

The Global Spread of Neoliberalism

*From alternative development theories to
the “Washington Consensus” and
the “End of History”*

Le plan

- Development economics as an independent discipline
- The Third World Debt crisis the “Washington Consensus”
- The *The End of History?*

Development economics as an
independent discipline

Alternative development theories

- After World War II alternative development theories emerged: success of the USSR, anti-colonialism, critique of "Western" dominance
- **Big-push** industrialisation (Rosenstein-Rodan), coordinated by state, lead sectors.
- **More socialist, state-controlled development** by non-aligned countries (India, Egypt)
- **Dependency theory** (Latin America)
- **Self-sufficiency** (in China)

Cathedrals in the desert



Nôtre-Dame de la Paix,
Yamoussoukro, Côte d'Ivoire

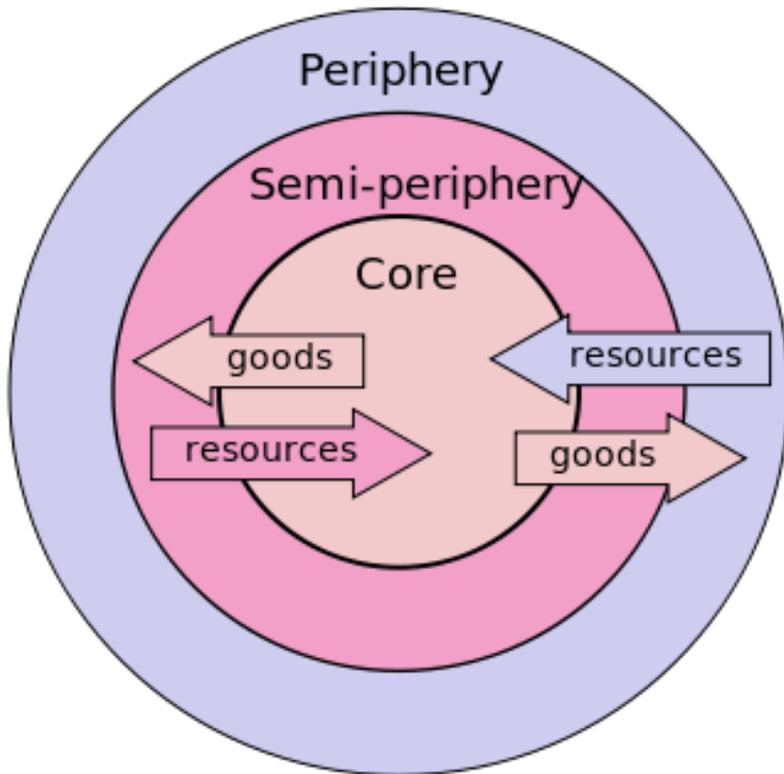
“Comparative-advantage-defying industrialisation”

Justin Yifu Lin (2013)

Indonesia ship construction in 1960s (GDP per capita only 10% of main competitor);

Zaire (DRC) attempt to build a car industry in 1970s (GDP only 5% of industry leader)

Dependency theory: centre-periphery



Variants explaining economic domination and exploitation of the periphery by the centre:

Trade > underdevelopment,
as terms of trade worsen

Marxist exploitation of
labour in the periphery

Latin America > Import
substitution

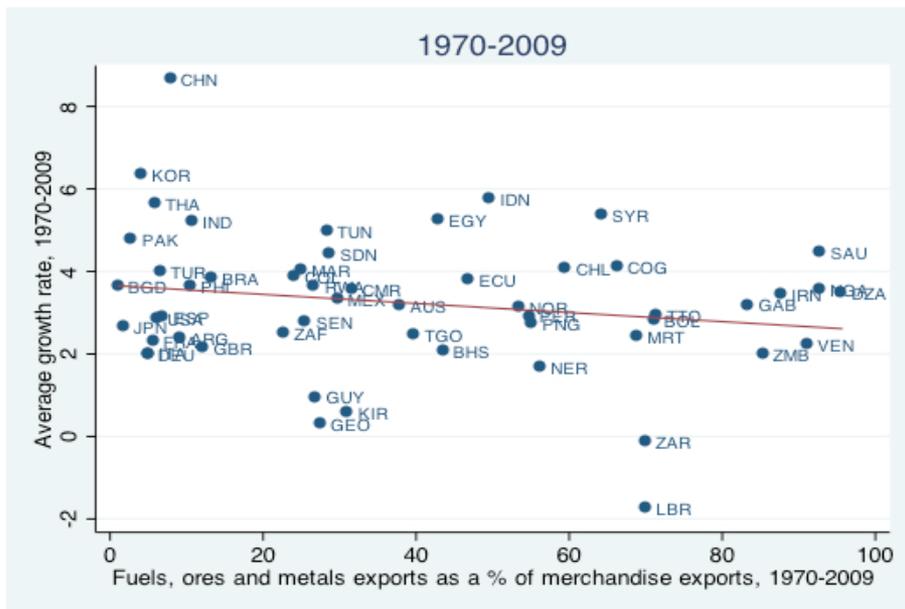
The Resource Curse

Countries rich in non-renewable natural resources often experience poor development.

Spanish gold & silver from New World in 16th century led the “Price Revolution” ... and decline.



Resource curse 2 (Frankel, 2012, review of the literature, etc.)



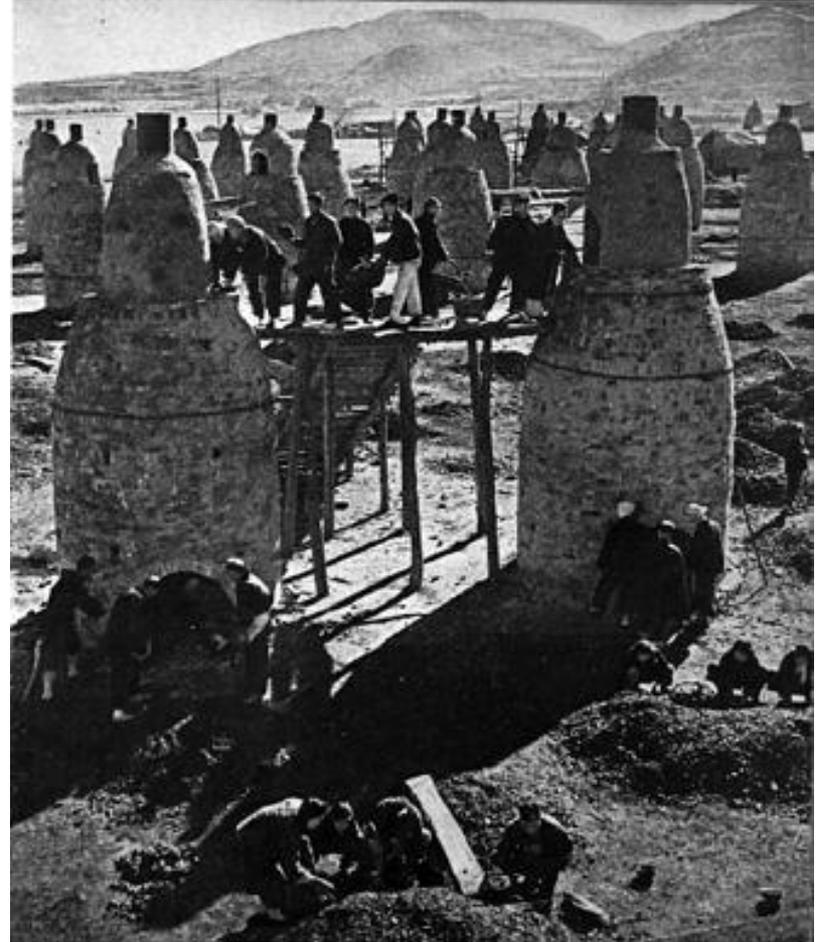
- i) long-term price trends
- ii) Commodity price volatility
- iii) permanent crowding out of manufacturing
- iv) autocratic/oligarchic institutions
- v) anarchic institutions (incl. unenforceable property rights)
- vi) cyclical Dutch disease

Maoist self-sufficiency

The Great Leap Forward
1958-1962

*“counting on one's own
forces”:
backyard furnaces*

The GLF and natural
disasters led to between
15 and 55 million deaths.



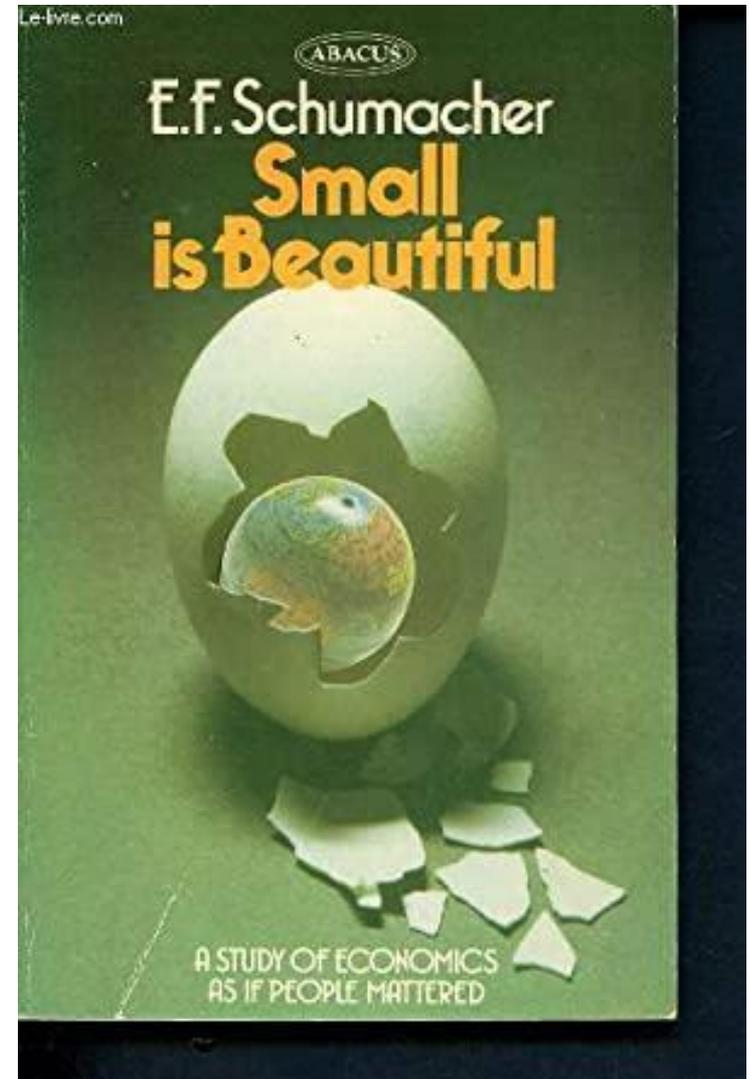
“Basic Needs” & “Small is Beautiful” – Schumacher

Basic Needs approach to development in 1970s

- Food, Water, Health, Education.

In face of **commodity squeeze** in 1970s

Generally more modest economic activity and growth (Schumacher): natural resources are limited > sustainable growth



The Third World Debt crisis and The “Washington Consensus”

Re-cycling petro-dollars in 1970s

- After first oil shock, OPEC surpluses were recycled to Third World countries



- Walter Wriston (CEO Citibank, 1967-1984):
“sovereign states don't go bankrupt”

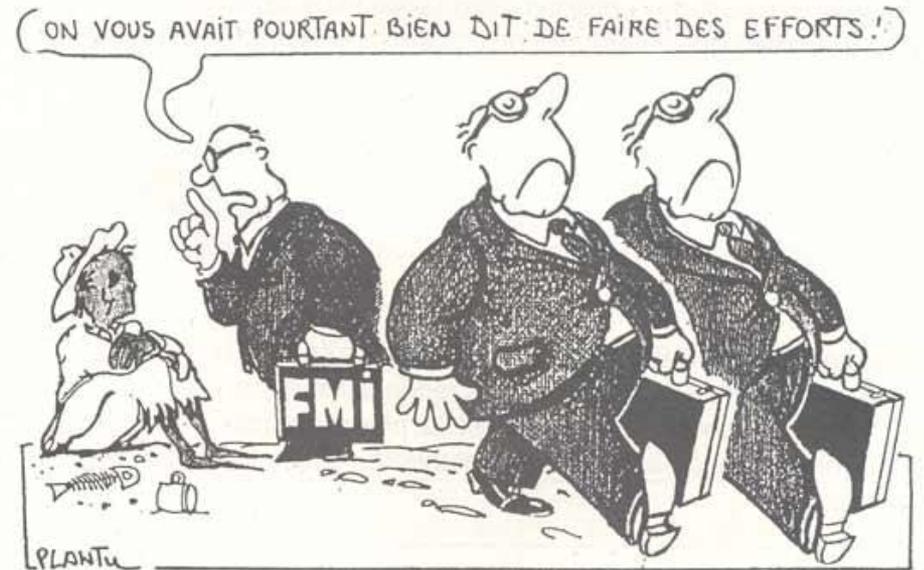
Volcker Shock > Third World Debt Crisis

- High US interest rates > surge in dollar
- Explosion of real debt values (contracted in dollars, at floating rates)
- August 1982 > Mexico defaults
- Third World Debt Crisis
- A lost decade for Latin America and Africa
- The Asian NIC's (South Korea and Taiwan) adjusted more rapidly.

A decade of debt rescheduling

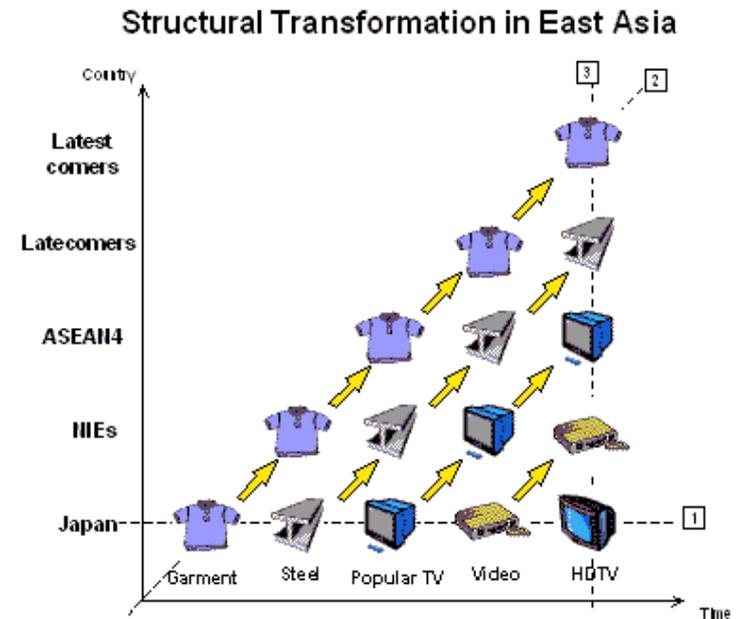
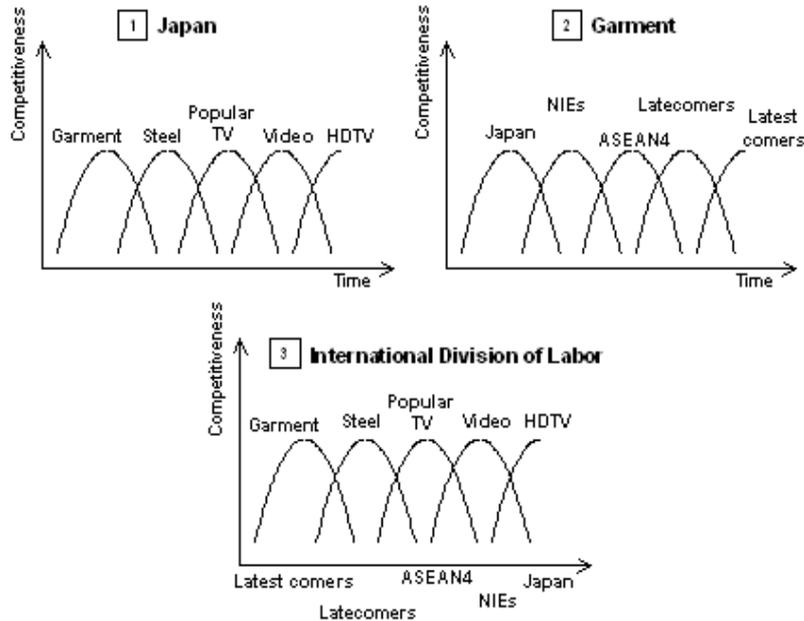
Washington Consensus (1989)

1. Fiscal policy discipline
2. Redirection of public spending
3. Tax reform
4. Interest rates
5. Competitive exchange rates;
6. Trade liberalization
7. Liberalization of inward foreign direct investment;
8. Privatization of state enterprises;
9. Deregulation
10. Legal security for property rights.



(Source: Le Monde, 1996)

Flying Geese Development Model (export-led growth)



The *The End of History?*

1989: *The End of History*, Fukuyama



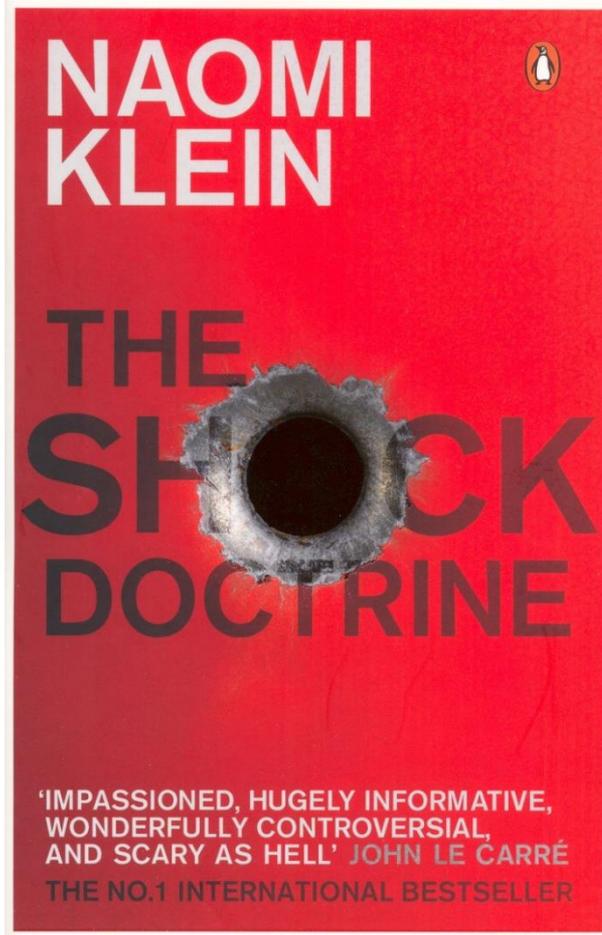
- Markets and liberal democracy
- The common marketisation of international relations
- No more adventures
- Possible resistance to Western capitalism

“The end of history will be a very sad time... the willingness to risk one's life...will be replaced by economic calculation...”

Capitalism unopposed

- 1990s: “the holiday from history” in “the West”
- US the only superpower
- Transition in Eastern Europe was largely peaceful
- China rising
- India changing
- Authoritarian regimes disappearing
- In the West: “the Great Moderation”
- But, there were financial crises:
 - Mexico 1994
 - The Asian Crisis 1997
 - Russian economic crisis 1998

Naomi Klein, *The Shock Doctrine*, 2007



- *Shock Therapy* applied to destabilise societies subject to neoliberal reforms.
- Chile
- The UK
- Eastern Europe, Russia, etc.
- Iraq after 2003 war, etc.
- *Disaster Capitalism* > privatisation for private corporate interests
- (Hurricane Katrina, New Orleans)

Conclusions

- A narrowing of development policies
- No, clearly identifiable model to openness and integration into the global economy
- But, not all countries are converging
- Middle income trap
- China and parts of Asia are exceptions
- “Original Sin” probably plays a key role
- Economic dualism