade lies not with internal free-market reforms, but with largely unexpected capital inflows from foreign investors who were not deterred by restrictive investment policies and protectionist trade regimes. Whereas the Philippines, which has liberalized its foreign investment code several times, attracted only $1.1 billion during 1988-1993,[20] the Japanese pushed $2.1 billion into Korea, $2.2 billion into Taiwan, $6.0 billion in Indonesia, $4.2 billion into Malaysia and $5.3 billion into Thailand during the same period.[21]

This massive infusion of Japanese capital was sparked not by the attractive investment conditions in these countries, but by the 1985 Plaza Accord between the US

Liberalization for Philippine Agriculture

Subsidies for the United States

Since the mid-1980s, agriculture in the Philippines has been opened to foreign competition under successive liberalization programmes.

In 1987, as part of the country's structural adjustment programme, the government opened trade in wheat to the private sector and began to reduce import restrictions which are now negligible. As a result, imports of wheat have doubled to over two million tonnes.

Quantitative restrictions on rice and maize imports were reduced after 1989, leading to a surge in imported maize in 1990, primarily from China, Thailand and the US.

The latest revision of the General Agreement on Tariffs and Trade (GATT), which sets the rules and standards governing imports and exports between countries, requires the Philippines to increase its national import quota for maize from 135,000 tonnes in 1995 to 216,000 tonnes by the year 2004 at a fixed tariff of 35 per cent. The tariff for imports above this quota will decline from 100 per cent to 50 per cent over the same period.

The Philippines' government, however, is considering reducing the tariff further and sooner as part of its Medium-Term Agricultural Plan which combines rapid liberalization with investment in more commercially-advanced areas and export crops.

The Plan's overarching aim is to reduce the five million hectares currently planted to the two main food staples, rice and maize, to just under two million hectares, and to divert the remaining three million hectares into the cultivation of cash crops and livestock production.

Maize producers will therefore be faced with increasingly intensive competition from importers. In 1990, maize accounted for some two million livelihoods, one-fifth of staple food consumption in the country and over half the cultivated area under food grain.

Maize production is concentrated on the "corn bowl" of Mindanao, but the Cagayan Valley region has rapidly increased its share of national production in recent years. Between them, these two regions now account for three-quarters of total production.

Peasant households produce white maize for their own consumption, selling any surplus in local food markets. Yellow maize, sold to the burgeoning animal feed market in Metro Manila and adjacent provinces, has also become an important source of cash income.

Even with a 100 per cent tariff, Thai maize can be marketed in Manila at prices around 10 per cent cheaper than maize from Mindanao, a reflection of the dilapidated state of marketing and productive infrastructure in the Philippines. Public expenditure on agriculture in the Philippines relative to total expenditure and GDP is the lowest in the ASEAN region.

Increased imports of wheat and soya, which substitute for maize in animal feed production, will add to the pressures faced by smallholder maize producers.

Much of the imported wheat comes from the United States, which has systematically been cultivating the Philippines as a lucrative agricultural export market in recent years. A 1995 Agricultural Situation report from the US Embassy in Manila states that:

"Wheat is not an indigenous crop to the Philippines, nor is it currently viable as a commercial crop. However, wheat plays an increasingly important role in the Philippine grain market and is gaining on rice as a staple in the urban diet."

However, the US wheat, which accounts for the steep rise in urban consumer demand in the Philippines for bread rolls, pizzas, doughnuts and pasta, is heavily subsidized.

In 1991, for instance, the Philippines imported 1.2 million tonnes of wheat from the US, almost all of it under the US government's Export Enhancement Programme (EEP). The exporters who sold the wheat to the Philippines at \$96 per tonne received an EEP bonus of \$40 per tonne while the US farmers who produced the grain received deficiency payments of \$77 per tonne. Thus, for every \$1 worth of wheat imports purchased by the Philippines, the US government provided subsidies equivalent to slightly under \$1.40.

The average farmer in the US, the main source of cereals imports for the Philippines, receives over \$16,000 in subsidies each year — around 32 times the average Filipino income. The US government provides around \$5 billion annually in subsidies to its maize producers, enabling them to export at prices which are far lower than those most staple food producers in countries such as the Philippines can compete with.

Rural Livelihoods

The Philippines' government acknowledges that further import liberalization will result in a loss of livelihoods in the staple food sector for at least 35,000 households. In 1990, for instance, the arrival of large imports of maize during the peak harvest months contributed to a slump in prices, reduced plantings for the next season and severe losses in household incomes.

The government maintains, however, that increased labour demand in the commercial sector will compensate for these losses.

Most maize farmers, however, lack access to the credit, markets and technologies needed to grow commercial export crops; their only possible involvement is as seasonal wage labourers. In addition, the encouragement of export crops may generate foreign exchange, but may also result in a concentration of public and private investment in the richer regions of the country and the most commercially-advanced producers.

The chief beneficiaries of this new agricultural order will be large-scale producers and foreign trans–nationals, primarily US grain exporting corporations which now have a major stake in the maize processing sector in the Philippines. The losers will be smallholders whose livelihoods will be destroyed by cheap imports.

Given the volatile state of international markets for the major commercial exports produced by the Philippines and intense regional competition, generating foreign exchange by growing food for export and using this foreign exchange to import food does not appear to be a sound basis for food security.

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and Japan. This agreement was a desperate effort by the US to reduce its trade deficit with Japan by sharply raising the value of the yen relative to the dollar in the hope that more expensive Japanese products would dampen US consumers' enthusiasm for them.

The agreement did little to relieve the US trade deficit, but did provoke Japanese manufacturers to migrate in search of lower production costs to cheap labour sites in East and South-East Asia. During 1988 to 1993, some $60 billion of Japanese investment swirled through the region in one of the largest and swiftest movements of capital to the developing world in recent history.[22] It also triggered an ancillary flow of capital from the older NICs, South Korea and Taiwan, which were also looking for cheaper production sites.

This capital inflow reversed the recession in which Indonesia, Malaysia and Thailand were mired in the mid-1980s, and served as a launching pad for a decade of impressive growth in these countries. Japanese investment approvals by Thailand's Board of Investments in 1987 alone exceeded the cumulative Japanese investment over the preceding 20 years.[23] If that much investment is poured into a country, significant economic growth is likely to be the result, whatever the statist or other "distortions" in the national economic structure.

Integration-cum-Subordination

This significant Japanese investment indicates that the economic growth in East Asia and South-East Asia, while impressive, does not represent the development of autonomous economies. Instead, it might be called integration-cum-subordination of the region's economies to the Japanese economy.

By 1993, Japanese conglomerates had created an impressive array of complementary manufacturing facilities producing components for the same end-products in different parts of the region. Toyota, for instance, produces gasoline engines and stamped parts in Indonesia, steering links and electrical equipment in Malaysia, transmissions in the Philippines, and diesel engines, stamped parts and electrical equipment in Thailand.

This "horizontal integration" of the region via component specialization by subsidiaries of the same conglomerate was accompanied by "vertical integration" whereby the large electronic and car assemblers were followed to their new South-East Asian sites by smaller companies to supply them with parts and components. A third phase of this Japanese-sponsored "industrial deepening" may be imminent with the relocation of the heavy and chemical industries that provide steel and petrochemical inputs to both the large manufacturers and their suppliers.

This process of corporate-driven horizontal and vertical integration over the past decade has resulted not in the creation of a regional economy with plural centres but in the *regionalization* of the Japanese economy. In the words of Hisahiko Okazaki, Japan's former ambassador to Thailand:

> "Japan is creating an exclusive Japanese market in which Asia-Pacific nations are incorporated into the so-called *keiretsu* [Japanese financial/industrial bloc] system."

He describes the essential relationship evolving between Japan and South-East Asia as one of trading "captive imports" — products from plants in which Japanese firms have invested — in return for "captive exports, such as necessary equipment and materials".[24]

The region's dependency on Japan is highlighted by two critical indicators. First, almost every country is now running multi-billion dollar trade deficits with Japan, as they import high-value-added Japanese machinery, technology and industrial components and they export to Japan low-value-added raw materials, agricultural goods, semi-processed goods and assembled manufacturing products.

"Horizontal and vertical integration in South-East Asia has not created a regional economy but has regionalized the Japanese economy."

Second, technological dependency on Japan remains severe. When 90 per cent of the components of a Korean laptop computer and almost 100 per cent of semi-conductor manufacturing equipment in Taiwan comes from Japan, it is hardly possible to say that these tiger economies are no longer technological satellites of Japan nor labour-intensive assembly points for Japanese components using Japanese technology.

This trading and investment bloc has been created without formal free trade agreements. As one US Congressional Research Service report noted, discussion on whether a Japanese-dominated regional bloc will emerge in response to NAFTA (North American Free Trade Area) and the European Union:

> "is somewhat immaterial because a *de facto* trading bloc is already emerging. It is arising out of economic necessity and, barring draconian barriers, will continue to grow regardless of whether or not free trade among the various economies develops."

The report concluded that "Japan's business executives do not need free trade to operate."[25]

APEC and US Economic Policy

The emergence of this trading and investment bloc accounts for the US push to create the Asia-Pacific Economic Cooperation (APEC) Free Trade Area. Japanese integration via investment has, according to a key Clinton administration economic adviser, Paula Stern, "made it more difficult to increase a US business presence on the ground."[26] Indeed, cumulative Japanese investment in the Asia-Pacific region, $93 billion, now outstrips US investment at $61 billion.[27] Moreover, with intra-Asian trade now accounting for over 50 per cent of East Asia's total trade, the Japan-led "intra-Asian integration" is reducing the importance of the US market to East Asia and with it US political leverage.

By institutionalizing investment rules based on national treatment (or parity rights for local and foreign investors) and trans-Pacific free trade, APEC, in the view of US policymakers, would create a system of rules to the advantage of US corporations. These would hinder Japanese and Asian enterprises which depend on different forms of government support in production and on government-imposed protectionist mechanisms in trade.

Julio Etchart/Still Pictures

A demonstration in Hong Kong in solidarity with factory workers in China.

One of the most succinct expressions of this strategic purpose assigned to APEC by the US government was made by the US Under-Secretary of State for Economic, Business and Agricultural Affairs, Joan Spero, before a US Congress subcommittee last July:

> "APEC . . . has a customer. APEC is *not* for governments. It is for business. Through APEC, we aim to get governments *out* of the way, *opening* the way for business to do business. It is our goal to make APEC the most user friendly forum in the world."[28]

APEC has thus become a key instrument in an attempt to reverse the process of US marginalization from Asia and to ensure that the faltering US economy remains hitched to the East Asian locomotive that is expected to pull along the world economy in the first decades of the twenty-first century.

The Sustainable Development Critique

While regional elites have struggled to define the direction of Asia-Pacific development along free-market lines or along those of state-assisted capitalism, many NGOs, people's movements and progressive academics have evolved a critique of both approaches. In essence, this critique states that, despite some differences, the free-market model and the Asian capitalist or NIC model have more to unite them than divide them.

Both, for instance, regard the fetish of economic growth as the goal of development. Both intrinsically generate and perpetuate social inequality even as rapid growth takes place. Indeed, high growth rates are necessary to allow a rise in absolute incomes without having to undertake redistribution of wealth. This rise in absolute income combined with increased income disparity has characterized Korea, Singapore and Thailand in the last 20 years.[29]

Both models are intrinsically ecologically destructive and unsustainable. With the market approach, natural capital is run down, while in the case of NIC capitalism, the environment has been sacrificed to attract local and foreign capital. Indeed, zero investment in pollution control is a cornerstone of the NIC model, another being cheap labour. In the NICs, market and state act in a complementary fashion to create an accelerated plunder of the environment. In Taiwan, for instance, the policy of decentralized industrialization decreed by the Kuomintang government pushed small- and medium-sized industries to settle anywhere throughout the country, decentralizing pollution and converting the island into an ecological wasteland. In Thailand, meanwhile, market, private interests and state policy have created massive deforestation and massive water pollution.

Both strategies also have detrimental effects on agricultural communities. Both market signals and state policy have channelled capital and personnel away from agriculture to industry and promoted terms of trade adverse to agriculture. In Korea and Taiwan, agriculture is dwindling fast, while in Thailand and the Philippines, it is in severe crisis.

Finally, both approaches are destructive of communities: the market approach has allowed unchecked market forces to dissolve communal and community bonds; the NIC model of state-assisted capitalism has deliberately broken up and resettled any communities in the way of state-managed development projects. In Thailand, the Philippines, Indonesia and Malaysia, for instance, large dam schemes have been imposed from the centre, involving the uprooting and resettlement of communities, particularly ones, and the gradual erosion and destruction of resettled communities.

An Alternative Development Strategy

Dissatisfaction with the free market and NIC models is becoming increasingly vocal in South-East Asia, especially among NGOs and peoples' organizations. Throughout the region, NGOs are beginning to articulate, albeit in varying ways, a core of ideas that, for want of a better term, come under the rubric of "sustainable development."[30]

In opposition to the blind play of market forces in the free-market approach and to state fiat in the NIC model, the sustainable development perspective makes democratic decision-making the centrepiece of economic decision-making. Sustainable development does not deny that both market and state can play an important but subsidiary role in the allocation of resources, but maintains that the fundamental economic mechanism should be democratic and transparent decision-making on key issues of production, exchange and distribution by local and national communities.

In contrast to impersonal control by the "invisible hand" of the market or the hierarchical and centralizing mode of decision-making in the NIC model, sustainable development would decentralize economic decision-making and management to communities, regions or ecological zones, and enable national planning to be a bottom-up process.

Sustainable development de-emphasizes the premium put on economic growth by the free market and NIC models in favour of equity, quality of life and ecological harmony. In addition, sustainable development makes agriculture and the reinvigoration of rural society the centrepiece of the development process in contrast to the free market and NIC bias towards urban-based industry.

In both the free market and NIC models, the pursuit of profitability dictates the adoption of capital-intensive high technology in industry and chemical-intensive technology in agriculture. The sustainable development approach tries to reverse technological change which has been at the expense of people, favouring instead the development of labour-intensive appropriate technology for industry and organic, chemical-free agro-technology.

In contrast to a property system based on the division between private and public ownership in both the free market and NIC models, the sustainable development approach supports the recognition, institutionalization and expansion of the commons, or community or ancestral property that cannot be disposed of by market transaction or state fiat.

Initiatives at community and national levels based on these principles are already taking place, with some success. The regional implications of this model are still being fully thought through, but some ideas have emerged in NGO consultations, such as the People's Forum in 1991 and the People's Plan 21 in 1992, both held in Bangkok; the Kyoto NGO forum on APEC in February 1995; and the Bangkok NGO forum in 1996 on the occasion of the Asia-Europe Summit .

Articulating this alternative economic future is more than ever a necessity, for while the rampant consumerism that comes with high-speed growth continues to dazzle many in Asia, there is growing evidence that a process accompanied by the decline of agriculture, increasing inequality and uncontrolled ecological degradation is a recipe for an unliveable future. Governments and people of countries which have not yet embarked on fast track capitalism would do well to ponder the consequences before they do so.

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Public Risk, Private Profit

The World Bank and the Private Sector

Nicholas Hildyard

For years, bilateral and multilateral aid agencies have provided a multi-billion dollar source of subsidies to commercial enterprises in both the North and the South. Until recently, the vast majority of these subsidies came through national governments in the form of contracts for development projects. Increasingly, however, the multilateral development banks are "moving to the private sector": instead of funding projects through the state, the MDBs are funding private companies to undertake projects, underwriting the investments through guarantees or providing loans direct to the companies involved. Development is effectively being "privatised". For companies, a raft of new "corporate welfare" programmes are now on offer.

In late 1995, the World Bank — an institution whose mandate is the relief of poverty in the Third World — embarked on a bizarre promotional campaign. It placed full page advertisements in the major Washington newspapers, informing readers of the vast subsidies that the Bank gives to some of the biggest and most profitable companies in the US. "How to Get More Bang for your Bucks", read the headline. "The World Bank is just what it says it is — a Bank that invests in the world", ran the copy:

> "It doesn't just lend money, it helps developing countries become tomorrow's markets. Just ask McDermott International Inc. of New Orleans, Lousiana. Thanks to a smart World Bank investment in Africa five years ago, McDermott brought home a $255 million contract for offshore oil and gas construction that produced work for over 1,000 Americans. And that's just one success story. Developing countries now purchase almost $200 billion in US exports, creating nearly 4 million American jobs."

The advertisements — signed "The World Bank: A Good Investment" — were prompted by threats from the US Congress to cut the US contribution to the International Development Association (IDA), the arm of the Bank which provides concessional loans to the world's poorest countries.

Nor was the Bank the only agency battling "on behalf of IDA". The US Treasury joined the fray, bringing out a 200-page report detailing the contracts awarded to US companies for projects funded by the World Bank and other multilateral development banks (MDBs). In just two years (1993 to 1995), according to the report, the MDBs had channelled nearly $5 billion to US firms. Major beneficiaries included such household names as General Electric, General Motors, Motorola, IBM, AT&T, Allied Signal, Cargill and Westinghouse. Caterpillar alone was estimated to rake in $250 million a year in export sales of construction equipment as a result of MDB projects. All told, according to the US Treasury, the MDBs provide "one of the largest and most important sources of finance now available for US firms doing business internationally."

Such figures confirm what critics of the development industry have long maintained: namely, that official aid functions largely as an export subsidy for companies in the Northern industrialised countries. However, globalization and market liberalisation are rapidly changing both the form and the means by which the MDBs now subsidise the powerful.

Traditionally, Northern companies have benefited from the MDBs through contracts awarded for public sector projects such as roads, airports and irrigation schemes. Although governments still provide 90 per cent of the money spent on infrastructure projects worldwide, however, the trend is increasingly for projects to be undertaken by the private sector with governments acting as "facilitators rather than financiers". One reason is that many of the state enterprises which previously operated public projects have been privatised; another is that governments do not have the money to undertake the work.

In India, for example, IMF-imposed public spending cuts have led the government to turn to the private sector to construct and manage 10,000 kilometres (kms) of new superhighways, linking all the country's major cities. Twenty-two companies — many from the US and UK — have been invited to submit feasibility studies for the programme. Meanwhile, the National Highways Act has been amended to allow private companies to maintain and operate national highways and to permit the introduction of toll charges on public roads. China is also planning many privately-financed roads, including the ambitious 123 km Guengzhou-Shozen superhighway, and Mexico has over 4,500 kms of private toll roads already in operation. By the year 2000, Chile hopes to have nearly 3,000 kms of toll roads under concession to commercial firms.

BOOT Me Up

Typically, such private sector projects are undertaken by international firms operating in association with local companies. Most projects are undertaken on a Build, Own, Operate, Transfer (BOOT) basis. The company or consortium finances the project; constructs, operates and maintains it; and finally, after an agreed period, transfers ownership to the state. In return, it collects fees on behalf of the government.

Inevitably, the subsidies which such companies seek from the MDBs are very different to those sought by business which are simply bidding for work on MDB-funded projects. Rather than hoping to win contracts, private sector developers are looking for MDB "support" to minimise the financial and political *risks* involved in undertaking projects.

Direct equity investments by the MDB is a particularly welcome form of subsidy, since the MDBs "are content with a lower rate of return than private investors." MDB influence over national governments is also of critical importance in ensuring "an appropriate policy environment" for the private sector, which the World Bank specifically equates with "multinational corporations". Likewise, MDB contacts within government can be useful in ensuring that investments are "protected" against competition. In the case of road schemes, for example, consortia have been known to demand government guarantees that no road improvements will be undertaken anywhere near privatised road networks, thus maximising the traffic that will use the privatised roads. In Mexico and Chile, the government guarantees companies operating toll roads a minimum level of traffic. If the traffic does not reach the minimum level, the government pays the concessionaire for the shortfall.

Going Private

For the World Bank and other MDBs, the shift towards private sector financing of projects is thus necessitating "new ways of doing business".

Firstly, the Bank is beginning to move from project lending to "policy" lending in the form of loans for removing trade barriers, privatizing government-owned companies and restructuring whole sectors of the economy — such as mining and banking — in order to allow the entry of multinationals. Since 1981, $35 billion worth of such policy loans have been made by the World Bank's two principal lending institutions, the International Bank for Reconstruction and Development (IBRD) and IDA. The benefits for business in the North are clear. As the World Bank points out, "US exports to countries receiving policy-based loans increased by 12 per cent [between 1981 and 1995], compared to 3.7 per cent for non-recipient countries." Imports of US goods to India alone rose from $1.9 billion in 1992 to $2.8 billion in 1993 after the Bank insisted that tariff barriers be reduced.

Secondly, the World Bank is undertaking internal reforms to make *itself* more "private sector friendly". As William Ryrie, a former head of the International Finance Corporation, the private-sector arm of the World Bank, acknowledges, "free advice" constitutes one of the major forms of subsidy that the World Bank and other MDBs offer the corporate sector. Efforts are thus underway to expand the services the Bank is able to provide to private firms through the newly created Private Sector Development (PSD) group. According to Bernard Pasquier, a Bank official who works for the PSD, "We are creating a front gate so that we can help companies better. The idea is . . . to, shall we say, put a little oil in the machine to make it go more smoothly. Our objective is to help multinational and home grown companies in the developing countries to build up a thriving private sector."

Thirdly, the World Bank is boosting the amount of money it lends directly to the private sector. Of the four institutions that make up the World Bank group, only two — the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) — have traditionally supported private companies directly. Now the two other arms of the World Bank (the IBRD and IDA) are "moving to the market".

Bending the Rules

For the IBRD and IDA, this shift in orientation initially required some delicate manoeuvring, since their founding charter explicitly debars them from directly financing private enterprises. All their loans must go to governments. Innovative financial deals were therefore agreed in order to make the loans whilst sticking within the letter of the Bank's charter. The IBRD's first public sector loan for the Hub power project in Pakistan, for example, involved a "back-to-back" deal whereby the Pakistan government received the money but loaned it straight to the private company "financing" the project.

Since then, the Bank's Board of Executive Directors has set aside concerns over the charter restrictions and agreed to guarantees and loans for private investments being made a normal part of the IBRD's operations. IDA too is expected to introduce a private sector lending window even though the finance ministers of contributing countries rejected the proposal in 1995. A major beneficiary of the new guarantee facilities has been the Westinghouse Corporation of Pittsburgh, Pennsylvania, which has won a $155 million contract to supply turbines for a power project in China guaranteed by the Bank.

Other MDBs are also introducing co-financing and guarantee programmes for the private sector. Indeed, the recently-formed European Bank for Reconstruction and Development (EBRD), which loans to Eastern Europe and the former Soviet Union, is *required* to allocate 60 per cent of its lending to the private sector. In 1994, more than 73 per cent of EBRD loans went direct to the private sector — some $1.7 billion in total.

Heir to the Bank

Meanwhile, both the IFC and MIGA are assuming an increasingly important role within the World Bank group.

Set up in 1956 — but for years a minor organization on the fringes of the Bank — the IFC is now seen by many as the "heir to much of the Bank's mission". MIGA's star is also rising: although only founded in October 1985, it is now the fastest-growing institution in the World Bank group.

Despite its mandate to act as a "development" institution, the pattern of IFC has always revealed a consistent bias towards the interests of large corporate investors. Between 1990 and 1994, for example, 73 per cent of IFC's lending went to just 15 countries — almost all strong middle-income economies, including two of the East Asian "miracle" countries. In Argentina, the IFC has been heavily involved in oil exploration, taking a 15 per cent stake in exploration joint ventures in the Chirete-Morillo-Olleros blocks, one with a local company and one with a foreign investor. It has also backed Aguas Argentinas, an international consortium, which was awarded a 30 year concession to operate the greater Buenos Aires water and sewerage network. Likewise, in Swaziland, the IFC is helping to finance an expansion of paper and pulp production through a loan to Swazi Paper Mills. The project will lead to increased emissions of greenhouse gases, dioxins and organochlorines.

Free Market?

For its co-investors, IFC loans bring substantial benefits, not only because of the influence that the agency can bring to bear on governments but also because the IFC's involvement lends credibility to projects that might otherwise be considered too risky. As Friends of the Earth note: "Thanks to its triple A credit rating and status as a multinational institution, IFC investment in a project is seen as a security by the private investor . . . The IFC can therefore act as a catalyst to encourage investment in a project by private banks. In 1992/3, other sources provided $7 in project financing for every dollar approved by the IFC."

MIGA, too, offers the private sector major benefits. In many cases, the guarantees it provides against political risks (such as nationalisation, losses on currency transfers, war and civil disturbances) would not be available at an affordable price on the open market. Having MIGA covering risks that the market would not bear, or would price prohibitively high, lowers the cost of financing and thus represents a major subsidy to companies.

Recently, for example, MIGA guaranteed a new gold mine on Lihir Island, 700 kilometres north-east of mainland Papua New Guinea (PNG). The mine is to be operated by a joint venture led by Rio Tinto Zinc, which plans to start extracting gold from an extinct volcano in January 1998. Following a recent popular uprising which led to the closure of the giant Bougainville copper mine, however, bankers have found it "virtually impossible to raise project finance for schemes [in PNG]" without public insurance against political risks. Without MIGA's backing through a $66.6 million guarantee, the project, which is likely to prove hugely destructive of the environment, would in all probability not have gone ahead.

Lack of accountability

Companies are not only benefiting from the direct funding and guarantees which they are now receiving from the World Bank group. They also benefit indirectly from the IFC and MIGA having weaker information and disclosure policies, less accountability and less stringent environmental policies than even the IBRD. As Peter Bosshard of the Berne Declaration, a Swiss NGO, notes,

> "The guidelines on the environmental analysis of IFC and MIGA projects are less strict and comprehensive than the World Bank's respective Operational Directive. The assessments can be done later in the project cycle, when critical decisions about the project have been taken and the analysis of alternative options does not make sense."

Many documents which are publicly available in the case of IBRD operations are not made available by the IFC. MIGA is even more secretive. "Using a vague omnibus clause in its constitution, the Agency shrouds itself in complete secrecy about its ongoing operations", comments Bosshard. "It does not even provide information about project approvals by its Board, as long as the guarantee contracts have not been finalized with its clients." This secrecy prevents any input by affected peoples or NGOs into the planning phase of MIGA-supported projects.

Redefining Development

With the growing involvement of the private sector in the financing and implementation of projects, a new discourse is emerging within the MDBs. The market is being cast as the best judge of what constitutes sound "development": and private enterprise as the best means of ensuring social welfare. Whilst the public is subjected to "market discipline", however, multinationals continue to enjoy the largesse of the Bank. Corporate welfare, not social welfare, provides the real agenda.

TNCs as Aid Agencies? Enron and the Dabhol Power Plant

Subodh Wagle

In an era of structural adjustment, liberalization and privatization, multinationals are now claiming that, through their business ventures and capital, they rather than bilateral and multilateral aid programmes are the ones providing effective development assistance and relief to the developing world, and that therefore public aid money should be provided as loans to these "pioneering" companies instead. The attempt by TNCs, long viewed as appropriators of public wealth, to recast themselves as public benefactors and as "development agencies" is well illustrated in the arguments used by Enron, the US energy multinational, to justify its involvement in the controversial Dabhol power plant in India. Far from "bringing development", the TNCs are standard bearers for a new colonialism.

Development in many Third World countries has failed, claim many TNC representatives, because of the active role of the state. They contrast the inefficiencies, corruption and wastage resulting from state involvement in development projects with their own efficiency, productivity and technological sophistication. They point to additional benefits they confer on host countries — improved infrastructure, sophisticated industry and a strong and vigorous economy. And they assert that, in future, official development aid should be diverted from the state to the private sector.

This was the core argument presented by Linda Powers, the Vice President of Global Finance for Enron Development Corporation, a Texas-based gas company and one of the world's largest handlers of Liquefied Natural Gas (LNG), in her testimony at the US House of Representatives in January 1995 before the Committee on Appropriations, which was meeting to evaluate the US international aid policies. Powers told the Committee:

"Private parties, like our company and others, are now able to develop, construct, own and operate private infrastructure projects in these countries. In the process of doing so, private parties are able to achieve the two things which US foreign assistance efforts are long been trying to achieve:
(1) the projects are serving as action-forcing events that are getting the host countries to finally implement the legal and policy changes long urged upon them; and
(2) as an adjunct to these projects, to win local support, the private developers are installing substantial amounts of medical facilities, schools and the like to alleviate current problems in these countries."[1]

To support these claims, Powers referred to Enron's controversial Dabhol power plant in Maharashtra, India. A closer look at Enron's involvement with the project, however, belies her claims.

Enron's Dabhol Power Plant

Enron's involvement in Dabhol dates back to June 1992 when the electricity board of Maharashtra, India's leading industrialized state, initiated plans to build a 2015-megawatt gas-fired thermal power station at Dabhol in the coastal district of

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Ratnagiri, some 160 kilometres south of the state's capital, Bombay; and one of the most fertile areas in the state. The plant was to be the first privately-financed power project in India, and the state invited the Dabhol Power Company, a consortium consisting of Enron and two other US corporations, to take on the project. The plant would be owned and operated by the consortium which would also finance and build it at an estimated capital cost of $2.8 billion.

Eighty per cent of the equity in the consortium is held by Enron which will manage the plant. The rest of the equity is equally divided between General Electric Capital Corporation, a subsidiary of General Electric, one of the top global manufacturers of electricity generating equipment, and Bechtel, the largest construction firm in the United States. The gas for the Dabhol power plant would be imported from Enron's operations in Oman.

Commercial Education?

In her testimony to the Committee, Powers first highlighted Enron's role in bringing about the "growth and development of recipient countries . . not only by addition of physical assets to the country, but, equally important, [by] the creation of commercial infrastructure".[2] She took this infrastructure to mean "the policies, laws, and practices that are the basic tools of a market economy".[3] The Dabhol power project, she suggested, had been a fortunate opportunity for government, financial and other officials in India to learn their profession:

"Multinationals claim that they are assisting the developing world through their business ventures so effectively and to such an extent that aid programmes are no longer needed."

"Working through this process [the evolution of Enron's Dabhol project] has given the Indian authorities a real and concrete understanding of the kinds of legal and policy changes needed in India."[4]

Judging by Enron's behaviour, however, it would appear that the "understanding" which Powers hoped the project would inculcate into India's officials consisted largely of how to do business Enron's way.

Certainly, if the project was intended as a public educational process, it is hard to explain the secrecy that surrounded it from its inception. The initial memorandum of understanding was signed just 24 hours after Enron made contact with officials in India.[5] After the power purchase and other agreements had been signed in December 1993, basic information was still restricted to a few officials and denied to elected peoples' representatives and consumer organizations when they requested it.[6] A chief engineer at MSEB claimed the power purchase agreement was a "confidential document" while a chief engineer of the consortium said that it was a "sensitive" agreement, despite the lack of competitors.[7] Involvement by government officials was kept to a minimum while the final agreements between the Maharashtra State Electricity Board and the Dabhol Power Company were drafted by Enron lawyers.

Powers went on to claim that the Indian banks had gained "a real and concrete understanding of sound project lending practices"[8] as a result of Dabhol:

> "Five lending Indian banks are playing a major role in the total financing package for our power plant project. They have not previously done project financing, but through the financing process on our project, they have developed a thorough understanding of project finance, international lending practices, project credit evaluation and security requirements."[9]

Here again, if the aim was to "teach" Indian bankers how to raise and lend money, the main lesson that Enron imparted would appear to have been how to do so to suit foreign investors. Indian banking practices may differ in some respects from those in the US, but financial staff are not ignorant of project financing. The Industrial Development Bank of India (IDBI), the leading bank financing the rupee part of the Dabhol project, had assets of nearly Rs.310 billion ($9.7 billion) in 1992-3. According to IDBI statistics, the bank provided Rs.750 billion ($24 billion) to Indian industry up to 1995.[10]

Given the long experience of Indian banks with project financing within India, Powers's assertion as to their ignorance of such financing suggests either racism or a concern to school the banks in financing projects on terms favourable to foreign investors.

Objections raised by Indian lending banks and regulatory agencies such as the Foreign Investment Promotion Board and the Central Electricity Authority to financial, technical and procedural details of the power purchase and other agreements were overruled by vested interests using political pressure.[11]

For instance, the Indian Foreign Investment Promotion Board initially laid down a condition that 70 per cent of equity for the plant should be foreign; this has been reduced to 60 per cent, the rest being raised in India.[12] In addition, Enron's portion of the equity will be financed by loans from a syndicate of international banks, not from Enron's own capital.[13] The Board also requested Enron to halve the size of the project so that the outflow of India's foreign exchange could be reduced.[14]

Powers, however, claimed that "our company spent an enormous amount of its own money — approximately $20 million — on this education" of Indian banks.[15] In fact, there was no such expenditure on the "education" of Indian officials. Many organizations and media representatives were outraged to learn of Powers's assertion and accused Enron of spending the money on bribes and corruption. Enron rejected the accusations, stating instead that Powers's claim was incorrect.

But the fact that the Dabhol project was approved without calling for formal tenders, that the capital costs are much higher than those elsewhere, that the price and conditions of sale of generated electricity are inequitably in favour of Enron and against MSEB and its consumers, and that the project has been shrouded in secrecy confirm rumours of high level corruption.

A senior Maharashtra politician, Mrinal Gore, wrote to the state's Chief Minister on 22 November 1995 asserting that "a strong and evil chain of politicians, criminals and corrupt government officials" had been instrumental in sanctioning the project against the wishes of the people.

Providing Immediate Relief?

Enron's second development function, according to Powers, was in "alleviating current problems" by making "medical, education, employment and other benefits" available.

> "Our capital expenditure budget for the project includes \$24.5 million for a fifty-bed hospital, a primary school, a vocational school, drinking water pipelines for the surrounding villages and road improvements. The budget also include an additional \$75 million for port improvements (dredging, new jetties, etc) that will be available for general public use. Finally, the project includes employment for several hundred persons, both at plant and elsewhere, with an annual payroll of \$5 million throughout the life of the project. We provide extensive training for the employees, and these are high value jobs relative to the local economy."[16]

Enron's claim to be a public welfare agency, however, rests largely on creative accounting and sleight of hand. Many of the "improvements" that Powers promises will be undertaken for commercial, not public welfare, reasons: the upgrading of local roads, for example, is largely to allow the transport of heavy equipment. The 70-kilometre water pipeline drawing water from a reservoir built by the Maharashtra state government will primarily supply fresh water for the power plant and the domestic needs of Enron's staff. Additional "community connections" might be provided for nearby hamlets.

Moreover, the \$24.5 million "welfare" budget also has to pay for the land on which the plant will be built (at least 700 hectares of productive land, not including land for an airstrip, helipad, roads and other infrastructure), fuel facilities, and the resettlement and rehabilitation of some 600 people displaced by the project.[17]

Once these have been paid for, the small amount left over for a hospital and two schools for villagers are crumbs to silence potential troublemakers. Indeed, Powers admitted as much in her testimony, acknowledging that the "immediate, tangible benefits", such as "new drinking water supplies, etc", can be used as "cover against domestic criticisms and resistance".[18]

The public benefits from the \$75 million port improvements are also dubious. The original plan was to build a jetty to unload equipment and fuel in a coastal estuary renown for its productive fishing, to dredge a channel in the estuary to accommodate large cargo ships and tankers, and to discharge waste into the estuary. The Ministry of Environment and Forests requested Enron to shift the location of the jetty and discharge pipes to the open sea, which Enron did whilst complaining about the extra cost. Fishing in the coastal waters will now be disrupted. Moreover, far from the port facilities being "available for general public use", the 1,000 metre fuel jetty will remain the exclusive property of Enron. Although a 150-metre jetty used in the construction of the plant will be handed over to the government, the handover will only take place once the plant is completed — at which point it will be obsolete for Enron and useless for the government.

Powers's claims that the project will generate employment also deserve scrutiny. Far from providing jobs "for several hundred persons", the Dabhol power project

Ajit Nimbalker (left), chair of the Maharashtra State Electricity Board, and Joe Sutton (right), managing director of Enron Development Corporation, one of Enron's five subsidiaries building the Dabhol plant.

will provide employment for only 93 people in its first phase.[19] Most of these employees will need to be highly-qualified and will probably come from the major cities in India, if not abroad. The few local people who do find direct employment in the project will doubtless end up with low-income jobs of peons, gardeners and janitors. In addition, the existing local economy is likely to be highly disrupted by the power plant, not only because of the influx of construction workers but also because of the loss of farm land and the pollution of fishing waters.

Even though \$5 million has been alloted for wages, it will be the customers of the Maharashtra State Electricity Board (MSEB) paying them rather than Enron. It is uncertain how much of the payroll will go to foreign employees and consultants from subsidiaries and sister companies of Enron, Bechtel and General Electric and how much will remain with local people. These employment costs are minor compared to the revenue Enron expects to collect each year from MSEB, estimated at some \$400 million in 1997, rising to \$800 million in the year 2017.

Further, all the expenditure Powers refers to is accounted for in the final balance sheet as project costs paid by Enron but which Indian taxpayers will have to pay for at approximately 33 per cent per annum interest.

Thus, Enron's claim to be "footing the bills for development assistance and producing more visible results" has little basis in reality.

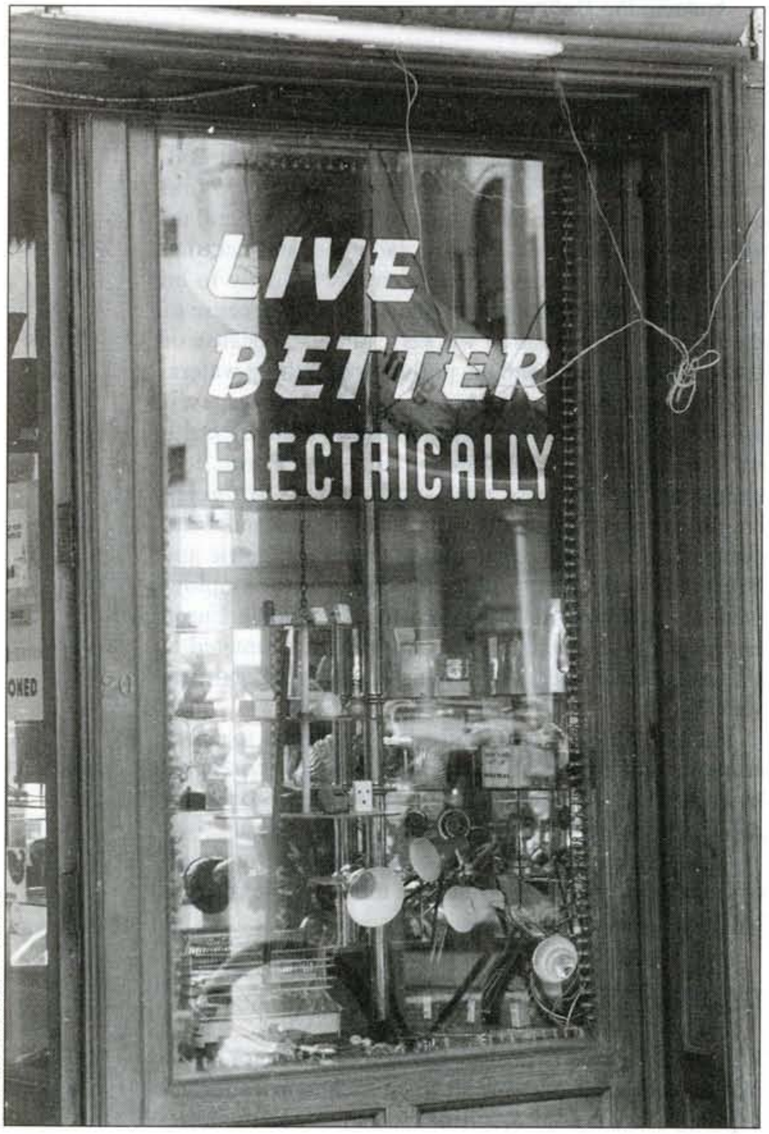
Instilling Competition?

Powers attempted to project Enron as a protector of the market economy, praising developing countries for accepting "intense competition"[20] and recommending "transparency and predictability" in regulatory reforms.[21]

Enron's own conduct, however, in the case of Dabhol was far from competitive or transparent. The key decision-makers in the state and central governments in India allotted the contract to the Dabhol Power Corporation without any external review and without competitive tendering from other companies. Moreover, the power purchase agreement for the project requires the MSEB to buy all the power Dabhol generates, even if this is surplus to demand, thereby forcing MSEB to close down part of its existing generating capacity. Indeed, Enron's estimated rate of return on its Dabhol investment, up to 28 per cent internal rate of return, is only possible because the project has been shielded from competition, both in the tendering process and in the sale of power from the plant.

Powers' plea for transparency in regulatory processes is equally hypocritical. Enron tried to keep the terms and conditions of the power purchase agreement secret, even after it had been signed. It avoided public scrutiny of the agreement until opposition political parties won the Maharashtra state elections in March 1995 and made the details of the deal public.

Much as the people of Maharashtra might wish to "live better electrically", the electricity from the Dabhol power plant is intended for industry rather than domestic consumers.



Mark Edwards/Still Pictures

Innocent Intentions?

Despite the hard-nosed approach of Enron, Powers took great pains throughout her testimony to paint multinationals as "concerned" businesses with innocent intentions:

> "When a firm like Enron . . . goes into a foreign country to undertake a project, just what do we do? In simplest terms, we identify the needs, select a suitable site, design an appropriately-sized facility, work out fuel supplies, develop relations with local and central government officials, negotiate power sales contracts, finance and construct the facility, and operate and maintain it over its useful life."[22]

According to the World Bank, however, Dahbol is far from being appropriately-sized: on the contrary, the Bank argues that there is no need for such a large base-load (2015MW) project in Maharashtra. (Base loads are the minimum levels of electricity normally consumed, peak loads are the maximum.) The Bank also maintained that the project would not be "economically viable" for the MSEB, which, as a consequence, would be forced to replace lower cost coal power with "much higher cost LNG power".[23] The national government had chosen nine sites for power plants in India, and Dabhol was not one of them. In effect, the "needs" identified by the Dahbol Development Corporation were not those of India or Maharashtra for electricity, but those of Enron to sell its gas, General Electric its electricity generating equipment, and Bechtel its construction expertise. Powers went on to state that multinationals:

> "undertake enormous risks and costs, get compensated for these risks and costs, and still deliver the services more reliably and cheaply than the existing projects in these countries."[24]

In fact, the Dahbol project is virtually risk free for Enron because MSEB has had to take out comprehensive and expensive insurance cover (ultimately paid for by Indian taxpayers and electricity consumers). Indian financial institutions are providing much of the finance, and a capital depreciation rate of 7.5 per cent has been permitted instead of the usual 3.5 per cent.

Enron also secured counter guarantees from the government of India for MSEB payments to the Dabhol Power Corporation (even though the MSEB, the state government of Maharashtra and the national government subsequently disowned responsibility for doing so) and from the state government of Maharashtra. The guarantees were backed by all the assets of these governments including the Parliament House and Presidential Palace. Assurances have also been given that the project will not be nationalized.

These guarantees are one-sided: the MSEB, the state government of Maharashtra and the national government have no protection against any disasters or lapses on the part of Enron or its proxies. (Union Carbide's debacle at Bhopal comes to mind.) Enron can pull out of the project and disinvest its equity whenever it wishes. In addition, no limit has been put on Enron's capital expenditure, the amount on which it obtains its rate of return.

Whilst the risks of Dabhol have been assumed by the public, however, the profits will be private. Enron has secured an internal rate of return (IRR) of 28 per cent on "claimed equity" rather than the more usual 17 to 21 per cent for such a risk-free proposition. A 28 per cent IRR is approximately equivalent to an annual 33 per cent return on investment — the interest rate Indian taxpayers will have to pay Enron for bringing in its capital. Some analysts suggest that the project cost has been inflated by about 20 to 30 per cent so as to raise the IRR value on the "real equity".[25]


Rainer Hörig

A local campaign meeting to stop Enron's Dabhol power plant.

Cheap Electricity?

In the case of the Dabhol plant, Enron will not deliver electricity more cheaply than existing public projects — rather the opposite. The levelized price of electricity (the cost of electricity if capital and operational costs are distributed over a plant's operational life) from India's newest power plant, a gas-based plant at Kawas in the state of Gujarat, is about Rs2.4 ($0.08) per kilowatt-hour, whereas the levelized price of electricity from Dabhol will range from Rs3.6 ($0.12) to Rs4.2 ($0.14) per kilowatt-hour.[26] The average price of electricity in Maharashtra without the Dabhol plant would be about Rs2.11 ($0.068) per kilowatt-hour in 1997.

Powers also relied on the argument that consumers will benefit from an end to electricity price subsidies, a policy which Powers claimed Enron has been instrumental in effecting. In fact, the Maharashtra State Electricity Board (MSEB) does not have a price subsidy. It does have a cross-subsidy arrangement by which it charges its urban consumers, particularly commercial and industrial users, a tariff as high as Rs. 6.00 (US$0.16) per kilowatt-hour so as to offset its lower tariffs for agricultural and rural household consumers. MSEB is not losing any money because of this cross-subsidy.

No US corporation, especially one working in the oil and natural gas sector, has any right to object to cross subsidies. Cross subsidies exist in many regions of the US, but in the reverse direction — the residential sector subsidizes the industrial sector.[27] Indeed, not only the US power sector but the entire US industrial infrastructure is built on heavy subsidies from the national government. A large part of the enormous US defence expenditure amounts to generous indirect subsidies to US oil and gas companies. In India, Enron benefited from tax and duty exemptions and the guaranteed purchase of its product and manipulated the state government so as to earn very high profits from a virtually risk-free project.

Physician, Heal Thyself

Powers's entire testimony was riddled with an underlying contempt for developing countries in general and India in particular. She described all developing countries, including India, as places where "the lights don't stay on, the water isn't safe to drink, the roads are dangerous and congested, and 'phone calls are impossible to make or receive".[28] Her (not so) implicit conclusion was that multinationals will civilize these countries through their operations for which the people there should be grateful.

Imagine the outcry in the United States, however, to the suggestion that the semi-government public transport agency in Bombay, BEST, (which operates a huge fleet of buses with far better performance than many public transport undertakings in the US) should go to Los Angeles and other US cities to teach the authorities a few lessons about public transport and to "convince" the US government to implement an energy tax so as to reduce global warming and to provide jobs for people in the ghettos of Los Angeles.

Or to the suggestion that the Chief Election Commissioner of India, who has motivated around 70 per cent of the adult population in a poor and "backward" country to vote in recent elections, should manage the next US Presidential elections. He could, for instance, improve democratic participation in a country in which around half of the adult population (mostly blacks, women and the poor) do not vote because of regressive laws and deliberate tactics, such as making it difficult for certain sectors of the public to register to vote. Conservative political interests in many US states have blocked legal attempts to make registration easier; these include "motor-voter" Bills which would allow for automatic voter registration of anyone who obtains or renews a driving licence.

As a corollary to Powers's description of developing countries, the United States, Enron's home country, could be described as a nation in which "family breakdown is widespread, educational standards are abominably low, the poverty rate is one of the highest in the developed world, school kids shoot each other, babies are born addicted to crack and the crime rate is high." If Enron wants to provide development assistance, it could address these problems at home before tackling those it perceives in India.

Powers's contemptuous stance and attempts to legitimize Enron's economic operations resemble colonial justifications for imperialism such as civilizing the "barbaric natives". While aspiring to become the new messiahs of development, multinationals are taking up the "white man's burden".

Resisting New Colonialism

Since they learned about the Dabhol power plant, various urban groups and grassroots organizations of local people affected by the project have been struggling against it. From 1993 to 1995, local groups organized mass demonstrations at the project sites and nearby administrative towns to put pressure on Enron and state government agencies. Urban groups, including environmental, consumer, labour unions and political parties, lobbied in Bombay and other cities through the law courts, the media and political action.

The controversy became the main issue during elections for Maharashtra's legislative assembly in March 1995 which were won by a coalition of two right-wing parties. The coalition cancelled the project at first, but then negotiated a compromise with Enron and sanctioned the go-ahead for the Dabhol power plant in January 1996. The compromise involved some concessions from Enron in terms of the tariff and foreign exchange payments, but other critical issues (such as environmental effects, displacement and livelihood destruction) were unresolved. Left-wing political parties, labour unions and grassroots organizations have thus renewed their struggle against the power plant.

Beware Those Bringing "Gifts"

Developing countries need to scrutinize the rationales and justifications given for inviting in multinationals to the infrastructure sector. They need to ask whether, given the multinationals' immense economic power and frequent lack of scruples, it is possible to monitor, control and regulate them once they have gained a foothold in a country.

In the case of Enron's Dabhol power project and that of a host of other foreign private power projects set to follow it, India needs to ask: does it have the technology, policy software, expertise and, above all, public awareness and political will that are critical if private companies are to be controlled and the health of its power sector and interests of its people ensured?

If not, then India and developing countries in general should, as far as possible, pursue and augment other options and opportunities. In the field of energy, for instance, this includes trying out first of all energy efficiency and renewable energy options (and even conventional energy options) which can be employed using internal, rather than multinational, financial and technical resources. Countries should also work towards building up their knowledge base, mechanisms and institutional structures to monitor effectively and regulate the entry and operations of multinationals, if it is impossible to avoid their entry.

In particular, countries should be wary of TNC claims to portray themselves as development messiahs. Neither their record, practice nor *raison d'être* support such claims.

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27. In many regions in the US, the electricity tariff for residential consumers is higher than that for industrial consumers. Another mechanism to subsidize industrial electricity consumption is the Economic Development Rate (EDR), a low tariff offered to selected industries which threaten to move out of a particular region. The private electric utility is compensated for the EDR by the city or state government, ultimately by taxpayers.
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Scapegoating and Slander

Blaming the Poor for Poverty

Holly Sklar

To deflect blame from the economic policies which are creating poverty and unemployment, many local and national leaders are scapegoating those most impoverished by such policies: principally single mothers, ethnic minorities and the poor themselves. Such scapegoating is being used to divide and rule opposition to globalization: instead of working together across racial lines and gender divides to transform society, people are being turned against each other.

Three decades ago, Martin Luther King spoke prophetically about polarizing national and international trends:

> "A true revolution of values will soon look uneasily on the glaring contrast of poverty and wealth. With righteous indignation, it will look at thousands of working people displaced from their jobs with reduced incomes as a result of automation while the profits of the employers remain intact, and say 'This is not just'."[1]

The ruinous social and economic trends that King warned of have only intensified. Wealth is not trickling down; it is flooding upwards. Real wages for average workers in the United States and elsewhere have plummeted, despite rising productivity, while many corporate executives earn more in a week than their workers make in a year. Unemployment is high whether the economy is in recession or "recovery".

Economic inequality is now so extreme that the richest one per cent of US families have about as much wealth as the entire bottom 95 per cent. More than a fifth of all children in the United States, the world's richest nation, are living in poverty.

For more and more people, a job is not a ticket out of poverty, but one into the ranks of the working poor. Jobs and wages are being downsized in the "leaner and meaner" world of global corporate restructuring. Corporations are aggressively automating and shifting operations among cities, states and nations in a continual search for larger public subsidies and lower-cost labour. Workers are increasingly expected to migrate from job to job, at low and variable wage rates, without paid vacation, much less a pension.

Blame the Victim

To deflect blame from the economic policies which have exacerbated an intensifying cycle of unequal opportunity, various local and national leaders are scapegoating those most impoverished by such policies. Many of the beneficiaries of the economic system are slandering those who are most systematically undervalued, underpaid, underemployed, underfinanced, underinsured, underrated and otherwise underserved and undermined as undeserving and "underclass" and lacking the proper "work ethic".

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The reality of working-poor jobs and "disposable" workers is being covered up by scapegoating myths such as the "culture of poverty" and by undercounting in official statistics the unemployed and impoverished. The scapegoats are the usual suspects — the poor, people of colour and women.

The "Underclass"

As sociologist Herbert Gans points out:

> "When Gunnar Myrdal invented or reinvented the term 'underclass' in his 1962 book *Challenge to Affluence*, he used the word as a purely economic concept to describe the chronically unemployed, underemployed and underemployables being created by what we now call the post-industrial economy. He was thinking of people being driven to the margins, or entirely out, of the modern economy, here and elsewhere; but his intellectual and policy concern was with reforming the economy, not with changing or punishing the people who were its victims."[2]

"Full-time jobs are becoming scarcer as corporations shape a cheaper, more disposable workforce of temporary workers, part-timers and other 'contingent workers'."

Now the "War on Poverty" has given way to an escalating war on the poor themselves who are considered impoverished in moral and social values. In their book on the working poor, *The Forgotten Americans*, John Schwarz and Thomas Volgy recall that in 1980 (when official unemployment was over seven per cent):

> "in the public's mind, the foremost causes of poverty were that the poor weren't thrifty, that they did not put in the needed effort, and that they lacked ability or talent. Popular majorities did not consider any other factor to be a very important cause of poverty — not low wages, or a scarcity of jobs, or discrimination or even sickness."[3]

The old issues, according to conservative political scientist Lawrence Mead, were economic and structural; "the new ones are social and personal."

Blaming Biology

These supposed "social" and "personal" factors are once again defined in biological or genetic terms, fuelling a revival of long-discredited eugenic arguments. The message of *The Bell Curve* by Charles Murray and the late Richard Herrnstein, for example, is that blacks are less intelligent and that is why they are poorer, a state preordained by their genes. *The Bell Curve*'s dust jacket trumpets the authors' agenda:

> "Herrnstein and Murray break new ground in exploring the ways that low intelligence, independent of social, economic, or ethnic background, lies at the root of many of our social problems. The authors also demonstrate the truth of another taboo fact: that intelligence levels differ among ethnic groups . . . Herrnstein and Murray . . . show that for a wide-range of intractable social problems, the decisive correlation is between a high incidence of the problem and low intelligence of those who suffer from it. This holds for school dropouts, unemployment, work-related injury, out-of-wedlock births, crime, and many other social problems."[4]

The pseudo-science behind *The Bell Curve*'s view that race and class differences are largely caused by genetic factors has been widely refuted. Nonetheless, the right has seized on the notion that the poor cannot be helped because of their inborn cognitive limits to argue in favour of slashing social and welfare programmes.[5]

Whites who take solace in *The Bell Curve* should not rest easy. Writers such as Herrnstein and Murray who manipulate information to justify the higher rates of unemployment, poverty and lower wages of blacks also blame white workers without university degrees (the majority) for their lower wages in comparison with so-called knowledge workers. It is easy to jump from a skills-mismatch thesis to a brains-mismatch one. The CEO is a millionaire or billionaire because he's smarter; the losers in downsizing are losers because they have downsized intelligence.

Indeed, as the American Dream excludes more and more whites, talk of a pathological "white underclass" increases.[6] Charles Murray told an interviewer that in the past "people were poor because of bad luck or social barriers. Now what's holding them back is that they're not bright enough to be a physician." In Murray's words, the white kids who drop out of school are the low IQ, low income "white trash."[7]

Immigrants are also scapegoated in an era of job insecurity. Growing anti-immigrant sentiment and action in the United States, however, is not directed at Canadian, Italian, Irish, Polish or other white immigrants, but at Latinos, Asian and other immigrants of colour. They are blamed for sapping California's economy, for instance, even though that state's economy depends on their labour. Recent studies confirm that immigration creates more jobs than are filled by immigrants and that immigrants pay significantly more in taxes than the cost of public services they receive.[8]

Blaming Blacks

"Genes" do not explain the disproportionate poverty of blacks in the US[9] — discrimination and racism do. A 1968 National Commission on Urban Problems deplored the "tacit agreement" among all groups — lending institutions, fire insurance companies and the Federal Housing Administration (set up in 1934 to provide guaranteed mortgages for new construction) — to "red-line" inner city neighbourhoods, denying them credit and insurance.[10] The commission reported that up until the summer of 1967, "FHA almost never insured mortgages on homes in slum districts, and did so very seldom in the 'grey areas' which surrounded them. Even middle-class residential districts in the central cities were suspect, since there was always the prospect that they, too, might 'turn' as Negroes and poor whites" moved in.[11]

Persistent Impoverishment

The official poverty line in the United States understates the real extent of poverty in the country, especially among the working poor. The official 1993 poverty rate was one in seven persons, about 39 million Americans; the unofficial rate is closer to one person in four.

A family of four need an income of about 155 per cent of the official poverty line to buy minimally sufficient food, housing, healthcare, transportation, clothing and other personal and household items and to pay taxes. Such an economy budget does not cover paid childcare nor is it sufficient for those who cannot find low-cost housing.

Börje Tobiazon/Panos Pictures

According to the Children's Defense Fund, a research and advocacy group for children:

> "Many poor families manage by cutting back on food, jeopardizing their health and the development of their children, or by living in substandard and sometimes dangerous housing. Some do without heat, electricity, telephone service, or plumbing for months or years. Many do without health insurance, healthcare, safe childcare, or reliable transportation to take them to and from work. Confronted with impossible choices and inadequate basics, and lacking any cushion of savings or assets . . . many are just one illness, job loss or family crisis away from homelessness or family dissolution."

Impoverished two-parent white and black families are twice as likely as non-poor two-parent families to break up, the US Census Bureau reports. "Stresses arising from low income and poverty may have contributed substantially to discontinuation rates for two-parent families."

A comparison among industrialized countries found that the child poverty rate in the US, after taxes and benefits are considered, was more than twice that in Canada and four times that in the other nations in the study. If the US government were a parent, it would be guilty of child abuse.

Changing Workforce

Good jobs at good wages are harder to find and to keep. Between 1979 and 1992, the proportion of year-round, full-time workers paid low wages jumped from 12 to 18 per cent — nearly one in five full-time workers overall, one in four women workers, one in four black workers and nearly one in three Latino workers. Almost half of all young full-time workers, aged 18-24, earn low wages, up sharply from 1979.

The US government has encouraged lower wages and wider income inequality by letting the minimum wage plummet in value. In 1967, a full-time, year-round worker paid the minimum wage earned above the official poverty line for a family of three. The same was true in 1979. By 1993, these wage earners were way below the official poverty line for a family of two. Most minimum wage earners are adults, not teenagers, and more than a third are their family's sole breadwinners. Nearly two out of three workers who earn the minimum wage are women.

The jobs of today and tomorrow are more exploitative and precarious than the unionized jobs of yesterday. This is "the age of the contingent or temporary worker, of the consultant and subcontractor, of the just-in-time workforce — fluid, flexible, disposable," writes Lance Morrow in *Time* magazine. "Companies are portable, workers are throwaway". It is the age of the "flex force" and of "McJobs".

Contingent workers are temporary workers, contract workers, "leased" employees and part-time workers, a growing share of them involuntary part-timers wanting permanent full-time work. Contingent workers made up a third of the US workforce in 1993 up from one-fourth in 1988. Some full-time workers are finding themselves fired and then "leased" back at a large discount by the same companies.

Contingent workers are expected to outnumber permanent full-time employees in the United States by the end of the decade. While some professional consultants will thrive, many more people will be working harder for less — permanently juggling long hours at multiple, changing jobs, if they can find them, just to make ends meet.

More than three-quarters of all the new net jobs during 1979-89 were in the low-paying retail trade and services industries (business, personnel, health), which employ a large share of part-timers. Between March 1991 (the official end of the last recession) and July 1993, more than a quarter of the new jobs were provided by temporary

continued overleaf

help agencies and another quarter were part-time jobs, three-quarters of which were filled by people looking for full-time employment. Between January and July 1993, 20 per cent "of the new jobs were people becoming self-employed — a category that includes underemployed people making do with makeshift work as well as budding entrepreneurs." The number of involuntary part-timers almost tripled between 1970 and 1993.

Growing numbers of workers fear falling living-standards and unemployment. In the United States, male part-timers earned 41 per cent less per hour than full-time workers in 1989; women part-timers earned 24 per cent less in wages per hour than women working full-time. The average weekly income of full-time workers in 1992 was $445 while it was $259 for temporary workers and $132 for part-time workers, growing numbers of whom are working part-time or temporary jobs, and earning so little, only because they cannot find full-time jobs.

Besides having lower wages, scarcer benefits and poorer prospects for promotion, contingent workers are excluded or penalized by current labour law, Social Security, disability and unemployment compensation. Contingent workers are also much more vulnerable to discrimination, harassment and health and safety violations. In the words of *Forbes* magazine, "You can shed a temp if he or she doesn't work out; hiring and firing a regular employee is a lot trickier, thanks to a growing list of anti discrimination laws."

Leaner and Meaner

While some workers have "jobs with no futures" others have "futures without jobs". The official US unemployment rate averaged 4.5 per cent in the 1950s and 4.8 per cent in the 1960s. It climbed in the following decades, averaging 6.2 per cent in the 1970s and 7.3 per cent in the 1980s — without counting the growing numbers of "discouraged" and other jobless and involuntary part-time workers. The 1990s began with another official recession followed by a "jobless recovery".

Corporations have been steadily "downsizing" their workforces. Information technology is making middle managers expendable along with clerical and assembly workers. Between 1979 and 1992, the total worldwide employment of the Fortune 500 companies dropped from 16.2 million to 11.8 million.

The evidence about downsizing's impact on company performance to date is mixed. According to the 1994 American Management Association survey — whose respondents are mostly major companies, nearly half of them in manufacturing:

> "51 per cent of companies reporting workforce reductions since January 1989 reported an increase in operating profits after the cuts; 20 per cent said operating profits declined . . . Productivity gains have been even more elusive. Among all firms reporting reductions, only a third said productivity increased; nearly as many (30 per cent) said it had declined . . . The surest after-effect of downsizing is a negative impact on employee morale, which suffered in 86 per cent of all firms reporting cuts any time since January 1989."

According to the survey, "workforce reductions begin to show more positive effects some three years after the most recent round of cuts — although time does little to heal the . . . negative impact on employee morale." In *Business Week*'s words:

> "This is the bleak underside of the new workplace. For every empowered employee, there's at least another cowering in his [*sic*] office, putting in longer hours to keep up with a job that used to keep two people busy. For every highly-skilled worker moving up the ladder, there's another, marginalized, struggling to make ends meet."

Corporations are demanding that employees cooperate in corporate restructuring — through worker-management teams, quality circles and so on — without sharing in the benefits of increased productivity and profit. *Business Week* quotes MIT professor Paul Osterman: "You can't expect workers to keep contributing their ideas when they don't get rewarded for them."

The main inducement for worker co-operation is said to be continued employment at a time of high unemployment, but often that is not the case. In his testimony to the Commission on the Future of Worker-Management Relations, Romie Manan, who had worked at National Semiconductor's plant in Santa Clara, California, described how workers agreed to company demands to form teams with management to beat Japanese competition because they feared for their jobs and were told that increasing the company's profitability would increase their job security.

> "That was the purpose of the teams — to make us more efficient and productive . . . We became more efficient . . . Then the company took the ideas contributed by the experienced workforce in Santa Clara . . . and used them to organize new fabs [fabrication lines] with inexperienced workers in Arlington, Texas, where wages are much lower. Then the experienced workers lost their jobs."

Bad as unemployment and underemployment are now, they are likely to worsen unless there is a major change in policies. Trends analyst Jeremy Rifkin predicts that within a few decades, hundreds of millions of people working globally in manufacturing, services and agriculture could be displaced through automation, artificial intelligence and biotechnology.

In the past, farmers and farmworkers displaced by the mechanization of agriculture were absorbed in large numbers by manufacturing. Many workers displaced by earlier waves of automation in manufacturing were absorbed by the service sector. But there is no new industry capable of absorbing the millions of workers being displaced by automation and reengineering today. Biotechnology, for example, is a low-employment industry.

In Mexico, where numerous US and other corporations have set up shop to take advantage of cheaper labour, there are already signs of technological unemployment. At Panasonic's TV factory in Chalco, employment fell in 1994 while sales and production rose. Edgardo Leyva, personnel manager at the Panasonic factory, told a reporter:

> "Maybe in the Far East, wages are low enough to assemble by hand, but here it's still cheaper to bring in machines . . . Machines don't need costly job training, don't quit and don't get paid vacations."

Red-lining denies residents mortgages, insurance, home-improvement and home-equity loans. University educations are often financed by the kind of home-equity loans absent in red-lined areas. Loans and insurance needed for the start-up, expansion and protection of local businesses are also denied.

As Charles Finn, author of a 1989 study of mortgage lending for the Boston Redevelopment Authority, put it:

> "Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline . . . Mortgage and construction lending decisions are often made based upon expectations about neighbourhood growth or decline — expectations about risk. Thus, banks' expectations of neighbourhood growth or decline often become reality — a 'self-fulfilling prophecy'. Without a steady flow of credit, neighbourhoods deteriorate. Economic opportunities for residents of these neighbourhoods are reduced, even during periods of economic growth. During periods of economic decline, disinvested neighbourhoods suffer disproportionately."[12]

The Finn report went on to observe that "the ultimate effects of restricted credit availability on neighbourhoods . . . are physical neighbourhood decline, reduced housing values, crime and reduced opportunities for socio-economic mobility."

In 1992, a Federal Reserve Bank of Boston report on racial disparities in mortgage lending found that, even after adjusting for all the financial and employment variables considered by lenders — credit histories, loan-to-value ratios, income-to-debt burdens — black and Latino mortgage applicants in the Boston metropolitan area were about 60 per cent more likely to be turned down than white applicants. "In fact," the report states, "high-income minorities in Boston were more likely to be turned down than low-income whites." The report showed that few mortgage applicants of any race have perfect credentials and that lenders have considerable discretion over how to judge income-to-debt ratios, past credit problems and other factors. The report concludes:

> "The results of this study suggest that for the same imperfections, whites seem to enjoy a general presumption of creditworthiness that black and Hispanic applicants do not, and that lenders seem to be more willing to overlook flaws for white applicants than for minority applicants."[13]

During a 1993 congressional hearing which documented the continued role of insurance red-lining, Joseph Kennedy, Democratic Representative for Massachusetts, observed:

> "The message that insurance companies are sending to low-income and minority consumers is crystal clear: you are irresponsible, you are dangerous, and you don't deserve insurance. Solely because of the colour of their skin, the size of their paycheck and the address of their home, millions of Americans must pay more in premiums for less coverage, take their chances with shadowy, unregulated and underfunded companies, or go without any insurance at all and face financial disaster as a daily fact of life."[14]

Blacks also face major discrimination in the workplace. A report from the Washington-based Economic Policy Institute, *The State of Working America*, reveals that in 1989 a black worker with less than nine years experience earned 16.4 per cent less than an equivalent white worker — in 1973, blacks earned 10.3 per cent less and in 1979 10.9 per cent less. "In terms of education, the greatest increase in the black-white earnings gap was among college graduates, with a small 2.5 per cent differential in 1979 exploding to 15.5 per cent in 1989."[15]

Peter Frischmuth/Still Pictures

Looking for food in San Francisco. Author Theresa Funiciello, who experienced the welfare system as a recipient, organizer and employee, explains that demands upon welfare recipients to supply papers, evidence of "proper behaviour" and other "time- and soul-consuming documentation" of their worthiness combined with run-arounds, lost files, long waits in demeaning offices, brutality by guards and unjustified cut-offs are intended to keep the numbers of people on welfare down. She says "It ensured that only those in truly desperate need *would subject themselves to the endless red tape and humiliation of the welfare . . . Since welfare recipients are perceived to be the dregs of society, there is no need to treat them humanely".*

While official unemployment rates are high for white young people, they are higher for blacks and Latinos. Using carefully-matched and trained pairs of white and black young men applying for entry-level jobs, the Urban Institute documented in a 1991 study that discrimination against black job seekers is "entrenched and widespread." An earlier study documented discrimination against Latinos.[16]

During the official recession of July 1990-March 1991, blacks were hit hardest. According to the *Wall Street Journal*, black workers "lost a disproportionately high share of jobs in companies that cut staff, but also gained a disproportionately low share of positions added during the recession."[17] Many lost their jobs despite having seniority. At Digital Equipment Corporation, for example, blacks made up under 7 per cent of the workforce in 1990 and bore 11 per cent of the layoffs by 1991. At BankAmerica, blacks were under 8 per cent of the workforce but bore 28 per cent of the job losses.[18]

When the General Accounting Office studied racial differences in 1990-91 layoffs, it found that, compared with whites and Latinos, blacks experienced the longest spells of unemployment among displaced workers who eventually found jobs and showed the largest loss in wages in their new jobs. Blacks were also disproportionately affected by layoffs in prior periods when the economy was growing.[19] When the national government "downsized" in 1992, it fired black workers at more than twice the rate of whites. The *San Jose Mercury News* commented in an editorial:

> "It's not that they have less education, experience or seniority. The difference has nothing to do with job performance . . . Blacks are fired more often because of their skin colour."

Blacks, who were 17 per cent of the executive branch workforce in 1992, were 39 per cent of those dismissed. Whites made up 72 per cent of the workforce and only 48 per cent of those fired. (Latinos and Asians were fired at roughly the same rates as whites)

> "Rank didn't help. Black senior managers went out the door as often as black clerks. It gets worse. The deck is stacked against fired minority workers with legitimate grounds for reinstatement, the study shows. They win only one in every 100 appeals."[20]

Blaming Women

The reality is that the US economy is increasingly producing poverty wages and persistently high unemployment and underemployment. The reality, too, is that most poor Americans are white, many married couples are poor, and even if there were no children of colour or single mother families, the United States would still have an extraordinarily high poverty rate. The myth of a matriarchal "culture of poverty" hides this reality of an economy of impoverishment and governmental neglect.

Women are scapegoated as producers and reproducers of poverty, crime, violence and social pathology — never mind that impoverished women do not create poverty any more than slaves created slavery.

Today, liberals and conservatives alike accuse single mothers, especially black single mothers, of putting their children and all society at risk.[21] Imagine labeling married-couple families as pathological breeding grounds of patriarchal domestic violence or suggesting that women should never marry because they are more likely to be beaten and killed by a spouse than a stranger.[22]

The labeling of children born to unmarried women as "illegitimate" has again been legitimized. Besides meaning "born out of wedlock", illegitimate also means illegal, contrary to rules and logic, misbegotten, not genuine, wrong — to be a bastard. Single mothers and their children, especially black women and children, have become prime scapegoats for illegitimate economics.

The typical women behind the rise in never-married mothers in the 1980s "differed from the stereotype" explains the US General Accounting Office: "They were not unemployed teenaged dropouts but rather working women aged 25 to 44 who had completed high school". Contrary to popular images, the *proportion* of black

Unreversed Discrimination

Many white men who are "falling down" the economic ladder are being encouraged to believe they are falling because women and people of colour are climbing over them to the top or dragging them down from the bottom. In believing this, they blame women and people of colour for their job and wage losses rather than the economic system.

Many whites maintain (wrongly) that "reverse discrimination" is a larger problem than racism. A study of the views of 15 to 24-year-olds found that 49 per cent of whites believe that it is more likely that "qualified whites lose out on scholarships, jobs and promotions because minorities get special preferences" than that "qualified minorities are denied scholarships, jobs, and promotions because of racial prejudice".

Affirmative action has been twisted to slander people of colour as sub-par beneficiaries of "reverse discrimination." It is generally assumed that blacks and women are unqualified while white men are qualified. If, for instance, blacks or women are hired for a job or admitted to the university, it is only because of affirmative action; if white men are not hired or admitted, it is "reverse discrimination".

But without stigma, there is *de facto* affirmative action for white and wealthier offspring who do not otherwise meet college standards. A *Boston Globe* article on "legacy admissions" noted that the acceptance rate for children of Harvard alumni was more than double the rate for all applicants in the class of 1992. "Far from being more qualified, or even equally qualified, the average admitted legacy at Harvard between 1981 and 1988 was significantly less qualified than the average non legacy."

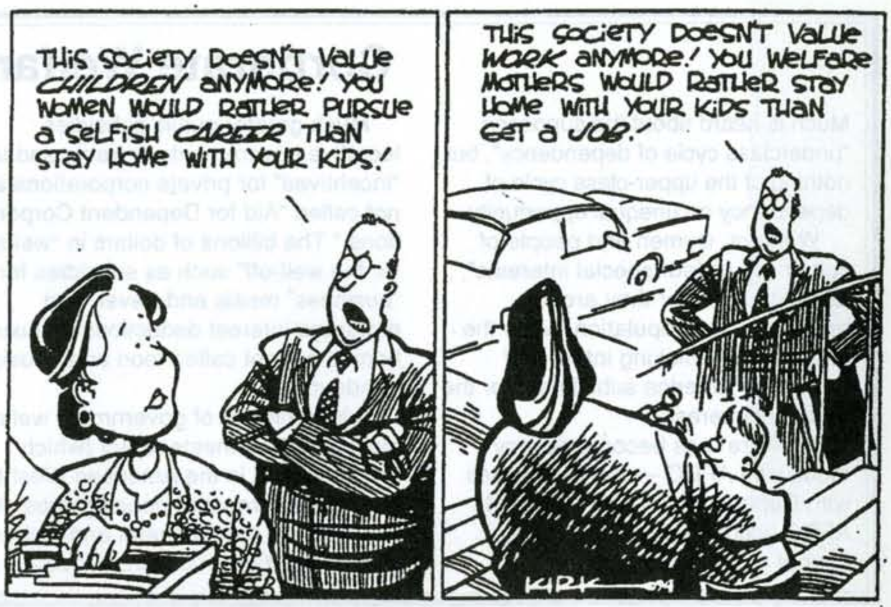
In his book, *The Rage of a Privileged Class,* Ellis Cose recounts a conversation about affirmative action with a white Harvard student who was furiously indignant. Why, he asked, "couldn't they compete like everyone else? Why should hardworking whites like himself be pushed aside for second-rate affirmative action hires?" Cose recalls:

> "When the young man paused to catch his breath, I took the occasion to observe that it seemed more than a bit hypocritical of him to rage on about preferential treatment. A person of modest intellect, he had gotten into Harvard largely on the basis of family connections. His first summer internship, with the White House, had been arranged by a family member. His second, with the World Bank, had been similarly arranged. Thanks to his nice internships and Harvard degree, he had been promised a coveted slot in a major company's executive training program. In short, he was already well on his way to a distinguished career — a career made possible by preferential treatment."

As *Newsweek* observes:

> "For most of the past two decades, American politics have been driven to the right by a crude but powerful assumption: that those 'tax and spend' Democrats have been taking away the taxpayers' hard-earned money and giving it to 'them' — the so-called undeserving poor."

Payments to the poor, however, add up to less than the three largest tax breaks that benefit the middle-class and the wealthy: deductions for retirement plans, deduction for home mortgage interest and the exemption of health-insurance premiums that companies pay for their employees.



children born to unmarried mothers, most of whom are not teenagers, has increased because the birth rates of *married* black women have fallen dramatically.[23] (The term "single parent family" does not necessarily mean that a family does not have two parents living together; it may mean that two parents are not legally married to each other.)

Many female-headed households are poor because women tend to be paid less than men. A 1977 government study found that if working women were paid what similarly-qualified men earn, the number of poor families would decrease by half.[24] A 1991 government study noted that:

> "Many single mothers will remain near or below the poverty line even if they work at full-time jobs. Problems they are likely to face include low earnings, vulnerability to layoffs and other work interruptions; lack of important fringe benefits such as paid sick leave and health insurance; and relatively high expenses for childcare."[25]

The official 1993 unemployment rate for women maintaining families was 7.7 per cent for whites and 13.7 per cent for blacks.[26] The actual jobless and underemployment rates are higher. Women working full-time in 1993 earned 72 cents for every dollar men earned. Affordable childcare is hard to come by in the United States, even though more than half of all women with children under six years old, and three-quarters of women with children aged 6 to 17 years old, are in the paid workforce.

Racist and sexist scapegoating come together in the rollback of welfare. The demonization of the (single) welfare mother, writes Rosemary L. Bray, a former editor of the *New York Times Book Review* whose family received welfare when she was a child, reinforces the patriarchal notion that "women and children without a man are fundamentally damaged goods" and allows "for denial about the depth and intransigence of racism". Bray observes:

> "The writers and scholars and politicians who wax most rhapsodic about the need to replace welfare with work make their harsh judgements from the comfortable and supportive environs of offices and libraries and think-tanks. If they need to go to the bathroom mid-sentence, there is no one timing their absence. If they take longer than a half-hour for lunch, there is no one waiting to dock their pay. If their baby sitter gets sick, there is no risk of someone having taken their place at work by the next morning. Yet these are conditions that low-wage women routinely face, which inevitably lead to the cyclical nature of their welfare histories."[27]

Politicians and the media encourage slanderous stereotypes of corrupt and lazy "welfare queens". When California cut its monthly welfare (AFDC) payment for a mother and two children in 1991 — a payment which was already $2,645 below the official annual poverty line — Governor Pete Wilson described the cut as "one less six-pack per week."[28]

Contrary to the "welfare as a way of life" stereotype, the typical recipient has one or two children and "is a short-term user" of Aid for Families and Dependent Children (AFDC);[29] long-term recipients are in the minority. More obstacles to getting off welfare confront long-term recipients, such as a lack of prior work experience, a high school degree or childcare; having poor health or disabilities, or caring for a child with disabilities.

Also contrary to stereotype, most daughters in families who receive welfare do not themselves become welfare recipients as adults.[30] The myth of an intergenerational black matriarchy of "welfare queens" is particularly abusive because black women were enslaved workers for over two centuries and have always had a high labour force participation rate, but because of racism and sexism, have a disproportionate share of low wages and poverty.[31]

Another stereotype of the "welfare mother" is a "baby having babies". In the "Replacing Welfare with Work" chapter of the Democratic Leadership Council's blueprint for the Clinton presidency, for example, the only age reference is to the "15-year-old welfare mother with a new baby." In fact, just 0.1 per cent of mothers receiving welfare are 15 or younger, and less than 4 per cent are 18 or younger.[32] A General Accounting Office report reviewing the 1976-92 period observes:

> "In 1992, never-married women receiving AFDC were less likely to be teenage mothers. They were also older and better educated than never-married women receiving AFDC in 1976."[33]

The "babies having babies" image of welfare recipients not only feeds the current welfare backlash but also undermines efforts to help young mothers complete their schooling, pursue higher education, secure decent childcare and get a job with a living wage. Many of the harshest critics of teenage pregnancy are also adamant opponents of providing sex education and contraceptive services for teenagers.

Those who advocate abolishing welfare completely for all unmarried mothers under 18, 21 or even 26 years old, or who would require unmarried mothers to live at home to receive AFDC, ignore these realities. In fact, only a minority of teenage mothers receiving AFDC live alone with their children while most typically live with relatives. Some teenage mothers, however, would be in danger if they did live with family members. For

Corporate Welfare

Much is heard about the supposed "underclass cycle of dependency", but nothing of the upper-class cycle of dependency on unequal opportunity.

Workers, women and people of colour are called "special interests", although together they are the majority of the population, while the private, profit-making interest of Corporate America substitutes for the "national interest."

"Welfare" has become synonymous with AFDC — Aid to Families with Dependent Children. In 1994, AFDC accounted for only one per cent of national expenditure.

Much greater public subsidies, lucrative government contracts and tax "incentives" for private corporations are not called "Aid for Dependent Corporations." The billions of dollars in "welfare for the well-off" such as subsidies for "business" meals and travel, and mortgage interest deductions on luxury homes are not called food and housing handouts.

A long history of government welfare such as the Homestead Act (which provided land in the American West to settlers), segregated housing subsidies and national land, mineral and timber give-aways (which continue today), is rewritten as "pulling yourself up by your own bootstraps."

Many Senators are dedicated to cutting millions of women and children off welfare while staunchly defending the tens of billions of dollars which subsidize ranching, mining and timber interests every year. There is little talk about ending corporate welfare when such politicians defend an 1872 law that allows mining companies to strip minerals from public lands, take the profits, pay next to nothing in return and leave behind plundered lands and environmental hazards.

instance, a study funded by the National Center on Child Abuse and Neglect found that in a sample group of young women who had been pregnant as adolescents, 55 per cent reported having been molested, and the majority (54 per cent) of that group said their molesters were family members.[34]

Being married is neither necessary nor sufficient to avoid poverty. The official 1993 poverty rates for married-couple families with children under 18 were 8 per cent for whites, 14 per cent for blacks and 24 per cent for Latinos.[35] Moreover, poverty is much greater and rising in younger families. The poverty rate for children in the families of married couples who were under 30 years old climbed from 8 per cent in 1973 to 17 per cent in 1989, and 20 per cent in 1990 during the recession.[36] Yet a wave of policies under names like "wedfare" and "bridefare" is being enacted in the US which reward women who marry and punish unmarried women and their children.

Other national and state policies have imposed various mandatory work programmes for welfare recipients, even though a 1988 federal study estimated that there were only enough "low-skill" job openings nationwide to employ one out of six AFDC recipients who might be expected to work. The pretence that leaving welfare through "workfare" means leaving poverty and improving the lives of children undermines efforts to ensure full employment with adequate wages, paid family leave, childcare, healthcare, training and unemployment compensation. In their efforts to make more daycare available for AFDC recipients so that they can move "from welfare to work", many states are exempting childcare providers from health and safety regulations.[37]

About four million adults currently receive AFDC. According to the government undercount, eight million people were unemployed in 1994; millions more were working part time involuntarily. In 1993, nearly three million people who worked full-time, year-round were below the official poverty line.[38]

> *"Wage discrimination for women is worse in the US than in any other major industrial country except Japan."*

Speaking about his plans to "end welfare as we know it", President Clinton told US governors in February 1993, "We will remove the incentive for staying in poverty" because people should not "draw a check for doing nothing when they can do something." The notion of work which presumes that a mother raising children with the help of welfare is getting something for "doing nothing", while someone managing a corporation whose toxic waste is polluting that parent's community is a productive member of society has to be rejected.

Locking up "Surplus" Labour

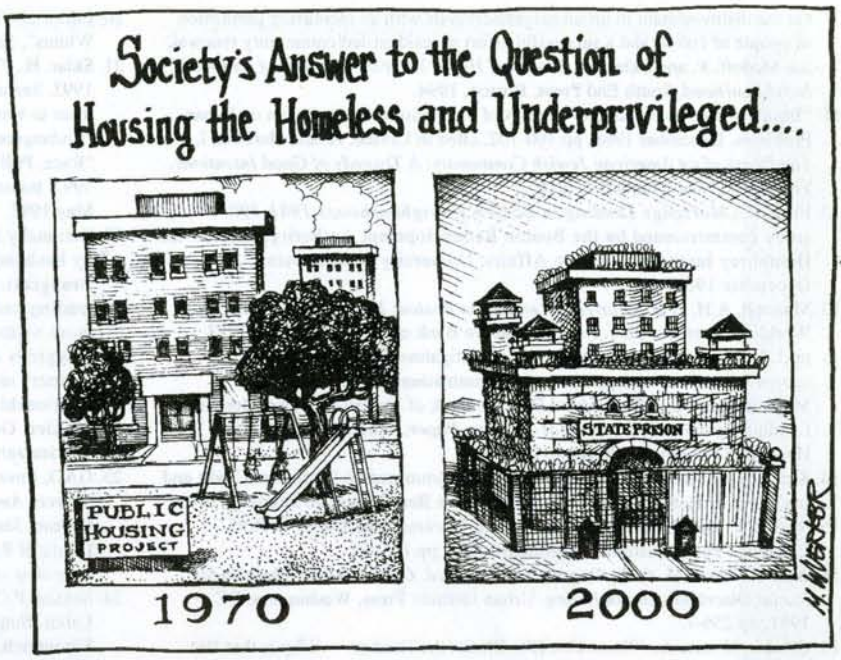
The ultimate goal of the right is to abolish welfare altogether and replace it with nothing — except prisons and, perhaps, poorly-funded orphanages. Dismantling welfare, however, will lead to more hunger, homelessness, crime and, as battered women's advocates are warning, more beating and murder of women and children less able to flee their abusers.

Before the 1994 Crime Bill which endorsed harsher sentences, the United States locked up more people than any other country except Russia. Today, some 1.3 million people are incarcerated. Between 1988 and 1993, the national and state prison populations swelled 188 per cent, even though the crime rate went down over that period.

More than half the federal prison population is black and Latino. In 1991, the state prison population was 35 per cent white, 46 per cent black and 17 per cent Latino. Between 1988 and 1992, the number of blacks entering state prison increased 42 per cent, twice the rate of whites,[39] largely as a result of the racially-biased "War on Drugs".

Blacks do not use drugs disproportionately compared to whites, but are disproportionately punished. More than three out of four drug users are white (non-Hispanic) but blacks are much more likely to be arrested and convicted for drug offences and to receive harsher sentences. The overall arrest rate for drug possession is more than twice that for sale or manufacturing. Violent offenders are being released from prison early to make room for non-violent drug offenders. Even lawyers and judges admit that:

"Although it is clear that whites sell most of the nation's cocaine and account for 80 per cent of its consumers, it is blacks and other minorities who continue to fill up America's courtrooms and jails, largely because, in a political climate that demands that something be done, they are the easiest people to arrest."[40]



Matt Wuerker

Shortly after the 1992 Los Angeles riots, the *New York Times* reported in an editorial:

"It is no accident that our correctional facilities are filled with African-American and Latino youths out of all proportion . . . Prisons are now the last stop along a continuum of injustice for these youths that literally starts before birth . . . There's nothing inherently criminal in young black men of the 1990s any more than there was in young immigrant men of the 1890s. What is criminal is to write them off".[41]

Likewise, the National Center on Institutions and Alternatives observes that the "startling racial disparities [in arrest and imprisonment] are not due to any peculiar incorrigibility, moral deficiency or inherent violence among African-American males. Rather, they are the predictable consequence of having replaced the social safety net with a dragnet."[42] What is already a difficult search for a job becomes even harder with a criminal record.

Seeking Solutions, Not Scapegoats

It is time to strip away the camouflage of scapegoating from the upward redistribution of wealth. Scapegoating fuels fear and fear fuels scapegoating. As Martin Luther King warned "The oceans of history are made turbulent by the ever-rising tides of hate. History is cluttered with the wreckage of nations and individuals who pursued this self-defeating path of hate."[43] King was assassinated while organizing the Poor People's Campaign, intended as a building block for an alliance of people of all races around economic justice.

Scapegoating makes it easier to divide people affected by social and economic policies; instead of working together across racial lines and gender divides to transform such policies, people turn on each other. The angry, shrinking middle-class is misled into thinking that those lower on the economic ladder are responsible for pulling them down, when in fact, those on top are rising at the expense of all those below them. Scapegoating encourages people to think of "the poor" as the "Other America" — "Them" and not "Us". Scapegoating makes it easier to treat inner cities as outsider cities — separate, unequal and disposable. Scapegoating makes it easier to write off more and more people as "untouchables" while leaving unjust economic practices untouched.

It is time to stop shredding social safety nets and demanding that people do paid work for their living without ensuring full employment or living wages. It is time to stop pretending that the problem is people with cultures of poverty and not the prevailing economy of impoverishment. It is time to pose a true alternative to the dangerous false populism of the right. It is time to choose democracy over demagoguery.

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European Myths and Disasters

BEHIND THE MYTH OF EUROPEAN UNION: Prospects for Cohesion, edited by Ash Amin and John Tomaney, Routledge, London, 1995, £15.99/$22.95 (pb) 334 pp. ISBN 0-415-13078-6.

This book lives up to its title: it reveals several crucial myths underlying the unification of various countries into the European Union (EU). Foremost among these is the belief that integration has reduced the social and regional gaps between member countries, resulting in a greater "cohesion" amongst them, a primary aim of the EU since its inception. The 12 diverse essays in this volume, written by economists and researchers of regional development, describe the EU's fundamental failure to achieve this goal.

The reason for the failure, most of the essayists agree, is the EU's "blind but misguided" belief in free trade. Indeed, the strength of *Behind the Myth of European Union* is its devastating critique of the free trade fundamentalism pushed by the European Union and its exposé of the dangers inherent in continuing along these lines.

The creation of the European Single Market has strengthened the position of multinational corporations while having disastrous effects on "less favoured regions". Social and regional inequalities are growing. The future agenda of the EU, including European Monetary Union (EMU) — the single currency — is likely to centralize production in the economic core still further, causing a deeper divide between the rich and poor regions of Europe.

In their essay "The Challenge of Cohesion", editors Ash Amin and John Tomaney criticize the principle behind the EU's regional development policy: facilitating equal opportunities for every region to compete. For instance, EU money is poured into transport infrastructure and training to improve the competitiveness of "less favoured regions", but large companies stay firmly rooted in the "developed" regions to take advantage of existing economies of scale and to supply the rest of Europe from there.

As a result, the "blue banana" is consolidated, "the advanced metropolitan areas and flexibly specialized industrial districts that make up the arc of prosperity that spans the centre of Europe from south-east England to northern Italy".

Amin and Tomaney reject the theory that economic globalization and changing production systems benefit "less favoured regions" because corporations "decentralize" and rely more on sub-contracting and joint ventures. They conclude instead that:

> "if globalization is encouraging more region-centred networks of production, this is likely to happen in resource-rich regions".

Less favoured regions will be left competing for global investments designed to reduce labour costs. Moreover, the process of shifting power from the nation state to transnational structures, such as multinationals, the World Trade Organization and the European Union itself, erodes many traditional instruments which protect local production. Public procurement contracts, for example, are no longer directed towards firms in the region, public services are deregulated and jobs are lost as subsidies disappear.

In his chapter "Unemployment in Europe", Jonathan Mitchie concludes that EU integration policies based on orthodox free-market economics are one of the main causes of a loss of jobs. Next to automation, he says, the dominance of monetarism, privatization and labour market deregulation has spurred unemployment figures to rise above 20 million (despite continued government efforts to reshape the statistics).

These figures — and the reality behind them — will only worsen if the European Commission continues with its neo-liberal textbook policies. Mitchie warns against following the UK "in a drift towards poverty, low wages and poor employment conditions for a large and growing section of its workforce".

Many of the essays contain serious warnings about the impacts of the EMU, the next and potentially most destructive phase of European unification. As Amin and Tomaney point out, the large scale cuts in public expenditure and the strict monetary policies "spell disaster for the less favoured regions and even for the EU as a whole" because they will reduce demand and increase unemployment and insecurity.

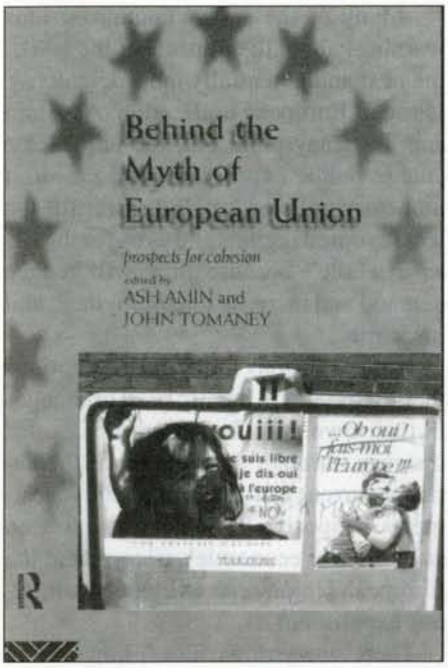
No less serious is the loss of options that countries will have to react to changes in their own specific circumstances, for instance, through devaluation of the national currency or through public investments. Imposing a monetary union on such diverse economies as comprise the European Union is an extremely dangerous experiment.

There are serious flaws, however in the alternatives proposed by the essayists to the prevailing economic model. These stem from the shared belief in traditional Keynesian economics according to which an active interventionist state stimulates consumer demand and growth. The 1950s, 1960s and early 1970s are described as a "Golden Age" in which such economic policies ensured full employment (near enough) and decreasing inequality.

But this period also established the mass consumption society which is threatening the survival of our planet. It is indicative that, apart from a few references to the limits of sustainable development, the essayists do not elaborate further on the relationship between economy and environment. None of them gives any indication of how high economic growth figures can fit within the limits of decreasing environmental space without using up natural resources at an unprecedented speed. Moreover, the authors keep a purely "Eurocentric" vision with no hint of a global vision taking equity into account.

More specifically, a critical approach to terms such as "less favoured regions" would have been welcome. The regions — areas of every EU country but located most prominently in Portugal, Ireland and Spain — might have a lower GDP but not necessarily a lower level of prosperity or quality of life than the highly-urbanized regions held up as a shining example for the rest of the EU.

Sympathy for Keynesian-style public investments leads the authors to write enthusiastically about the large-scale expansion of transport infrastructure, the Trans-European Networks (TENs),



arguing that transport infrastructure is what the regions need. Only one author warns that these investments are likely to concentrate production in the already wealthy regions. The disastrous environmental impacts of the largest transport investment plan ever go unmentioned.

While many of the authors argue for protecting local economic activity, they do not examine ways of protecting local jobs and the environment through green duties, tariffs and ecological tax reforms. Rather they maintain that public investments are the answer without questioning the dogma of the free movement of capital and goods.

Thus, the authors repeatedly argue that more money should be made available to the EU structural funds but do not specify how this money should be spent to benefit the regions. EU structural funds are among the most disastrous areas of EU spending from social and environmental perspectives, because of the massive investments in road building and end-of-pipe environmental technologies.

Obviously, there is a crucial difference in the impacts of public investments in motorways, dams and other projects that benefit an economy based on ever-increasing energy consumption and long-distance transport of goods, on the one hand, and investments in education, community renewal, health, renewable energy and other projects which stimulate diverse, local economic activity and jobs, on the other.

The EU refuses to acknowledge that its dramatic restructuring of national economies is not "lifting all boats" but is becoming a social and environmental disaster. In June 1996, the EU responded to the growing impatience and insecurity felt by a huge majority of EU citizens by baptizing its bi-annual.gathering of heads of state in Florence as the "Jobs Summit". In the "confidence pact", they once again presented their "miracle cure" of deregulation, flexible labour markets and massive investments in transport infrastructure — precisely the policies that will exacerbate unemployment, social fragmentation, regional inequality and environmental damage. Under the hollow mantra of global competitiveness, the interests of multinational corporations are considered sacred, while local economies and the environment are sacrificed.

In France, Spain and other European countries, movements against unemployment and poverty are emerging to resist the dramatic neo-liberal reshaping of their societies. In many countries, movements critical of the EU are preparing referenda on European Monetary Union and the next EU treaty (Maastricht-II). Changing the self-destructive development model that has Europe in its grip, however, requires a Europe-wide coalition between movements that traditionally put either unemployment and poverty first or the environment. The time is ripe for such a breakthrough.

Olivier Hoedeman

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The Trader's Dilemma

THE MORAL ECONOMY OF TRADE: Ethnicity and Developing Markets, edited by Hans-Dieter Evers and Heiko Schrader, Routledge, London, 1994, £42.50/$69.95 (hb) 271pp. ISBN 0-415-0929-0.

Sociologists of development often distinguish developing economies from those in the industrial heartlands of Europe or the United States by the "non-economic" practices of the former. Stereotypical renditions of rural, subsistence economies focus on how they are "governed by tradition" or how they activate symbolic displays of wealth and barter in order to maximize the prestige of trading partners.

Neo-classical economic analyses, which are calibrated to evaluating efficiency against an abstract idea of a "self-regulating market", tend to judge such practices harshly. They appear to the economist as irrational since they do not directly serve the goals of raising profit margins and accumulating monetary wealth.

However, anthropologists and sociologists have demonstrated that large-scale feasting, gift-giving, or the coveting of goods which are unproductive or inedible often serve to affirm a sense of solidarity between kin or strangers and thus invigorate a society. Economic historian Karl Polanyi popularized the term "embeddedness" to describe examples of exchange or gifts which could only be adequately understood if they were set within the context of a wider social order. An "embedded" economy, according to Polanyi, is an economy where exchange operated harmoniously with the local social norms of justice, fairness and morality.

Polanyi discussed embeddedness in the context of what he termed "the Great Transformation" of European economies from a complex network of mutual aid to a condition where money markets and rational accounting callously began to manipulate the lives of people. His work often implied that Western, commodified economies were disembedded. The contributors to this book similarly evaluate such a fundamental transformation in decidedly non-European contexts ranging from Java, to Singapore, to Sri Lanka.

Rather than portraying the robust markets of South-East Asia in the admiring tone found in financial journals, this study attempts to convey "the cultural drama" of the people performing this economic spectacle. The product of six years' micro-economic and anthropological field research, the volume examines the concrete histories of specific firms and entrepreneurs in economies which we would otherwise know only through superlative statistics.

These case studies document the strategy and reasoning of particular traders who must make their accounts balance while fulfilling (or fleeing) the net of social obligations in their home communities, a tension the editors have cleverly identified as "the trader's dilemma".

The "trader's dilemma" arises when entrepreneurs begin extending their activity from a rural context, where prices, consumption and distribution are moderated by what local persons think is just and right, to situations where prices and markets are "anonymous [and] often anarchic". Thus:

> "traders tend to be caught in the middle and are justly called 'middlemen' in this sense, bearing the risk not only of economic loss but also of discrimination and peasant wrath".

The editors and each contributor posit the trader's dilemma as a universal situation in every developing economy, a postulate which lends a strong element of coherence to the volume as a whole. This cultural drama is styled not as a tragedy but more as an adventure story. The chapters do not so much explore how divergent expectations rend families or firms apart as speculate instead on how successful traders have already overcome this pressure.

The solutions to the trader's dilemma are seen to be the investment of profits in symbolically-appropriate practices, the manipulation of "cash-and-carry" trade, the depersonalizing of economic relations or, most interestingly, the specialization of religious or ethnic minorities in trade at home or in their overseas diaspora. This range of analyses quite handily dismisses any misconception that the dynamics of South-East Asian trade are due to the cultural shrewdness of "the Chinese" or the Confucianist faith.

Among the more enjoyable contributions are the two ethnographies of small retail agencies such as Mr. Lim's Sharks' Fins Company or the medicinal herb agency of KUM Ltd. In both these cases, the patriarchal founders of each company strive to maintain the image of a traditional Chinese firm while consciously distancing themselves from dense networks of family obligation.

The interviews with decision-makers in the firm convey a canny knowledge of how to manipulate social pressures and market trends. However, neither ethnographer penetrates below the level of the management to explore how the employees of each firm might be still bound by norms of reciprocity which might encourage them to serve some customers with more attention or with under-the-counter generosity.

Most interestingly, Thomas Menkhoff explores the ideal of trust (*xinyong*) which Chinese traders try to exercise with their patrons across countries and even oceans without the use of correspondence or faxes but through face-to-face contacts. This example raises a question (not addressed in this volume) of how seemingly anonymous and anarchic international trade may in fact be "embedded" in different forms of interpersonal obligations.

Two chapters are particularly engaging from a theoretical point of view. Sarah Southwold-Llewellyn conducts a masterful study of common sense ideas surrounding the *mudalali* traders of Sri Lanka. She directly confronts both folk and political myths of the "unscrupulous trader" to show how they are useful to all segments of society: the public, policy-makers and traders themselves.

By manipulating this theme, traders can play upon their "tough image" in order to turn their backs on communal commitments. Patrons can also justify their hard bargains (while simultaneously appealing to traditional reciprocity when they request credit). In this and other chapters, a nuanced view is given of how trading action leads to the differentiation of groups of people by caste and, ultimately, by ethnicity.

The introductory discussion of trade in social science by Heiko Schrader provides a readable and reliable background to the debate surrounding Polanyi's work. It is particularly useful in defusing evolutionary arguments about economic development (and presumably the entire notion of a "developing economy").

He cites ample literature to refute the commonly-held hypothesis that states and markets work at counter purposes and explores how instead these two social institutions support one another.

Thus, in addition to directing readers' attention to contexts such as South-East Asia where the relationship between substantive and formal economic action is shifting, he also points out that in the analysis of the welfare state in industrial economies, the metaphor of embeddedness has far from exhausted its usefulness.

Schrader's analysis of the pattern of "re-embeddedness" provides a welcome change to a common perspective (even among some of the contributors) that only in "traditional" societies are markets embedded in other less-avaricious social institutions while "modern" societies are always disembedded.

He cites examples of non-profit organizations, barter and the provision of development assistance as signs that the disruptions created by markets disembedded from their social contexts are becoming "re-embedded" in a new social context.

The Moral Economy of Trade provides a useful addition to a growing literature on the social meaning of economic restructuring worldwide. The final chapter by Hans-Dieter Evers compares the results of his research initiatives to the received wisdom about "mysterious market forces" in the European Union and in the "other" Europe to the east. He senses a second "Great Transformation" occurring in Europe where a common market has already taken root in a political space where there is no common state — he argues that this is the ultimate symbol of disembeddedness.

Although Evers is cautious about generalizing, he raises a warning that, although the expansion of petty trade can be a liberating force which erodes rigid bureaucracies and oppressive regimes, it is also highly caustic. Should existing nation-states not be "creative" enough to devise transnational forms of political regulation that can encompass the Eurasian trading area, the next transformation may be plagued by continued nationalist dissent and the growth of religious fundamentalism.

It would seem that the logical place to look for such new institutional forms are in the evolving forms of "trust" and types of "commercial ethnicity" that the contributors to this volume tantalisingly identify but have not yet explored in great depth.

David G. Anderson

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Out of Place in the New World Order

GEOGRAPHIES OF EXCLUSION: Society and Difference in the West, by David Sibley, Routledge, London and New York, 1995, £13.99/$18.95 (pb) 206pp. ISBN 0-415-11925-1

A homeless woman sitting amidst her tatty belongings on the pavement is asked by local police to move along, denied access to what most people would consider public space. Gypsy camps are relegated by a local authority to waste land near the city's landfill, their identity made synonymous with dirt, pollution and rats.

Examples such as these prompt David Sibley to ask: Who are places for? Who do they exclude? How are these prohibitions maintained in practice?

Sibley's answers are a sensitive and persuasive account of exclusionary processes operating to separate and segregate different kinds of people spatially and to silence discourses about the city informed by those people who are marginalized on the basis of difference.

These exclusionary practices are visible in the built environment. They range from the private swimming pool clubs which allow affluent white people, to avoid poorer people of colour who use the municipal pool to the private, indoor shopping malls, policed by video cameras and security guards who are charged with keeping "undesirables" out.

Sibley argues that such practices, which quickly become invisible to those not affected by them, control those judged to be deviant, imperfect or in some way marginal to the mainstream (women, people of colour, the mentally disabled, and so on). Judgements as to who is marginal are, in turn, rooted in cultural norms which seek to create boundaries so as to reinforce personal identity and to control territories ranging in scale from the home all the way to the nation-state.

In exploring the dynamics of exclusion, Sibley considers how ideas of self and otherness emerge and become a basis for constructing interpersonal and inter-group boundaries and for drawing up strategies of spatial separation to keep one's self and one's group "pure", undefiled by stereotypic signs and symbols of dirt, disorder and animality.

For example, the intense policing of downtown districts keeps "dirty" homeless people away from workers and shoppers for whom such spaces must be kept "clean" and "attractive". Tendencies to purify through socio-spatial exclusion are reinforced by capitalist consumption practices and state institutions which feed back to restrict the heavily-policed life-spaces and chances of the marginalized. In this dynamic, the:

> "built environment assumes symbolic importance, reinforcing a desire for order and conformity if the environment itself is ordered and purified; in this way, space is implicated in the construction of deviancy. Pure spaces expose difference and facilitate the policing of boundaries."

One of the tasks of contemporary human geography is to show how dominant and marginalized individuals, groups and institutions interact to construct urban spaces of exclusion and inclusion. This quest, Sibley argues, has been seriously hampered by the systemic exclusion from academic debates of scholarly contributions from those who have been marginalized by dominant schools of thought within social science. Thus, just as space is policed to control and contain otherness and to minimize risks of pollution and defilement, knowledge about others is shaped by power relations within and outside the academy. The goal is to maintain the boundaries, purity and relative prestige of intellectual disciplines that undergird academic hierarchies of privilege.

Despite an apparent dissolution of disciplinary boundaries as a result of feminism and postmodernism:

> "There is still plenty of boundary maintenance in academia . . . and this will not change . . . The desire to maintain monopolies over areas of knowledge encourages ritual practices designed to protect the sacred status of established approaches to understanding."

Sibley provides some fascinating cases of how and why vital knowledge about the lives of urban African Americans and immigrants was rejected or suppressed. W.E.B. DuBois, one of the founding members of the National Association for the Advancement of Colored People, conducted detailed research on Philadelphia's black ghettos at the turn of the last century, highlighting the role of racism and discrimination in housing and job markets in creating the city's segregated social spaces.

A few years later, progressive feminists, such as Edith Abbott at the University of Chicago's social work school, employed field and case work methods to illuminate everyday problems faced by the city's numerous immigrant communities, such as racial discrimination in housing, and to argue for government intervention to alleviate their plight.

Despite the theoretical and empirical sophistication demonstrated in the work of DuBois and Abbott, their work was completely excluded from a budding sociological canon controlled by white male sociologists such as Robert Park and Ernest Burgess at the University of Chicago. In contrast, their work, grounded in a search for universal, objective truths, adopted models of the city and urban society which were permeated with an assimilationist perspective on questions of race. Sibley locates the exclusion of DuBois and Abbott in the methods and emphases of their work and in their own marginalized positions as progressive and racialized/gendered subjects.

Sibley concludes that despite trends worldwide towards globalization and multicultural mixing:

> "The world political map in 1994 is replete with new, strong boundaries which are designed to secure cultural homogeneity, and, at the local level, hostility toward outside groups . . . and ethnic minorities is no less acute that it was before the passing of the modern world. The desire for a purified identity, which requires the distant presence of a bad object, a discrepant other, seems to be unaffected by cross-currents of culture which are characteristic of recent global change."

Although he finds some reason for optimism for the potential for geographers and other social scientists to challenge xenophobia, racism and other exclusionary practices, he also urges them to get beyond an obsession with well-known authors and canonical texts. The project of radical and emancipatory social research depends instead in large part on getting close to other people, listening to them and making way for them.

Geographies of Exclusion launches a series of persuasive arguments about the nature of difference, provoking us to rethink our everyday surroundings and their nuanced social meanings, and how knowledge about those surroundings is appropriated and used, suppressed or rejected. His book has remarkable synoptic powers, showing how psychologically-rooted fears of otherness lead to exclusionary geographies at every spatial level, as well as the exclusionary production of exclusionary geographic knowledge. It deserves to be widely-read by anyone concerned with questions of social difference, human environments, and socio-spatial justice in the city.

Jennifer Wolch

Jennifer Wolch teaches geography at the University of Southern California. Her books include *Landscapes of Despair: The Power of Geography*, *The Shadow State*, *Malign Neglect* and *Animal Geographies* (forthcoming).

Rising Prices and Popular Uprising

FREE MARKETS AND FOOD RIOTS: The Politics of Global Adjustment edited by John Walton and David Seddon, Blackwell Publishers, Oxford, 1994, £14.99/$22.95 (pb, 387pp. ISBN 0-631-18247-0

In July 1976, mass demonstrations, strikes, looting and street violence erupted in Peru in response to price increases after subsidies for food, education and gasoline were removed. This was the first incidence of mass demonstrations as a result of national policy changes urged by multilateral financial institutions. John Walton and David Seddon call them austerity protests, a phenomenon that became commonplace in the 1980s and early 1990s.

How can one explain the incidence of austerity protests in so many countries in the last two decades? To know that across the world they have come to be known as IMF riots is to gain at least a handle on the explanation offered in *Free Markets and Food Riots*.

The debt crisis of the 1970s led to international financial institutions viewing structural adjustment as the "only acceptable strategy for development." But just as the crisis itself was an international one, so people's responses to adjustment, including social unrest and popular protest, have assumed an international character.

In their introductory section, John Walton and David Seddon examine the conditions for popular mobilizations against austerity in the late twentieth century, comparing them with the food riots of (predominantly) eighteenth century Western Europe. Both took place when market liberalization policies undermined what were understood by the public as rights enshrined in the prevailing market relationship. Thus;

> "Food and price riots occur throughout the history of market societies, typically in conjunction with other non-violent forms of protest, where severe economic hardship is socially defined as public policies that betray the moral economy."

Protests were, and still are, rooted in a sense of injustice and betrayal. Given the failure (or non-availability) of conventional forms of political activity underpinning the outbreak of crisis, the populace turns to rioting.

In contrasting riots in the two periods, the authors note that, in the past, the sense of injustice was awakened by the repeal of legislation which had safeguarded consumers against grain shortages and speculative activity in the market. The laws were abandoned in the interests of promoting market expansion and, the authors suggest, state centralization.

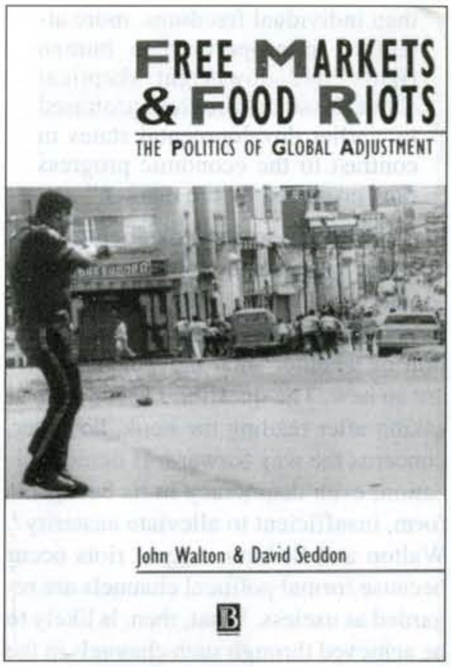
Walton and Seddon claim that, whereas modern austerity protest tends to focus on the *price* of wage goods including food, the earlier riots were often prompted by the lack of food *availability*, or at least a price change prompted by increased scarcity. Price changes in austerity riots today, however, have nothing to do with scarcity, and everything to do with the removal of subsidies demanded by the IMF and aid agencies.

Reflecting these facts, the targets in twentieth-century austerity riots are quite different from those of eighteenth century Western Europeans, who vented their anger on grain merchants, speculators and local magistrates.

Today, the message on the placards is "Out with the IMF", and banks, government buildings, and symbols of foreign wealth such as imported cars and travel agents become legitimate targets for rioters. Looters take their anger out on supermarkets and other stores, frustrated, so Walton and Seddon suggest, by the complexity of modern markets.

They might have added that this frustration is rooted in the globalizing forces they are studying as moral economies are torn apart by forces distant in space and time from their point of impact. In addition, structural adjustment is undergirded by the culture of expertise of IMF/World Bank economists which forecloses debate over issues which should properly be open to public discussion.

The heart of *Free Markets and Food Riots* comprises regional case studies, which illustrate that even if the conditions for protests are similar, it is difficult to generalize about what follows the protest. A key element, however, is the state's response to it. As the authors of the African study, Trevor Parfitt and Stephen Riley, note, even where single-party politics have given way to pluralism, austerity protests are likely to continue because such protests inevitably place at the centre of political debate structural adjustment which will not go away. They quote a comment of political analyst P. H. Smith, made in the context of Latin America but applicable to Africa and elsewhere:



> "Democracy cannot sustain the debt: the debt cannot sustain democracy."

Walton's and Seddon's case study of Central and Eastern European countries indicates that governments of these countries are astonished, not to say frightened, at the potential for dissent and unrest to erupt into xenophobia, and nationalist and ethnic violence.

While the regional studies seem more pre-occupied with macro-politics, the book also examines the role of women in responding to austerity, noting that it is they who often witness most closely the changes taking place, and that they are the ones forced to make adaptations in the name of the household. They are often the ones initiating protests, even in countries where their social or cultural freedoms to do so are restricted.

Free Markets and Food Riots concludes with a reflection on the inter-relationships between austerity measures, the protests which can occur as a result, and democratization. Important among these is the observation that the varying extent of democratization which occurs in the wake of popular protests is no panacea for the problems which led to protest in the first place:

> "Neo-liberalism promotes a decidedly bourgeois form of democracy more concerned with free trade

than individual freedoms, more attentive to property than human rights, and downright skeptical about the social progress promised by earlier developmental states in contrast to the economic progress now promised by the market."

It is refreshing to see links being made between what some would see as "new social movements" with protests of centuries past, as they force a reconsideration of whether such movements really are so new. The question I found myself asking after reading the book, however, concerns the way forward. Is democratization, even democracy in its bourgeois form, insufficient to alleviate austerity?. Walton and Seddon suggest riots occur because formal political channels are regarded as useless. What, then, is likely to be achieved through such channels in the longer term?

These questions in turn raise specific questions as to whether the energy of protesters can be harnessed so as to bring about a real political transformation in countries under the shadow of debt and the tutelage of the IMF and, if so, how? These issues are addressed only in the book's closing pages.

Dominic Hogg

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Correction and Apology

The article "Toxic Waste Spill at Cement Kiln", (*The Ecologist*, Campaigns & Updates, May/June 1996) stated that Castle Cement "appears not to have informed the Health and Safety Executive or the Environment Agency of the spillage" of a quantity of Cemfuel® at its cement works in the Ribble Valley, Lancashire, "even though it is legally obliged to".

Castle Cement has informed *The Ecologist* that the company reported the spillage to Her Majesty's Inspectorate of Pollution shortly after 9am on 29 March 1996, the day of the accident; that before the company was able to telephone the Health and Safety Executive that morning, it received a call from that agency; and that Castle Cement was subsequently required to submit a written report within seven days and did so.

The Ecologist accepts this version of events and apologises unreservedly for the above error and other inaccuracies of detail in the article.

BOOKS DIGEST

● SHORT CIRCUIT: *Strengthening Local Economies For Security in an Unstable World*, by Richard Douthwaite, Green Books, Foxhole, Dartington, Totnes, Devon TQ9 6EB, UK, 1996, £14.95, 386pp. ISBN 1-870098-64-1.

Because the vagaries of free trade and the unimpeded movement of capital pose a threat to job and food security, and energy supplies worldwide, this book proposes that each community build an independent local economy to supply its people with goods and services. Backed up with examples of community initiatives, both successful and failed, from around the industrialized world, the author outlines alternative currency and banking systems, trading arrangements, energy supplies and ways of farming. It is "at once a survival manual, a guide to community self-sufficiency, a celebration of pluarlism and diversity, and an exciting call to action".

● SOCIOLOGY, ENVIRONMENTALISM, GLOBALIZATION: *Reinventing the Globe* by Steven Yearley, Sage Publications, London, Thousand Oaks, CA and New Delhi, 1996, £12.95 (pb), 161pp. ISBN 0-8039-7517-1.

The author argues that environmental issues have received scant attention in globalization debates, and that global problems such as ozone depletion and climate change do not have globally uniform consequences. He maintains that the globalization of environmental concerns cannot be understood without an awareness of how such issues are constructed and negotiated. It is not surprising that many in the developing workd believe that the term "in the global interest" is a cover for the self-interest of the North.

● SILK AND STEEL: *Asian Women Workers Confront Challenges of Industrial Restructuring*, Committee for Asian Women, Hong Kong (CIIR, Canonbury Yard, 190a New North Road, London N1 7BJ, UK), 1995, £12.99 (plus 20% p&p) (pb), 304pp.

Detailed case-studies and first hand interviews look at how women have been the major contributors to economic growth in Hong Kong, Korea, Bangladesh, India, Indonesia and the Philippines — and the major losers as a result of it.

● WHEN CORPORATIONS RULE THE WORLD, by David C. Korten, Kumarian Press and Berrett-Koehler, West Hartford, Connecticut and San Francisco/Earthscan, London, 1995, £19.95/$29.95 (hb) 374pp. ISBN 1-85383-313-4

The author analyses the harmful effects of "corporate colonialism" and the "contest for sovereignty", setting out the underlying causes of today's social, economic, environmental and political crises. He concludes with a brief outline of strategies to create localized economies that empower peole and communities within a system of global cooperation.

● THE POST-COLONIAL QUESTION: *Common Skies, Divided Horizons*, edited by Iain Chambers and Lidia curti, Routledge, London and New York, 1996, £11.99/$17.95 (pb) 269pp. ISBN 0-415-10858-6.

In their preface, the editors point out that "famine, poverty, genocide, migration, fervent religious sentiments and nationalist identities" are no longer restricted to the far-off worlds of the colonial frontier. "For every still-distanced Rwanda and Haiti, there is the issue of the *chador* in French schools, of the burning of Salman Rushdie's *The Satanic Verses* in the Muslim community of Bradford, of racial attacks on the shanty towns of black agricultural workers in southern Italy." Pointing out that "post-colonial" is itself a Eurocentric concept, the various contributors move beyond metaphors of integration, the melting pot and multiculturalism to explore a plurality of voices, populations and histories from "elsewhere".

Classified

DIARY DATES

16-18 September 1996: **ENVIRONMENTAL STRATEGIES FOR DEVELOPMENT IN URBAN AREAS: Lessons from Africa and Latin America**, The Lecture Theatre, Brunei Gallery, School of Oriental and African Studies, London. Further details from the Seminar Secretary, ICS, 28 Russell Square, London WC1B 5DS, Tel: 0171-580 5876; Fax: 0171-255 2160.

20-22 September 1996: **TURNING THE TIDE: Towards Sustainable Societies**, Edinburgh Conference Centre, Heriot Watt University, Riccarton Campus, Edinburgh. Contact: SEAD, 23 Castle Street, Edinburgh, EH2 3DN. Tel: 0131-225; Fax: 0131-226 6384; E-mail <sead@gn.apc.org>

25 September 1996: **Greenpeace Business Conference BRENT SPAR . . . AND AFTER**, The London Marriott Hotel, Duke Street (off Grosvenor Square), London W1A 4AW. Further details from Katie Stainton, Centaur Conferences, 50 Poland Street, London WIV 4AX. Tel: 0171-434 3711.

28-30 September 1996: **RECLAIM THE FUTURE: STOP THE CLAMPDOWN**, Liverpool. A march/parade/party; workshops and entertainment; mass action. Contact: Reclaim The Streets Tel: 0171-281 4621.

27 Sept-7 Oct 1996: International Permaculture Conference **DESIGNING FOR A SUSTAINABLE FUTURE**, Perth. Contact: Conference Secretariat, PO Box 568, Kalamunda, WA 6076, AUSTRALIA. Tel: +61 (9) 291 9306; Fax: +61 (9) 291 9978; E-mail <ipc6@iinet.net.au>

12 October 1996: **WORLD EARTH HEALING DAY**. An international meditation/prayer link up at 12 noon to help heal planet earth and humanity. Contact: 4 Vyner Court, Rossington Street, London. Tel: 0181-806 3828.

12 October 1996: **SUFFICIENCY '96**, Manchester. Conference to discuss consumer society and its discontents. Contact: Enough—Anticonsumerism Campaign, One World Centre, 6 Mount Street, Manchester M2 5NS. Tel: 0161-237 1630.

14 October 1996: **THE WAY: An Ecological World View,** lecture by Edward Goldsmith at the Temenos Academy. Contact Stephen Overy, The Temenos Academy, 14 Gloucester Gate, London NW1 4HG. Tel: 0181-314 5896.

19 October 1996: **RELIGION, SCIENCE AND THE ENVIRONMENTAL CRISIS**, Regent's College, London. Contact Robert Vint, Friends of the Centre, 8th Floor, Rodwell House, Middlesex Street, London E1 7HJ. Tel: 0171-377 0604; Fax: 0171-247 2144.

24-29 October 1996: **DEPENDING ON TREES — Sustainability in the Northern Forests**, Kuusamo, Finland. Contact Kaisa Raitio, Finnish Nature League, PO Box 226, 00151 Helsinki, FINLAND. Tel: +358 (0)630 300; Fax: +358 (0)630 414; E-mail <kaisa.raitio@helsinki.fi>

25-27 October 1996: **BIONEERS CONFERENCE: Practical Solutions for Restoring the Earth**, Fort Mason Centre, San Francisco, California. Contact INOCHI, PO Box 2589, Berkeley, CA 94702, USA.

28 October-1 November 1996: The Velo Australis **INTERNATIONAL BICYCLE CONFERENCE**, Freemantle, WA, AUSTRALIA. Contact Mike Maher, E-mail <mmaher@dot.wa.gov.au>

5 November 1996: **STOP THE COPEX ARMS FAIR.** Assemble Littleworth Common, Esher, Surrey (opposite Sandown racecourse) at 9am. Silent march to a non-violent, sit-down blockade. Contact Campaign Against Arms Trade, 11 Goodwin Street, London N4 3HQ. Tel: 0171-281 0297.

8 November 1996: Musicians Against Nuclear Arms **CONCERT FOR PEACE**, 7.30pm, St. James's Church, 197 Piccadilly, London. Tickets £8.50, £7.00 (plus concessions). Contact: MANA, 71 Greenfield Gardens, London MW2 1HU. Tel: 0181-455 1030.

9 November 1996: National Conference **GREEN LEFT CONVERGENCE**, Conway Hall, Red Lion Square, Holborn, London, 10am-5pm, Free creche. For details, contact John Morrisey, 13 Shetland Drive, Nuneaton, Warwicks, CV10 7LA. Tel: 01203 325890; E-mail <jmorrisey@gn.apc.org>

20-25 November 1996: **WORLD CONGRESS OF BIOETHICS**. San Francisco, USA. Contact American Association of Bioethics, Pacific Centre for Health Policy and Ethics, University of Southern California, Los Angeles, CA 90089-0071, USA. Tel: +1 (213) 740 2541; Fax: +1 (213) 740 5502.

30 November 1996: **INTERNATIONAL NO-SHOP DAY**. Local witty, satirical and lighthearted actions to encourage a critical attitude towards consumerism. Contact One World Centre, 6 Mount Street, Manchester, M2 5NS. Tel: 0161-237 1630.

6 December 1996: **CHILDREN'S HEALTH, CHILDREN'S RIGHTS:** Action for the 21st Century, THAILAND. For more information, contact WABA, PO Box 1200, 10850 Penang, MALAYSIA. Tel: +60 (4) 658 4816; Fax: +60 (4) 657 2655; E-mail <secr@waba.po.my>

8 January 1997: **INTERNATIONAL CONFERENCE ON LAND MANAGEMENT**, Royal Institution of Chartered Surveyors, Parliament Square, London. Further details from Dr Richard K Bullard, School of Surveying, University of East London, Longbridge Road, Dagenham, Essex, RM8 2AS. Tel: 0181-590 7722; Fax: 0181-849 3618; E-mail <Bullard@uel.ac.uk>

PUBLICATIONS

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COURSES

CEMP Training Programme, Aberdeen, SCOTLAND. *September 1996* **Impact of Major Events.** For further information, contact Professor Brian D Clark, CEMP, AURIS Business Centre, 23 St Machar Drive, Aberdeen, AB2 1RY, SCOTLAND. Tel: 01224-272483; Fax: 01224-487658; E-mail: cemp@abdn.ac.uk.

MISCELLANEOUS

Green Events, a monthly information and publicity calendar, distributed in and around Oxford, Bristol, Devon and London, listing events, services, businesses, organizations and individuals who consider themselves "green". Estimated readership 10,000. If you would like one to happen in your area, contact: Green Events, 10 Church Street, Bicester, OX6 7AZ, UK. Tel: 01869 252487.

FASTING WALKS (Groups). For rest, relaxation, weight loss and better health. Only liquids. Throughout the year in UK, Europe, USA. For more information, contact Una Murphy, 1 Stanley Road, London N15 3HB. Tel: 0181-3950 407; 0171-614 7221.

NEW ZEALAND, Centre for sustainable living. Committed people with capital to share beautiful 400-acre peninsula on North Island. Separate unit titles plus some common land. Members must share the aims of promoting an organic environment. For more information, contact Reinhold Huber, Fax: +64 (9) 473 2137.

The Landscape & Art Network aims to raise the quality and awareness of the urban environment and natural landscape. Organizes regular meetings, nationwide events, newsletters, annual membership directory. Further information from Frank Hodgson, 581 Waldeck Road, Chiswick, London W4 3NP.

Mature D-Phil student on very limited funds researching hazardous waste disposal along Mexican/US border Jan-April 1997 would benefit immensely from the loan or gift of a new or second-hand **laptop computer** and/or portable **printer**. Please contact Louise Sargent, Cherry Tree Cottage, Hooe, Nr Battle, East Sussex, TN33 9EP. Tel: 01424 893084.

THE CENTRE FOR ALTERNATIVE TECHNOLOGY

offers information and inspiration for those wishing to explore a more ecological lifestyle. The seven-acre visitor complex, publications and courses offer practical advice based on 21 years' experience of living and working with sustainable technologies. For more details, contact The Centre for Alternative Technology, Machynlleth, Powys, SY20 9AZ. Tel: 01654 702400.