Chapter One
The Neoliberal State

> "Far from supporting a minimalist approach to the state, [the world's development success stories] have shown that development requires an effective state, one that plays a catalytic, facilitating role, encouraging and complementing the activities of private business and individuals".
> JAMES D. WOLFENSOHN, WORLD BANK PRESIDENT, FOREWORD TO THE STATE IN A CHANGING WORLD [1]

The Myth of the Minimalist State

The World Bank and other supporters of the "free market" approach to economic and social policy have always had an ambiguous relationship with the state. The package of economic reforms that the Bank and neoliberal governments have promoted in recent years from privatisation of public services and assets to deregulation of labour and environmental laws have, in theory, been intended to remove the state from all but a minimal role in the national economy. Market competition, it is argued, best defines and serves the "public interest", because individuals can best express their choices through the market; individual freedom and prosperity are maximised as funds are allocated efficiently, people can purchase what they want at prices determined according to supply and demand, and wealth generated by private effort "trickles down" to the benefit of all.

The state, the theory continues, has neither the management capability to run the economy nor any legitimate authority to do so: indeed, far from benefiting society, state planning, state ownership of industries, state-initiated social programmes and state regulation of wages and economic policy should be avoided because they inevitably undermine entrepreneurial activity, diminish individual freedoms and lead to the inefficient use of resources. In sum, the best government is considered to be the least government.

Neoliberal academics, decision-makers, business leaders, politicians and opinion formers have thus argued that market competition should be the organising principle of ever more areas of life from the production of cars, to delivery of health services a policy which requires stripping the state of "excessive involvement" in the economy and in society.[2] In the South, the IMF and World Bank took advantage of the 1980s' debt crisis to "insist that debtor countries remove the government from the economy as the price of getting credit".[3] Structural Adjustment Programmes (SAPs) required governments to redirect their spending away from public services and publicly-owned enterprises into debt servicing. State industries were sold to private companies (many SAP loan agreements even specifying which industries 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".[4] In the North, similar measures (although not officially labelled structural adjustment programmes) have also been introduced, supposedly to cut public spending and to raise the efficiency of services.

Redirecting the State

Yet the practical outcome of the neoliberal agenda over the past 20 years has not, in most cases, been to diminish the state's institutional power or spending. Instead, it has redirected it elsewhere[5,6], and strengthened the power of the many Northern nation states to intervene in the economic affairs of other countries, notably the indebted countries of the South, the emerging economies of the former Soviet Union and the weaker partners of trade blocs such as the European Union. Indeed, as the World Bank's World Development Report (WDR) makes clear,[7] state spending relative to the economy as a whole has continued to grow in OECD countries, and now averages 50 per cent of GDP. In developing countries, meanwhile, government spending has only dipped slightly to just over 25 per cent of GDP on average. As *The Economist* commented in a recent survey of the world economy. "Government everywhere has grown, and kept on growing... Big government, far from being dead, is flourishing mightily".[8]

Far from doing away with state bureaucracy, neoliberal policies have in effect reorganised it.[9] The privatisation of state industries, for example, has cut down the direct involvement of the state in the production and distribution of many goods and services; but the process has been accompanied by new state regulations, subsidies and institutions aimed at introducing and entrenching a "favourable environment" for the newly-privatised industries. In the process, privatisation has rarely improved (and often has reduced) the accountability of those now charged with providing services (such as water, electricity, transport, health care and social insurance) to the public, in particular to those who are marginalized.

Moreover, "despite the recent substantial reduction in the state's function as a direct producer of economic goods and services, states are still massively present in the processes of production, distribution and exchange"[10] not least through framing taxation policy; setting interest rates (where independent central banks have not been introduced) or interest rate policy; directing subsidies to sectors of industry; farming out government procurement contracts; assessing bids during privatisation or franchising; setting pollution and health standards; and funding infrastructure projects. Within those sectors that remain under (albeit looser) state control education and health for example new state structures have grown to train or retrain personnel in private sector business methods, to institute new accountancy and management techniques and procedures, and to instil market discipline. In the process, resources have often been diverted from frontline service delivery and staff morale has been undermined.

The repressive powers of many neoliberal states have also been strengthened rather than weakened, not least in order to respond to growing popular resistance to neoliberalism. In addition, neoliberal governments have increasingly intervened in areas of social life which free market ideology nominally places off limits.[11,12] In Britain, for example, opposition to the free market policies of Margaret Thatcher (and later John Major) led to new legislation which increased police powers to restrict the right to protest or to organise in support of strike actions. In India, the security forces have been expanded to counter internal dissent and "to facilitate domestic capital or foreign exchange-bearing entrepreneurs"[13] special units of the Indian police now being trained by Western security experts to "protect the life and property of foreign investors".[14] Indeed, as Smitu Kothari of the Delhi-based human rights group Lokayan notes, "Business interests have increasingly become associated with national interests... One former finance minister, echoing this spirit of policy focus, stated recently that power should increasingly move from the state to the boardroom".[15] As a result "while the democratic space for the upper and middle-classes has expanded with growing wealth and influence, there has simultaneously been a definite shrinking in the democratic space of those victimised by the New Economic Policy".[16]

The Neo-Corporate State[17]

At a national and international level, neoliberal policies have led to a massive transfer of resources and power away from public institutions towards private ones, whittling away the means and ability of ordinary citizens to define, protect and promote the public interest. Consider, for example, the benefits that have accrued to the private sector and in particular transnational corporations through the four related processes of:

- privatisation;
- deregulation;
- the reallocation of subsidies; and
- the pooling of national sovereignty to form new trading blocks.

1) Privatising the Common Wealth

Most countries have introduced ambitious programmes to privatise their state-owned enterprises. The World Bank recorded a total of 6,832 sales between 1980 and 1992.[18] According to the International Finance Corporation (a private sector arm of the World Bank Group), annual privatisation receipts increased 30-fold in the South from 1988 to 1993[19], and a survey by the Organisation for Economic Cooperation and

Development (OECD) estimated that annual privatisation receipts were expected to reach US$100 million for 1996, a 50 per cent increase on the year before.[20] The diverse weaknesses displayed to one degree or another by the public sector in most countries and these certainly are legion, well-known and unpopular provided plenty of ammunition for breaking up and selling off public services; meanwhile the failure of "communist" systems to deliver efficiency, equity or accountability strengthened claims that "free markets" and free people are indivisible. Brendan Martin, author and consultant working with trade unions on public sector reform issues, commented: "the New Right has cleverly, even cynically, exploited peoples' aspirations and the sluggish response to them within conservative public sector managements; the Right has seized the language of 'choice' and 'empowerment' and attached it to their idea of marketizing public service."[21]

Martin continues however: "the effects of commercialization have generally been the opposite of the rhetoric, to strengthen the power of service providers and allow them to choose who they serve, rather than transferring power and options to users. Two or more tiers of service have emerged as a result, with power and choice increasingly a function of how much money people have rather than being based on equal citizenship".[22] Ownership has not been significantly diversified to workers, individual shareholders or small businesses, as big companies have gained most from divestitures. The majority (and the most valuable) of the privatised companies are now controlled by transnational corporations.[23] Privatisation of state-owned or provided assets and services has turned many of the Third World's most valuable assets or resources from state oil companies to television networks, from banks to roads, railways and airlines over to a small privileged group of local and foreign buyers, the vast majority of state enterprises being sold to a domestic or foreign purchaser, or to a joint-venture consortium, often at prices far below their real value.[24] 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 large public sector sell-offs.[25,26]

Elsewhere, transnational corporations have used the privatisation of state companies to squeeze out competitors in the domestic or export market.[27] In Eastern and Central Europe, for instance, tobacco and food transnational Philip Morris, the maker of Marlboro cigarettes, bought up tobacco firms in former Czechoslovakia, while its rival BAT (British American Tobacco) set up joint ventures in Russia and the Ukraine.[28] Foreign companies have also been accused of "cherry-picking" buying only the best companies and then only if they can get them cheaply. For example 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 and even then General Electric was covered by US Government risk insurance.

In some cases single companies now operate a wide range of services. In Britain, the French multinational Generale 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."[29]

Control over a wide range of key services have thus become increasingly concentrated in the hands of companies over which the public has little real control. In the process, the ability of nation states to protect and promote the public interest has been significantly undermined, and the authority of their citizens has been usurped. Indeed, arguably the most significant shift in power occurring as a result of the privatisation of state assets and services 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.[30]

2) Deregulation... and Re-regulation

Deregulation the dismantling of legal and administrative controls deemed to interfere with the operation of the market has also greatly increased the powers and influence of the corporate sector in general and of transnationals in particular. Limitations on the free movement of capital between countries have been stripped away through international agreements and governments have sought to attract inward investment by creating as attractive a "policy environment" for business as possible. To do so they have dismantled

many social and environmental controls that might add to business costs. Britain's national economic policy, as outlined by the 1992-1997 Conservative administration, for example, was to promote the country to foreign investors as a low wage, deregulated "enterprise zone" with relatively pliant workforces. In a 1995 brochure the government's Invest in Britain Bureau (IBB) highlighted the country's "pro-business environment" specifying "labour costs significantly below other European countries" and assuring potential investors that "no new laws or regulations may be introduced without ascertaining and minimising the costs to business." It 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 recognise a trade union. Many industries operate shift work, and 24-hour, seven days-a-week production for both men and women."[31]

The Conservative government removed important regulations which companies claimed made them less internationally competitive. By 1993, 605 regulations had been identified for the axe; these included measures for which environmental, consumer and other citizen's groups had long campaigned for example on health and safety, biotechnology, advertising in sensitive areas, hedgerow preservation, food standards and energy efficiency.[32]

A similar process of active deregulation has been undertaken in the economies of the former Soviet Union which have undergone crash marketisation under World Bank and IMF guidance. In the Russian Far East, for example, land use and tax laws have been reformed to attract foreign investment in mining and forestry.[33] Foreign companies, eager to exploit the mineral and timber resources of the Russian Far East, are pressing the Russian government to relax environmental standards.[34]

Meanwhile, in the countries of the South, where governments (under the tutelage of the IMF) have been setting up "free trade zones" since the early 1970s to provide "a favourable climate" for private sector investment, deregulation is now being extended throughout the wider national economy.[35] Worker s rights to organise 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 given permission to repatriate profits without restriction.[36,37] Since the ratification of the latest General Agreement on Tariffs and Trade (GATT) agreement in 1994, these deregulated regimes, North and South, have the protection of international law. Moreover, as Alexander Goldsmith, editor of the business and environment magazine *Green Futures*, 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."[38]

US corporations lobby the US government to target EU regulations under GATT, whilst their subsidiaries and partners in Europe lobby the EU to target US regulations. North American interests, for instance, are 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 from animals caught with steel leg-hold traps. The EU, meanwhile, is challenging US fuel consumption standards for cars; food safety laws, limitations on lead in consumer products; state recycling laws; and restrictions on driftnet fishing and whaling. Several hard-won pieces of European environmental or public health legislation have already been overturned. In May 1997, the WTO ruled against the European Union's ban on imports of beef produced with artificial growth hormones.[39]

Indeed, in many instances, companies themselves have been actively involved in writing new investment and environmental rules. In the Philippines, for example, the government in 1995 introduced a new mining code overturning previous laws which limited foreign control of mining companies to 40 per cent. Under the new code which companies such as Western Mining Corporation helped to draft 100 per cent foreign ownership is now allowed. Companies also have the right to displace and resettle people within their "concessionary areas" and have far fewer environmental regulations to deal with.[40,41]

Just as important as the process of deregulation is the process of business-friendly re-regulation. As Christopher Pierson, Professor of Politics at the University of Nottingham, notes:

> "One of the most keenly felt ironies of the 'withdrawal' of the state from its role as a direct producer of goods and services has been the mushrooming of the apparatus of 'regulation' through which it seeks to exercise a continuing control over its divested functions."[42]

In Britain, the deregulation of labour markets   a policy intended to make the market rather than income policies determine wage levels   has meant "an unprecedented level of state intervention in the internal administration of trades unions and a tighter proscription of their lawful actions".[43] It has also entailed "an ever tighter regulatory regime for those who are unemployed and/or in receipt of state benefits" and led to the introduction of "a stronger statutory framework into the management of government training programmes".[44]

In the process, a range of new quasi-autonomous non-governmental organisations   QUANGOS staffed largely by political appointees, has been set up to administer whole areas of public life, such as housing, education and hospitals; areas which were previously under the control of local or national government. Accountable, albeit often inefficient, public bodies have been replaced by new, often secretive, usually technocratic and generally unaccountable agencies. The result has been not the elimination of corruption and inefficiency (as neoliberals have argued) but the creation of new patronage networks that encourage their own form of political corruption.[45] In 1996, it was estimated that 7,700 quangos existed in the UK, giving government ministers discretion over 70,000 public appointments.[46]

In other countries, state institutions have also given way to new "market-friendly" semi-public authorities. In Guyana, for example, a condition of one recent structural adjustment programme agreed with the IMF was the privatisation of the state forest company and the establishment of a Natural Resources Agency, directly responsible to the President, to help speed up "development" of the country's interior. With the authority to award logging concessions vested in a small, barely accountable government office, opportunities for favouritism and malpractice now abound: political ties, rather than a record of responsible logging practices, largely determine who gains logging rights. Most of the large concessions given out to Guyanese nationals between 1985 and 1991 were to ministers, members of parliament and supporters of the PNC party which ruled the country until 1992. In such circumstances little regulation to protect the public interest is possible.[47,48,49]

3) Public Money, Private gain

Public funds for social and environmental programmes and departments have been cut as a result of structural adjustment   according to a 1996 World Bank report, from 1980 to 1993 social spending declined as a proportion of GDP in half the countries studied, with per capital social spending falling in two-thirds of them.[50] Yet state resources have been made available to foreign companies which have been offered extraordinarily generous terms to set up production facilities or extractive industries. The agreements reached are normally kept secret, but occasionally leak out, as in the case of a deal agreed by the Guyanese government with a Malaysian/Korean logging consortium, the Barama Company Ltd. As Marcus Colchester of the World Rainforest Movement's Forest Peoples' Programme reports:

> "The Barama agreement grants the company... a 25-year licence   automatically extendable for a further 25 years   to exploit some 1.69 million hectares of forests in the North West of the country for the export of raw logs, sawn lumber, veneer and processed plywood... The company also enjoys a ten-year tax holiday, including income tax, corporation tax, withholding tax, property tax and income duties on just about everything, including machinery, fuel, building materials, office equipment and medical supplies. Export taxes are only payable on greenheart [wood], while even royalty payments have been fixed in Guyanese dollars over the first twenty-year period   a gift to the company as the currency devalues. The company is also permitted to hold external accounts, foreign currency accounts within Guyana, employ 15 per cent foreign workers

> (more if local labour with the right skills is unavailable) and, in the event of disputes with the government, have recourse to the arbitration of the International Centre for Settlement and Investment Disputes in Washington DC, in which case the company shall be deemed as a national of a state other than Guyana."[51]

The World Bank's environment department urged a revision of this contract, and of other "overgenerous" contracts awarded to Omai Gold Mines and Demerara Timbers, insisting that "sustainable development" can be achieved only if Guyana secures greater benefits from existing concessions. The Bank's macroeconomists, however, whose goal is to promote "sustained growth", rejected the proposition as it would "send the wrong signals" to potential foreign investors.[52]

In Chile, too, liberalisation of the forestry sector has been characterised by government hand-outs to the already rich. As policy analysts Joseph Collins and John Lear comment:

> "The neoliberals' stated goals were to curtail sharply the direct role of government in forestry and to let market mechanisms determine the prices and direct the use of resources. Yet government intervention and subsidies were in fact central to reorientating the benefits of forestry production away from the rural population towards a handful of national and foreign companies."[53]

The new policies, argue Collins and Lear, directly or indirectly benefited Chile's largest conglomerates; some, such as Matte, already had significant investments in forestry, while others Vial and Angelini, for instance used government concessions to create new forestry empires. All restrictions on size and ownership of land holdings were lifted. The government also sold off its interests in the countries' principal forestry processing plants. As in the privatisation of 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 privatised forestry land, in the hands of a few large conglomerates."[54]

Government-subsidised tree planting programmes also directly benefited the private sector. In 1988, 48 per cent of the area where planting was subsidised was owned by the ten largest forestry companies in Chile.[55] Huge forestry empires have been created, often in alliance with multinationals. Angelini, for example, owns large swathes of plantations with the New Zealand company Carter Holt Harvey: together with Matte, it controls 40 per cent of the tree plantation area. Other companies owning large areas of plantations include Shell, Bin Mahfouz of Saudi Arabia and Marubeni of Japan.

In addition to picking up subsidies from national governments, corporations are increasingly availing themselves of a range of new subsidies from multilateral development banks (MDBs). In the past, companies (particularly those from Northern countries) have benefited from contracts for public sector development projects, such as roads, airports and irrigation schemes, contracts which were awarded by governments but financed by MDBs. Increasingly, however, the multilateral development banks are "moving to the private sector", with governments acting as "facilitators rather than financiers". Instead of funding projects through states, the MDBs are now funding private companies directly and underwriting investments through guarantees.

India, China, Chile and Mexico, for example, are planning or executing thousands of kilometres of private toll roads. Typically, such projects are undertaken by international firms in association with local companies. Most projects are undertaken on a Build, Own, Operate and 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. This arrangement is justifed by its promoters on the grounds that only the private sector, not indebted governments, has sufficient capital to build large infrastructure projects, and that all commercial risks will be borne by the companies, not the government. In practice, however, the risks are rarely allocated so neatly, and government/taxpayer liabilities are almost never adequately debated in public. In Mexico and Chile, the government guarantees to pay compensation to toll road concessionaires if traffic does not meet an agreed minimum level. In Thailand, the multinational

Hopewell responded to the July 1997 Thai currency devaluation by asking the government to allow it to raise the tariffs on its Bangkok road and rail project by 15-20 per cent, whilst power companies similarly looked immediately to renegotiate terms.[56] The Lyonnaise des Eaux consortium, which won the contract to provide water and sewerage services for Buenos Aires, Argentina, in a World Bank group-advised and backed 1995 deal, has also successfully argued that it should raise tariffs using the argument that the pre-sale information about the state of existing infrastructure was not complete.

MDBs (and thus public money) are deeply involved in many of these "private sector" projects, providing advice, guarantees, loans and equity investment in conjunction with other banks. As Friends of the Earth USA notes of the International Finance Corporation, the World Bank's leading private sector investment arm:

> "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."[57]

MDBs also lend credibility to projects that companies might otherwise consider too risky.[58] Although MDB officials claim to act as "honest brokers" of fair deals between governments and private companies, they frequently appear over-optimistic about the private sector's willingness to take on risk and provide services to poorer people. The dangers for governments of relying on a few foreign funders and operators to provide essential services (which generate only local currency revenues) are rarely spelled out properly.

MDBs also offer indirect subsidies to the private sector in the form of guarantees against the financial and political risks of undertaking projects. The World Bank Group agency responsible for guarantees, the Multilateral Investment Guarantee Agency (MIGA), provides insurance against political risks (such as renationalisation, losses on currency transfers, war and civil disturbances). MIGA's coverage of risks that the market would not bear, or would price prohibitively, lowers the cost of financing and thus represents a subsidy to companies investing abroad. In 1996, 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 Bougainville copper mine, however, bankers have found it virtually impossible to raise project finance for schemes without public insurance against political risks. Without MIGA's backing through a $66.6 million guarantee, the Lihir gold mine, which is likely to have serious environmental and social consequences, would probably not have gone ahead.[59]

Finally, MDB influence over national governments is of critical importance in ensuring "an appropriate policy environment" for the private sector. For example, in Pakistan, where the World Bank Group advised on a policy to attract foreign investment for power stations and provided equity, debt and guarantee backing for transational power companies, the government gave incentives only to bidders tendering for power stations over 100 megawatts, thus discriminating against the domestic private sector which can only build smaller plants.[60]

4) Fixing the Rules: Regional Trade Agreements...

Perhaps most significantly of all, the corporate sector has benefited hugely from the emergence of new trading agreements supposedly designed to liberalise trade, both at the regional level and globally. The result has been not only the emergence of business-friendly transnational state institutions to oversee the agreements, but also the surrender of control by governments over certain areas of economic activity, principally those which would allow state institutions to intervene in economic affairs for the public good.[61]

Over the last two decades several regional trade agreements have been set up: the North America Free Trade Area (NAFTA), the European Single Market (and subsequently the European Union), the Southern Cone Common Market (MERCOSUR), the Caribbean Community and Common Market (CARICOM), the Common Market for Eastern and Southern Africa (COMESA), the Asia-Pacific Economic Co-operation forum (APEC) and the Central European Free Trade Agreement (CEFTA).

The majority of these agreements are either still at the preliminary stages of their development or are as yet only discussion fora rather than formal free trade areas.[62] However, both NAFTA and the European Union are now fully operational and point the direction other regional trade agreements are likely to go if freemarketeers have their way although many academic neoliberals argue that regional free-trade blocks are undesirable forms of protectionism. In the case of the EU, national regulations to protect home industries have gradually been replaced by Europe-wide regulations that protect those industries with "European" (and, increasingly, global) reach. The nation state taken a backseat on economic administration: sovereignty over key economic issues has shifted to European institutions, such as the European Commission, which are unaccountable to the electorate whilst proving highly susceptible to corporate lobbying from groups such as the European Roundtable of Industrialists.[63] In the process, a free trade zone has been created encompassing 340 million people. In future, many fear, the prime benchmark for deciding appropriate economic policy (and even social policy) will be the competitiveness of European companies in the Single Market.

The proposal for the Single Market was drafted by, among others, Wisse Dekker, head of Philips, and Umberto Agnelli, then head of Italy's FIAT conglomerate. Not surprisingly, the most powerful businesses have used the process of setting up the Single Market to boost profits at the expense of product quality; to drive many smaller companies out of production; and to undermine (or block) environmental and public health measures deemed onerous to business. National food and drink standards designed to improve product quality and protect consumers have been abolished and replaced by EU-wide standards that, in many cases, are less exacting than previous national standards. In other cases, where stricter standards have been introduced, they have been used by large companies to squeeze out smaller competitors, for example in the abbatoir industry.

With the "playing field" levelled in their favour and capital free to move throughout the EU, multinational interests have obtained cheaper costs and more convivial standards.[64] One result has been a spate of takeovers and mergers Europe's 1,000 leading firms doubled their rate of mergers and acquisitions between 1986 and 1989 creating multinational giants whose influence on government and control of trade is pan-European.[65] Larger firms have bought smaller ones to gain control of local distribution networks or to get rid of rival brand products. In banking, soft drinks and paints, the top five companies now control 38 per cent, 50 per cent and 25 per cent of their respective markets. Of the 39 companies which dominated the European trade in household appliances in the 1970s, 34 had been swallowed up by 1990, leaving the five largest in control of some 60 per cent of the market.[66]

The result, many would argue, is a union of European business interests rather than "a union of the peoples of Europe" (the stated objective of the Treaty of Rome which first established the European Common market).

... And International Trade Agreements[67]

The same trend is apparent worldwide. Under the Uruguay Round of the General Agreement on Tariffs and Trade, concluded in 1994, signatory governments have agreed to open up their countries' markets by permitting the free flow of capital, reducing tariff barriers, outlawing export subsidies, clamping down on countervailing duties, streamlining customs inspections and licensing procedures, harmonising technical standards, outlawing restrictions on foreign investment, introducing new intellectual property laws, and bringing agriculture and the service sector into the GATT framework.[68]

As in the European Union, the stated intention of this international agreement was to create a "level playing field" that would supposedly permit free and equal competition. But, as in the EU, the final shape of this GATT treaty reflected not an agreement between equal partners, but an agreement to tilt the playing field dramatically in favour of the most powerful nations and their most powerful interest groups principally TNCs. Indeed, during the GATT talks, representatives from TNCs chaired and staffed all the 15 advisory groups set up by the US administration to draw up the US negotiating position. The outcome, not surprisingly given the political and economic muscle of the US, was a Treaty that favoured transnational interests over national interests; and US transnational and national interests over everybody else's.[69]

GATT's agricultural agreement, for instance, supposedly intended to remove US and EU export subsidies to prevent the dumping of agricultural surpluses on world markets at artificially low prices, thereby undermining the agriculture of poorer countries, illustrates the way in which "free trade rhetoric has served as a convenient smokescreen for the pursuit of vested interests".[70] As OXFAM (UK/Ireland) policy analyst Kevin Watkins reports, rich country agriculture subsidies were left largely intact by the GATT talks. The EU and the US negotiated a side agreement which determined that "direct" payments to farmers for example, where farmers are paid to withdraw land from production should be exempt from subsidy cuts on the grounds that such payments do not promote agricultural production and are not, therefore, "trade distorting" measures. Yet, as Watkins explains, the formula for calculating direct payments is based on land-holding and average yields, both of which are in fact production-related. Indeed, by generating new investment, direct payments to farmers have had the effect of raising overall EU cereals output by some 30 million tonnes, according to the authoritative *Agra-Europe* journal.[71]

The EU and the US have thus been able to maintain and even increase the level of subsidies to their farmers and farm companies, argues Watkins. Direct payments now account for 23 per cent of agricultural subsidies in the industrialised countries. In the US, by the year 2000, "direct payment" subsidies of up to $16 billion will be permissible double the 1995 level of national government support. A wide range of additional subsidies are also exempt from reductions. These include the $1.5 billion of public finance spent in the US on research and development and the $2 billion allocated for crop insurance. Most Southern governments, on the other hand, will be required to implement far-reaching liberalisation in foodstuffs. All but the least developed countries will have to reduce tariffs on food imports by 24 per cent over ten years and increase the minimum level of imports from one per cent to four per cent of consumption.[72] As Watkins points out, the implications for food insecurity in the South are enormous:

> "In the case of the Philippines, for instance, the maize sector accounts for over half the cultivated area under food grain and around two million livelihoods. At the world price levels which prevailed during the second half of the 1980s, few maize farmers would be able to compete against foreign imports. According to one study, tariff rates of 100 per cent would be insufficient to protect the market share of Philippine maize producers against regional competition from Thailand."[73]

Exposing rural producers to global markets under these circumstances poses a powerful threat to their livelihoods, especially given the political and economic power enjoyed by Northern countries which are unlikely to expose their producers to competition from the South. In a paper prepared for the UN Conference on Trade and Development economic consultant David Woodward warns:

> "If agriculture in developing (and especially low-income) countries is to be internationally-competitive at current levels of production and world prices, while generating incomes above the poverty line for those engaged in it, it can employ no more than a fraction of those currently engaged in it. Against a background of price inelastic demand, attempts to resolve this problem by increasing output would be largely or wholly self-defeating: the main effect would be to drive down prices, especially for tropical products. In the case of temperate products and sugar cane, developed country producers might be driven out of the market; but as yet there is little sign that developed country governments are willing to let this happen".[74]

One study suggests that market liberalisation could lead to half a million people losing their livelihoods in the Philippines alone.[75] For the corporate agribusiness giants which now control the bulk of the world's trade in foodstuffs, however, "the liberalisation of the South's agricultural markets offers the prospect of lucrative new markets." As Kevin Watkins points out, "The expectation of US policymakers is that import liberalisation will accelerate considerably the conversion of consumer demand in South-East Asia from locally produced staples such as rice, cassava and grains towards US wheat."[76]

Indeed, far from ushering in a new era for agricultural trade, argues Watkins, the Uruguay Round of GATT marked "the latest phase in the emergence of a global food system structured around powerful vested interests based in the North to the detriment of poorer people in the South." [77]

The Rule of Law

Through GATT, transnational investors now have the backing not only of national law but of an international legal and political framework which privileges Northern interests over Southern ones; transnational corporations over national and local businesses; and the rights of capital over those of people. In the process, state institutions in the most economically powerful countries have gained considerable new powers to impose market discipline outside their own territories. Trade disputes, for example, are now to be settled through a new body, the World Trade Organisation (WTO). Should the WTO rule that a country is in contravention of WTO rules, then the injured party can impose retaliatory measures, even in another sector.[78]

But whilst GATT and other "free trade" agreements have extended the economic sovereignty of transnational interests within nation states, they have simultaneously eroded the powers formerly available to state institutions to correct political and economic imbalances resulting from the operations of the market within their own borders. Indeed, many of the rules agreed under free trade agreements effectively prevent states unilaterally adopting progressive social, economic or environmental legislation.[79]

In Europe, for example, EU governments have agreed under the 1992 Maastricht Treaty a timeframe for monetary union in 1999. To qualify, countries must meet strict criteria, including reducing their budgetary deficits (the excess of government spending over tax income) to less than three per cent of annual GDP. Those countries which qualify and elect to participate will surrender all control over monetary and exchange rate policy to an unelected body, the European Monetary Institute (EMI). A European Central Bank, meanwhile, will supervise their economies to ensure that they adhere to the monetarist policies, laid down in the Maastricht Treaty. 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".[80] The implication, critics argue, is that governments will be able to borrow money only for "productive" spending, such as infrastructure programmes: not for social programmes which supposedly do not yield an economic return. In cases where a member state persistently fails to reduce its excess deficit, the European Council of Ministers, acting on the recommendation of the European Central Bank, will have the power to impose structural adjustment programmes and to fine the offending state. Underlying the Treaty is, at best, a misplaced assumption that there is now a consensus within the EU that Keynesian or other interventionist policies will never again be seen as a rational and popular solution to society's problems; at worst, an undemocratic attempt to foreclose such options to future generations.

"An Effective State" - But Effective For Whom?

Given the central role that the state has played in implementing neoliberal policies and its continued "intimate and ubiquitous"[81] involvement in regulating the minutiae of the market economy a direct consequence of the hand-in-glove relationship that neoliberal governments have fostered between "adjusted" state institutions and market interests the fashionable view that states and markets are somehow intrinsically opposed to each other emerges as something of a myth. The "free" market needs the protection of states and it needs their powers of enforcement. The minimalist state is, quite simply, utopian it exists nowhere.

At issue, therefore, is not whether modern economies require any state involvement, but to what ends and in whose interests the state operates. The 1997 World Development Report s central call for "an effective state" thus inevitably raises the question: what does the Bank mean by "effective"? Effective for what? Effective for whom?