Evolution of the Washington Consensus:

Economic Insecurity as Discontent

by

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• This paper draws mainly on a forthcoming book, Economic Security for a Better World, written collectively by members of the ILO’s Socio-Economic Security Programme. Contributors to this part of the analysis include, most notably, Jose Figueiredo. The paper should not be cited without permission. Comments would be most welcome.
1. **Introduction**

After World War II, world leaders made an unprecedented commitment to the promotion of social and economic security. The world was expected to move steadily to situations in which most citizens of the industrialized world were protected by social services, transfers and institutions providing a dense network of security “from cradle to grave”. In most of the developing world — even if it was not possible to provide this type of security in the near future — there was commitment to achieve it in the longer term. Economic growth and development were built on security, and were expected to strengthen security — the means and the ends were twins.

Compare the situation nearly 60 years on. A feature of the currently orthodox model of growth is that labour insecurity, in the guise of “flexibility”, is portrayed as a desirable (if not only sustainable) engine of growth. Now it seems that not only is social and economic security a “barrier” to growth, but that human security is not a major development goal at all. Even the rhetoric around “poverty” hides a reality that there is no intention of altering the structures that provide extreme affluence for a few while causing systemic insecurities for the many.

This paper is not intended to be a tour of “globalization and its discontents”. Others have done that. Rather it has two objectives. First, it reviews the main contextual factors that seem to lead to increased economic insecurity, including slower and more volatile economic growth, unstable trade and financial flows, erosion of policy control by national governments, and the adoption of policies aimed at increasing “flexibility” and individual responsibility for risks and uncertainty. Second, it presents a national Economic Security Index, applied to 90 countries. Underlying, the paper, and the book from which it draws, is a claim that policy and institutional reforms should aim to strengthen the extent of economic security and that this would help in reducing the social and political tensions that contribute to world discontent and violence.

2. **The Washington Consensus**

The process now known as globalization began in the 1970s and 1980s with a number of coincidental changes. These included a switch of dominant technological paradigms (from “mass production” to microelectronics), institutional shake-ups in international financial markets, and the construction of global supply chains by transnational corporations (TNCs) — in particular by transferring labour-intensive assembly operations to low-wage developing countries.

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“Globalization” can be dated from the severing of the gold-dollar link in 1971. The process was reinforced by the abolition in 1974 of exchange controls on capital movements to and from the United States, and by the removal in 1975 of most barriers to entry to the New York Stock Exchange (followed by the London Stock Exchange). These events boosted international capital mobility and “competitive deregulation” in the 1980s.

In the minds of many, globalization has become equated with global application of the so-called “Washington Consensus”, which can be taken as implying 11 key policy commitments:

1. international financial market liberalization;
2. domestic capital market liberalization;
3. trade liberalization (particularly in developing countries);
4. labour market “flexibility”;
5. secure individual property rights over physical and financial assets;
6. weak property rights over human assets (particularly skills);
7. a reduction in the size and role of the public sector, including privatization of publicly-owned productive assets, and an end to managed trade and industrial policies;
8. a system of taxation that is not only less progressive, but also that shifts taxes from capital to labour, and subsidies from labour to capital;
9. independent central banks (as part of a more general move towards the “technocratization” of economic policymaking);
10. a “social safety net” type of approach to social protection: i.e., more targeting, selectivity and conditionality;
11. privatization and liberalization of social policy.

Underlying this policy package is the belief that national governments must accept less “discretionary” power over national policymaking and adapt to the dictates of a global model, identified and promoted by the Washington-based international financial institutions. These institutions could be described as the midwives of globalization, and of economic liberalization.

The International Monetary Fund (IMF), the World Bank and their regional associates have played an increasingly powerful role in shaping domestic policies, by ratcheting up the conditions attached to their discretionary provision of loans, grants and “technical assistance”. In the past decade or so, these conditions have extended to the privatization and liberalization of social policy. Conditionality accentuates social and economic insecurity. It means not just that governments of poor countries lose control over their policymaking, but that they become less responsible for it too.

The international financial agencies are undemocratic and unaccountable. They are dominated by the G8 nations, which hold 49% of the votes. All major decisions require an 85% majority. So, as the United States has 17%, it can veto any resolution, even if every other country supports it. In practice, US voting strength ensures that IMF and World Bank support is given on terms acceptable to Washington.

The rules of the World Trade Organization (WTO), created in 1995, also constrain domestic policy to a far greater degree than before, when the WTO’s
predecessor, GATT, concerned itself mainly with tariffs and trade in manufactures. WTO rules now cover many issues once considered the sovereign territory of governments, including industrial policy, farm subsidies, regulation of services and intellectual property protection.

While the WTO is in principle more “democratic” than the international financial agencies — decisions are made by consensus, which gives each country, however small, the theoretical right of veto — in practice the big trading powers have a predominant say in setting the trade agenda and determining the outcome of negotiations. This has led to what many developing countries claim is a bias in WTO rules against their interests, including constraints on industrial policy and failure to tackle the huge subsidies rich nations pay to their farmers and industrial corporations.

In general, there has been a steady move away from what is known as the Westphalian system, which granted states jurisdiction over their own territory, to what has been called “the new liberal cosmopolitanism”, whereby national sovereignty is limited by institutions of a global order, set up to uphold liberal internationalism based on common legal norms and free trade. This idea underlies the notion of global governance, to which liberals have too eagerly subscribed.

Three trends are altering the governance of social, economic and labour market policy. One is the strengthening of the architecture of global governance through international agencies, many of which are seeking an enlarged role, mainly to enhance the extent of market forces. Second is a strengthening of regional blocs, which may be interpreted as stepping stones on the route to full globalization, or as a means of offering regional economies a partial shield against global insecurities and instability.

Third, working in the opposite direction, there are pressures within states to decentralize responsibilities, reflecting a desire by central governments to cut back on their financial and administrative commitments. There is concern in many countries that this can accentuate inequalities and governance failure, including ineffective regulation of economic activities. One might call the overall trend decentration, since the centre (national government) seems to be ceding some authority to supra-national levels and is delegating some functions downwards to regional or local bodies, often in the name of subsidiarity.

The policy package of the Washington Consensus has also increased a tendency to discredit “politicians” at the expense of “entrepreneurs” and “technocrats”, shrinking the role of the state. It has enhanced the independent power of supposedly neutral technical institutions, such as central banks, over “biased political” structures. It has led to the concentration of a globalized mass media, such that a tiny, seemingly shrinking number of individuals and corporations dominate the distribution of “information” and “news”. And it has tended to replace collective entitlements by individual contributions. All of these — and there are others — have accentuated a sense of powerlessness and insecurity.

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Of course, there are countervailing forces. But it would be a mistake to think that the Washington Consensus has been a fixed set of policies or that it has been ‘discredited’ among those who subscribed to it. It is like a rubber ball. Hit it and it bounces back, with new nuances and buzzwords, such as social capital, safety nets, good governance. The evolution of the Washington Consensus shows paradigmatic consistency. Its essence remains – the promotion of an individualistic, market-based society geared to consumerism, in which collective bodies for universalism and social solidarity have no place.

3. Emerging features of “globalization”

What have been the main economic effects of the Washington Consensus as it has evolved? The world’s economy has become both more “integrated” and more unstable. Thus, for example, the year 2002 started with the biggest ever default of a national economy — the economic and political implosion in Argentina — and the world’s biggest corporate collapse of all time, with the bankruptcy of Enron, followed by WorldCom and a series of others. Before that, there was the Brazilian financial crisis of 1999, the Russian debt default and economic plunge in 1998, the East Asian financial crisis in 1997, the economic implosion of central and eastern Europe in the mid-1990s, and the Mexican “Tequila” crisis in 1994. These disasters have thrown millions of people into devastating economic insecurity.

The outstanding economic features of the era of globalization are several. First, trade has doubled its share of global income since 1970 and now accounts for about a quarter of world GDP. Intra-firm trade has increased from about a fifth to over one third of total trade over the same period.\(^4\)

While trade has for many countries become an important engine of economic growth, it also amplifies the impact of economic shocks elsewhere in the world. To take just one example, the bursting of the telecom “bubble” in 2001, and the huge fall in information technology investment that followed, had knock-on effects for East Asian economies such as Singapore and Taiwan, China, which recorded their worst trade and output performance for 30 years. According to the World Trade Organization, the slump in demand for IT products accounted for most of the slowdown in world trade in 2001. While greater global interdependence brings more vulnerability for economies, economic specialization induced by trade (“comparative advantage”) implies wrenching adjustments by workers and communities.

Second, foreign capital flows have grown and have become more volatile. As official government aid in real terms has declined, the growth has come in private capital flows, which are unstable and pro-cyclical.\(^5\) In 1990, private flows made up less than half of total resource flows to developing countries of about US$100 billion. In 2002, private flows accounted for three-quarters of total resource flows of just

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under US$200 billion. At the same time, short-term capital flows (portfolio investment and bank loans) surged from US$20 billion in 1990 to nearly US$150 billion in 1996, only shrinking in 2001 and 2002. Foreign direct investment (FDI), while less mobile than portfolio investment or bank credits, can also be fickle. Despite the recent downturn, FDI is now by far the biggest component of net resource flows to the developing world. For some countries, foreign-owned enterprises account for over half total investment and trade. Half the exports by China, the world’s biggest FDI recipient and its fourth largest exporter, are generated by transnational corporations.

While developing nations are facing larger and more volatile capital flows, their ability to cope with these through controls and restrictions has been steadily eroded. Until very recently, capital account liberalization was a condition of IMF lending to countries in difficulty and it is still insisted upon by the United States in its bilateral dealings. The US bilateral trade pact with Chile signed in 2003, for instance, obliges Chile to renounce its right to use (previously successful) capital controls on inflows and outflows, and blocks almost any trade and industrial policy measures that a future Chilean administration might contemplate.

Third, there has been financial market integration, which almost definitionally impinges on the autonomy of national policymakers. Global foreign exchange transactions and short-term financial flows have soared, while financial markets increasingly move together in response to the same events and shocks. In the past, investment diversification internationally was a way of reducing risk; as some markets went down, others went up. Now, movements in the US stock market, for instance, have an 80% correlation with movement of European stocks, whereas 20 years ago this was only 40%. Financial globalization has also led to more competition between international banks for lending, and between fund managers “to beat the market”. The increase in short-termism and “herd” behaviour have amplified market volatility and raised risks for most investors, including many workers in rich countries encouraged to put their faith — and pension investments — in stocks and bonds.

Fourth, all over the world policymakers have been racing to make their markets more competitive, and to increase incentives to invest and to reduce what are perceived as regulatory rigidities. Labour markets have been subject to a whole series of changes intended to increase flexibility and lower labour costs. This contrasts with the prevailing wisdom in the preceding “Keynesian” era, when high or rising wages were seen as a means not only of boosting aggregate demand, and thus employment, but of raising productivity. The emphasis on “competitiveness” has led to various ways of lowering wages and weakening the means of securing wage growth.

A fifth trend is the re-orientation of fiscal policy. Traditionally, taxation was used to raise revenue to pay for public services and administration, and to reduce inequality by redistributing from the rich to the poor. But elites have successfully diverted taxation away from being an arm of progressive social policy.

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7 In the early 1960s, US wage-productivity guidelines stipulated that wages should rise proportionately to productivity growth.
There are several relevant aspects of the evolution of fiscal policy. First, tax on capital has been whittled away globally. Second, there has been a shift of tax incidence from capital to labour, in part because of import liberalization that has reduced the tax take. Third, the world has witnessed the growth of what might be called the *subsidizing state*, with over US$1 trillion paid out in subsidies in the mid-1990s or about 4% of global GDP. Subsidies provided by developing countries equalled about 6.3% of their GDP — about a third of total government expenditure.

Fourth, in developed countries, in particular, there has been a *fiscalization of social policy*, by which fiscal sticks and carrots have been used to shape individual behaviour, an inherently paternalistic policy. This includes a rising incidence of labour subsidies, including so-called tax credits, which are in effect subsidies on low-wage labour. We will come back to this in considering global re-regulation.

4. **Economic Growth and Volatility**

Proponents of globalization and the Washington Consensus have contended that a system of open integrated economies would promote higher economic growth and reduce economic instability. What is the evidence? Let us start with the growth record. Probably the best data-set to investigate what has happened to economic growth is the World Bank’s WDI (World Development Indicators) databank; presented at constant 1995 US$, this gives information for the G7 and for 59 developing countries for 1960–2000.

Figure 1 shows there was lower economic growth of developing countries after 1980 and an increase in the volatility of growth. Statistics refer to individual country growth rates and, unless otherwise stated, coefficients of variation are multiplied by 10. Although the great majority of countries had lower growth in 1980–2000 than in 1960–80, China and India (with Bangladesh) are notable exceptions (Figure 2).

The average annual growth rate of world output declined from 4.6% to 2.8% in these two periods. In the first, world output grew 2.5-fold, in the second only 1.7-fold. For G7 countries, the slowdown was from 5.1% to 2.4% a year. Even in the USA — in spite of the prosperity of the Clinton years — the average growth rate in the second period (3.2%) was below that of the first (3.5%). And despite China’s and India’s size and remarkable growth, the overall rate of growth in the 59 developing countries fell from 5.5% to 4.5% annually.

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9 This is analysed elsewhere. G. Standing, *Beyond the New Paternalism* (London, Verso, 2002).

10 This section draws on work for the Programme by Gabriel Palma, and has benefited from discussions with Ajit Singh.
Of the five developing regions, Latin America experienced the largest drop, from 5.6% to 2.2% annually. Whereas in the first period output trebled, in the second growth was only half that. In only 12 of the 59 developing countries did growth increase in the second period — one in Latin America (Chile), three in Asia (China, India and Bangladesh) and eight in sub-Saharan Africa (Benin, Burkina Faso, Chad, Ghana, Guinea Bissau, Mauritius, Senegal and Sudan). Finally, although only one in every five countries managed higher growth in the second period, these included three of the five largest (China, India and Bangladesh) with 40% of the world’s population; the other nine with faster growth in the second period are relatively small, representing less than 7% of the remaining developing-country population.
The average annual rate of growth of world GDP per capita fell by half between these two periods, from 2.6% to 1.3% (Figure 3). In the G6, the slowdown was greater than the average, falling from 4.3% to 2% (Figure 4). Even in the USA there was a decline in growth of GDP per capita. And in spite of the performance of China and India, and a slowdown in population growth, the per capita growth rate in developing countries fell from 3.1% to 2.7%.

**Figure 3: Developing countries (59): Annual GDP per capita growth (%) and variability, 1960–80 and 1980–2000**

![Graph showing GDP per capita growth](image)


**Figure 4: Regional diversity: Annual GDP per capita growth (%), 1960–80 and 1980–2000**

![Graph showing regional GDP per capita growth](image)

G6 = Canada, France, Germany, Italy, Japan and UK. US = United States. DCs = aggregate output of 59 developing countries. DCs* = Developing countries, excluding China and India. N1 = first-tier NICs. N2 = second-tier NICs. LA = Latin American countries. NA = North Africa. SSA = sub-Saharan countries, excluding South Africa.


Excluding China and India, the annual per capita growth rate for the other 57 developing countries fell from 3.2% to 1.5%. Of all regions, Latin America had the largest decline, from 3% to just 0.4%. In the first period it almost managed to keep up with the increase in GDP per capita of the G7; in the second, “globalizing” Latin
America had a growth rate one-fifth that of the G7. Even some large dynamic East Asian economies, such as Indonesia and the Philippines, posted lower per capita GDP growth in the second period.

With average growth of GDP per capita of respectively 8.3%, 3.6% and 2.6% between 1980 and 2000 China, India and Bangladesh, with a population of 2.4 billion, were among the few countries with a better performance in the later period.

Thus globalization has scarcely been associated with accelerated growth, a conclusion that does not change significantly if the periodization is altered. If the later period is divided into two sub-periods, 1980–90 and 1990–2000, economic growth was greater in the latter in most regions (and in the USA). Nevertheless, world GDP grew more slowly in both sub-periods than between 1960 and 1980.

Note that India, while it grew faster in the second period than the first, did not grow significantly faster in the 1990s than in the 1980s. Thus it cannot be argued convincingly that the liberalizing policies of the New Economic Policy launched in 1991 generated more growth. Indeed, in the 1990s, agricultural and manufacturing output growth slowed. India’s recent growth appears to be the result of rapid expansion of the financial services and communications sectors, which have delivered well-paid jobs to a minority of the Indian labour force. It has also led to a doubling of trade as a share of GDP, leaving the Indian economy more vulnerable to external shocks. Moreover, there are signs that some multinationals are already shifting jobs and investment out of India, some to lower-cost countries, and some, in the case of services involving direct contact with customers, back home.

What then of the claim that globalization has reduced economic instability? It seems that the global economy has become more prone to economic crises, involving deep sudden downturns that spread from one country or region of the world to others. Even the IMF has accepted this. Perhaps reflecting its failure to predict the Asian crisis, the IMF stated in 1999 that crises have become “more severe and even less predictable and to come in waves”.11

Figure 5 shows increased volatility of growth rates in 1980–2000 compared with 1960–80 in the G6, in the first-tier and second-tier Newly Industrializing Countries, in sub-Saharan Africa and above all in Latin America. The major exceptions are China and India. Figure 5 shows actual values for coefficients of variation (in other graphs they are multiplied by 10). If all developing countries were included (particularly the missing 15, mostly troubled, sub-Saharan countries), median per capita GDP growth in the second period would be close to zero. The same patterns, notably the asymmetry between China, India and Bangladesh and other countries, are found in the growth rates of GDP per capita in the two periods (Figure 6).

So, the evidence suggests that for most countries globalization generates instability. This seems to have been conceded by its proponents.12 They now argue

11 IMF: World Economic Outlook 1999 (Washington DC, IMF, Oct. 1999), p. 68. This may prove more a mea culpa than correct, since the capacity to predict may improve with increased knowledge of factors that precede each crisis.

that this is the price countries pay for increased growth, and that instability can be
coped with through a social “safety net”. But as we have seen, the growth record is at
best unclear, while according to orthodox theory, financial liberalization should
engender economic stability. In fact, liberalization has been associated with a greater
incidence of currency and banking crises, which have created economic turbulence
with drastic social consequences.¹³

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**Figure 5:** G6, United States and DCs (59): Average coefficient of variation of

![Graph](image1)

G6 = Canada, France, Germany, Italy, Japan and UK. US=United States. N1 = first-tier NICs. N2 =
second-tier NICs. LA = Latin America. NA = North Africa. S-SA = sub-Saharan Africa (including
South Africa).


**Figure 6:** G6, United States and DCs (59): Average coefficient of variation of

![Graph](image2)

G6 = Canada, France, Germany, Italy, Japan and UK. US=United States. N1 = first-tier NICs. N2 =
second-tier NICs. LA = Latin American countries. NA = North Africa. S-SA = Sub-Saharan countries, excluding
South Africa.


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Note that volatility could be assessed in terms of standard deviation or by means of deviation from the regression
line. The coefficient of variation seems most appropriate, given the wide differences in average GDP growth rates.

This leads to the criticism of the orthodoxy on which there seems to be increasingly widespread agreement. Most critics make a distinction between trade liberalization (free trade) and financial liberalization (free capital mobility). They argue that the former may promote economic growth, while the latter leads to lower growth and more economic instability and insecurity. Countries that have grown fast and industrialized have done so by managing their trade opening, promoting exports while maintaining selective controls on imports, thus enabling them to achieve balance of payments equilibrium at high rates of economic growth. This learning-to-trade paradigm requires strong state coordination.

By contrast, financial opening is fraught with risks that cannot easily be overcome by governments of developing countries. And even the IMF has concluded:

"There is little evidence that financial integration has helped developing countries to better stabilize fluctuations in consumption growth, notwithstanding the theoretically large benefits that could accrue to developing countries in this respect. In fact, new evidence ... suggests that low to moderate levels of financial integration may have made some countries subject to even greater volatility of consumption relative to that of output. Thus, while there is no proof in the data that financial globalization has benefited growth, there is evidence that some countries may have experienced greater consumption volatility as a result."15

Other reasons for doubting whether financial liberalization stabilizes growth include the view that it increases competition between banks (and other financial institutions), leading them to take on more risky business and customers, and induces corporations and themselves to take a short-term approach to their activities.16

Finally, what has happened to the differences between countries in the era of globalization? In the middle-income group, only the six East Asian countries seem to be "catching up" with the G7 (Figure 7). In the low-income group, China was the only country with a relative income per capita much above what it was in 1960 (Figure 8). Indonesia and the Philippines (with a combined population of 286 million) were roughly back at 1960 levels, while India (as well as Bangladesh), in spite of rapid growth in the second part of the period, had still not recovered lost ground.

In sum, in the era of globalization, many countries experienced lower growth, while the volatility of growth of GDP and GDP per capita increased. The lower rates and the greater volatility of growth in most developing countries are two phenomena that could be expected to have a negative effect on economic security. And while

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rapid recent growth in China and India has undoubtedly pulled large numbers of people out of poverty it may have increased insecurity as traditional ways of life and support systems have been disrupted — see box on China in the following section.

Figure 7: Middle income DCs: GDP per capita as a share of G7 GDP per capita

![Graph showing GDP per capita as a share of G7 GDP per capita for middle income DCs from 1965 to 2001. SA = South Africa. LA3 = Brazil, Mexico and Argentina. LAr = rest of Latin America. N1 = first-tier NICs. N2 = Malaysia and Thailand. Source: World Bank: World Development Indicators 2003.]

Figure 8: Low income DCs: GDP per capita as a share of G7 GDP per capita

![Graph showing GDP per capita as a share of G7 GDP per capita for low income DCs from 1965 to 2001. NA = North Africa; I and P = Indonesia and the Philippines; S-SA = sub-Saharan Africa (excluding South Africa). Source: World Bank: World Development Indicators 2003.]

What of the future? Here, we just note that one factor for expecting increased instability in the global economy is its heavy dependence on the performance of the US economy to generate growth. Many commentators, including the IMF, believe the huge US current account and public sector deficits are unsustainable and risk precipitating a dollar crisis, rising interest rates and a world recession. A related worry is growing political pressure to raise US trade barriers, mainly to protect labour-intensive sectors such as textiles.

According to the US Treasury Department, debt owed to foreign governments, central banks, private banks and other investors reached US$6.4 trillion in late 2003; by comparison, total taxes and other public revenue taken by the US government is about US$2 trillion a year. The budget deficit for 2002–03 approached US$400 billion and is predicted to exceed US$500 billion in 2003–04.

By the end of 2002, US net external debt was 25% of GDP, and the IMF predicted that it could grow to 40% of GDP within a few years. Meanwhile, the trade
deficit has been growing steadily, and is now running at half a trillion dollars annually. To finance the resulting current account deficit, now 5% of GDP, the United States needs to attract US$1.5 billion in overseas capital every day of the year.\textsuperscript{17}

Thus American prosperity seems to depend on the rest of the world continuing to hold a large and rising proportion of US assets. By 2000, this share was equivalent to 67% of US GDP, up from 46% in 1995.\textsuperscript{18} Much of that consists of bonds and equities that can be quickly sold — an inherently unstable situation. Is a “soft landing” in the 1980s mould really likely in such circumstances? Perhaps we should all hold our breath…. and hope so.

5. \textbf{Liberalisation of Social Policy}

The 1990s was the decade of economic privatization.\textsuperscript{19} Some 130 low-income and middle-income countries introduced private participation in infrastructure sectors, led by telecommunications and electricity. During those years, sales of state-owned companies worldwide amounted to more than US$600 billion, and the price paid by those acquiring them was often much below their market value.

Although it had started in the 1980s and 1990s, the first decade of the 21\textsuperscript{st} century may come to be regarded as \textit{the decade of social policy privatization}. This has been led by pension reforms, initiated in Chile. But it has also affected healthcare and almost all other aspects of social benefits and services, including employment services, social care, prison services and education and training, as well as infrastructural public services such as water, sanitation, transport and energy.

It is ironic that, as privatization is being extended to social policy around the world, evidence of its high costs and deficiencies in providing adequate social protection is growing. The switch to a private pension system has cost the Chilean government about 5% of GDP during the last 20 years (more than it would have cost to eradicate poverty altogether); and there is little sign that this cost will fall. Less known is that in Argentina much of the public sector deficit often blamed as the main cause of the December 2001 crisis, was due to the public expenditure needed to finance the switch of the state pension fund to a Chilean-style private system. Other countries have faced a similar drain on their national incomes.

Individuals too have faced higher costs, and often lower benefits as well, by the shift to individual pension accounts that obliges ordinary people to bear — through their income in old age — the risks of the market. Privatized pension schemes have proved more expensive to governments than a basic state scheme would have been, while providing inferior benefits at greater risk and insecurity for contributors.

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19 It took many forms, ranging from gentle partial liberalization measures to the predatory privatization of the ex-Soviet Union — \textit{prikhvatizatsia}, in which the old \textit{nomenklatura} turned \textit{de facto} possession into \textit{de jure} property rights, converting themselves into billionaires at the expense of society.
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Privatization cannot sensibly be separated from *liberalization*.\(^{20}\) Essentially, the conventional wisdom is that public enterprises, especially monopolies, are both inefficient and contrary to “free markets”. So governments have moved to mixed provision, allowing more private competition where the public sector was once the sole provider, or indulging in some “public-private” partnerships. Once that step is taken, external pressure builds up to allow foreign as well as national firms to enter the market and the WTO’s GATS may then be used to make the presence of foreign firms a permanent feature.

There are several reasons for believing that privatization and liberalization of social policy are intensifying insecurity. Most worrying is when the state withdraws from a commitment to provide a social service or protection, leaving people to make their own arrangements. Such *de facto* privatization — withdrawal of a meals service, for example — is likely to leave unfilled gaps that intensify people’s insecurity.\(^ {21}\)

However, partial or complete privatization where a private provider takes over a service may also increase insecurity among those needing the service. For example, when public systems contract out part of their functions, the conditions of work of those providing the service often seem to deteriorate along with the services. One factor, among many, is that public sectors tend to be more unionized than the private substitutes.

Another worry is that private providers may be more selective in the markets they wish to serve, concentrating on those with the capacity to pay and markets where rates of return are high and relatively assured. Private providers are increasingly sophisticated in being able to calculate uninsurable risks, and will avoid coverage of people, communities and needs that could be costly. Governments can try to overcome this tendency, but doing so can be costly and inefficient. Regulations and subsidies are blunt policy instruments, particularly in countries where administrative machinery is weak.

A primary reason for citizens to be worried about privatization of services is that they are public goods that supply essential needs. Water, for example, is being privatized, accelerated by World Bank encouragement. In its latest *World Development Report*, the Bank states:

> “There are few advantages to government’s providing the service itself. That is why the past decade has seen many privatizations, concessions, and the like in water and energy.”\(^ {22}\)

Well, it may not be that simple. Privatization should prompt concern over such issues as discretionary supply, quality control and price. To some extent, these can be

\(^{20}\) We are currently undertaking a research project on the liberalisation of social services globally, covering the impact of privatisation, commercialisation and financialisation of eight spheres of social service.

\(^{21}\) Observers who believe that the welfare state has weathered the storm and remained intact should take account of the numerous little changes that have altered social policy profoundly. It brings to mind the clever ‘anti-litter’ advertising campaign in the UK of some years ago, in which a person was shown throwing a piece of paper on the ground under the caption, “My little bit doesn’t matter.”

managed by establishment of effective *regulators* — separate from providers, accountable, transparent, adequately funded and technically qualified. In many countries, these qualities are hard to ensure. In many, nobody bothers to try.

The combination of privatization and liberalization of social protection will be a major sphere of political controversy in the early part of the 21st century. Will it lead to a social protection failure? Will social solidarity be undermined? Will democratic and cultural traditions be undermined by agendas determined by international financial agencies and elites? Will it lead to increased selectivity and conditionality in social protection, and to excessive “targeting”? Will a more virulent form of *dualism* be encouraged, of “public, poor vs. private, rich”? The image of “torn safety nets” is there, associated with systemic disentitlement.

It is too early to be sure. However, there is ample evidence to justify a sense of unease, both for workers in the services and for the “clients” or “consumers”. Unless carefully monitored and regulated, privatization can intensify problems of moral and immoral hazards, adverse selection and inequalities, affecting security services, the spheres of pensions, healthcare, social care and employment services.

6. Aid as Leverage or as Philanthropy?

Most rich countries give a miserly share of GDP in aid, and the total has fallen in real terms over the past two decades, as has the US share (Figure 9). In addition, more funds are going on immediate humanitarian needs rather than long-term development, and it is more than likely that the Iraq situation and the so-called “war on terrorism” will affect the character and direction as well as the levels of aid provided for development purposes.

![Figure 9: Aid to developing countries in USD billion (2002 prices)](image)


In recent years, donor countries have introduced a new instrument designed to influence government policymaking in low-income developing countries — Poverty
Reduction Strategy Papers (PRSPs). The rationale of PRSPs is to increase aid-giving efficiency and foster improved governance and accountability of governments by drawing up a strategic plan to guide the coordinated disbursement of foreign aid and technical assistance.

A difficulty is that the process itself may fail simple tests of accountability, transparency and governance. Some observers argue that the claim that PRSPs strengthen national “ownership” of the policymaking process is moot, because donors have a coordinated single position and can thereby impose stronger conditionality. Others argue that the main outcome of PRSPs is to give the World Bank and IMF a greater coordinating role in the provision of aid and that, despite the rhetoric of poverty reduction, there is no emphasis given to redistribution, without which there is no prospect of substantial improvements in income security.

Reflecting inter alia the degree of integration and the resort to stabilization and adjustment policies an alarming aspect of globalization is the scale of indebtedness of both the United States and developing countries. By the end of the 20th century, debt owed by developing countries to the IMF, World Bank, regional development banks, commercial banks and other financial institutions had risen to about US$2.5 trillion, more than the combined reserves of all the world’s central banks. Many cannot repay the debt, and debt reduction plans have pushed numerous countries into the indignity and insecurity of losing control over national policy.

While more countries have become absorbed into the global economy, others, especially in Africa, have been cut off from global growth. There is a sense of disconnectedness, with no effective state to implement economic policies. Paradoxically, these countries are becoming more import-dependent, but less export-competitive and investment-attractive; this leads them to be cut off from capital flows, in particular from FDI.

The situation of the African continent is the most alarming of all. Three-quarters of the world’s poorest countries are in Africa, and economic growth overall was negative in the 1990s, leaving the average African living on less than US$2 a day. Many countries are afflicted by chronic debt, rampant HIV/AIDS, drought and civil wars, while famine periodically hits the continent. Yet African countries have been forced to open up their economies, even though trade restrictions and subsidies in most OECD members impede their exports. Others are simply unable to take advantage of trade opportunities because they lack the physical and institutional infrastructure for exports.

Aid has been more coordinated by narrow political and commercial interests, while social policy conditionality has been steadily extended, and more subtly done.

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23 These are policy packages “owned” by the developing country after having been “designed” with a little help from the international financial agencies.


25 This is less than the subsidy of US$2.5 a day paid for each cow in the European Union!

Less noted has been the trend towards the *privatisation of aid*. Private ‘foundations’ have proliferated, led by Bill Gates. Executives of multinationals and other mega-rich individuals can slap themselves on the back at Davos and write tax-deductible cheques to demonstrate their philanthropic decency. However, while the public image of philanthropy from mega-rich ‘donors’ may seem benevolent, the longer-term effects of their discretionary benevolence have yet to be assessed.

### 7. Global Regulation: Towards the Privatisation of Regulations?

Under the influence of the Washington Consensus, a global restructuring of the role of regulation and regulations has been taking place. This began with a strategy of eroding the legitimacy of neo-corporatist governance, characterized by tripartism and various “boards” setting prices, wages, incomes, standards and procedures. Except in a few die-hard northern European countries, the days of deciding on policy through negotiations between collective labour and collective industrial capital are long gone.

Statutory regulations have fared a little better, but have been profoundly restructured in favour of capital. Statutory protective regulation has been weakened — including auditing rules and supervision — while policymakers have been lured into backing “voluntary codes of conduct”, including “corporate social responsibility” initiatives, which have been promoted as alternatives to statutory regulation. These are regulation by gesture and public relations.

This trend has affected most areas of policy. For instance, many industrialized countries relaxed protective regulations in agriculture. In one infamous case, the rollback in regulatory monitoring in the UK culminated in BSE (“mad cow disease”) and the foot-and-mouth epidemic.

In many developing countries the capacity to implement regulations is limited, and has been eroded by abandoning old mechanisms. In India and elsewhere, agricultural ‘deregulation’ has led to large price fluctuations and “wipe outs”, in which farmers who once balanced poor and good harvests through support systems can now lose everything in the wake of a poor season. The orthodox answer is that these problems could be rectified by insurance markets. But even if these existed, their price would be prohibitive for poor and small-scale producers; there is thus a strong need for a government role, through such bodies as crop insurance boards, which were abolished in the name of free trade.

Second, there has been extensive labour market re-regulation. It is a misnomer to call this *deregulation*. One might claim that the direction of change has been towards protection of *individual rights* and a weakening in the protection of *collective rights*. Or one might claim that there has been a strengthening of the bargaining position of firms relative to workers. But one point is clear. The globalisation era has seen more new labour regulations than at any comparable time in human history. ²⁷ Around the world, collective bargaining rights have been more restricted, or placed within legal confines to a greater extent. The pursuit of labour market flexibility was led by the Thatcher government in the UK and the Reagan administration in the USA,

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²⁷ Anybody using the term *labour market deregulation* should take up gardening.
and then copied to varying extent by almost all other rich countries, with Germany being a reluctant follower early in the 21st century.

Among developing countries, Chile was in the vanguard during the Pinochet regime and others have followed suit. Reform of the Factory Acts, for instance, has weakened the position of regular wage-workers in India. But it is in the industrialized countries that labour market re-regulation has gone furthest. The pursuit of labour flexibility has had a profound adverse effect on various forms of worker security.

Besides the changing character of statutory labour regulations, there has been a drift to what might be called fiscal regulation. As noted earlier, governments are using taxes, subsidies and benefits to guide behaviour, penalize certain activities and raise the rewards to some types of behaviour relative to others. Individual earned income tax credits have been the most striking case of this. A question is whether or not fiscal regulation is turning into something close to “social engineering”? Increasingly, fiscal policy is being used to alter people’s behaviour, to encourage certain types of behaviour and activity and discourage others. In this, there is likely to be a “democratic deficit”, and a lack of transparency and accountability, as well as a tendency to push people to conform to a single way of behaving, rather than allow for behavioural diversity.

Also less noticed than some ‘globalisation’ phenomena, process standards are becoming more important in global trade, though they are “voluntary”, not part of the WTO system. Countries and firms face penalties in terms of market access unless they comply with certain labour or environmental standards. This may sound laudable. But those in a position to standardize and codify rules will take the spoils. Often the rules are self-monitored and audited by non-transparent means. Often supposedly independent bodies, including NGOs, are co-opted by business or public bodies to formulate, monitor or revise standards and rules. Firms are supposed to comply, but compliance can be managed in various ways.

Fourth, we are witnessing the privatisation of regulation. A visible part of this is those glossy voluntary CSR initiatives, most notably the so-called Global Compact, which have had only a minor effect so far.

A more important but little noticed form of private regulation has been delegated to credit rating agencies (CRAs). In practice, this means the public rating and thus legitimation of corporations (and countries) by three US-based firms — Moody’s, Standard and Poor, and Fitch — all of which have expanded dramatically since the 1980s. Their role in globalization should not be underestimated. In effect, they determine the worth of corporations and countries by passing judgment (from a US perspective) on practices and policies via their ratings. Thus, in 2003 Standard and Poor downgraded the shares of several major German corporations to “junk status” by applying US standards to their pension fund provisions. This caused disquiet in Germany. Similarly, when Moody’s put Japanese debt on a level with Botswana and Chile in the 1980s, the value of the yen promptly fell by 10% as investors moved funds out of the country.

The CRAs have become key players in assessing risk in the global economy. But they are powers in themselves, able to determine the security of companies, and
thus workers in them. There should be more worry that the CRAs are being given stronger quasi-regulatory powers.\(^{28}\) They are creating “adaptation pressure” on non-US firms and governments. And they are selling “rating evaluation services” to help the latter improve their ratings! They are quietly becoming an international institution shaping countries’ macro-economic policy. There is private authority without public accountability. Who will regulate the global private regulators, which are firmly embedded in the United States?

8. **Measuring Economic Security**

In recent years, performance indexes have proliferated, many being attempts to identify “good practices” and “good performers”.\(^{29}\) In the ILO’s Socio-Economic Security Programme, drawing on data from a newly created Global SES Database, we have developed an Economic Security Index (ESI) as an attempt to measure national economic security. The procedure is explained in detail elsewhere, but essentially it consists of two stages.\(^{30}\)

First, it defines seven forms of labour-related security, and creates an index of each, based on Input indicators (policy variables), Process indicators (variables measuring the existence of institutional mechanisms to give effect to policy commitments) and Outcome indicators. Second, combining the normalized values of seven socio-economic security indexes yields a composite measure designated as the ESI.\(^{31}\) Actually, the ESI is defined as a weighted average of the scores of the seven forms of security, in which double weight is given to income security and to representation security, because basic income security is essential for real freedom to make choices and because representation security is essential to enable the vulnerable to retain income security, whereas the other forms of labour-related security are regarded as tradable.

The idea of economic security is that people need a combination of forms of social and work-related securities in order to flourish and develop. In a sense, economic security is an abstract asset, although crucially, as defined, it encompasses legal and institutional safeguards that make it a very real phenomenon.

A country’s ESI score indicates its extent of economic security, in a relative sense. A high score indicates that a country is providing more security than one with a low score. But a high score does not necessarily imply that the country is providing a

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\(^{29}\) The GDP and GNP are themselves indexes, which have been widely criticized. A refinement is Net National Product (NNP), which is GNP less depreciation. Some economists have suggested that all of these should be adjusted by measuring depletion of natural resources, including the value of goods and services produced outside the economic system (for example, care and voluntary work), reclassifying certain activities now counted as consumption as investment, taking account of polluting expenditures and weighting NNP by extent of inequality.

\(^{30}\) The methodology and data are presented in *Economic Security for a Better World* (Geneva, ILO, forthcoming).

\(^{31}\) Note that three ‘sub-indexes’ can be created, for Input, Process and Outcome measures, based on combining the seven sub-indexes of the individual security indexes.
very strong environment of economic security, merely that it is doing better than many others. It is a relative measure, not an absolute one.

The ESI is estimated for all those 90 countries for which the component indexes could be estimated with the data available. The 90 countries account for 86% of the world’s population, although they comprise just over half the ILO’s total member countries. The ESI scores are by definition constrained to a value between 0 and 1. A check on the distribution of these scores indicates that countries are reasonably close to being normally distributed. As Figure 10 shows, there is no polarization of values around the extremes of the distribution.

![Figure 10. Distribution of the 90 countries by the ESI scores](source: IFP-SES databases 2004)

Applying the classification criteria based on the scores of the Input, Process and Outcome sub-indexes, countries are grouped into four clusters. As with the individual securities, the Pacesetter cluster consists of countries that score high on all three sub-indexes (they have good policies, good mechanisms and good outcomes); the Pragmatists consist of those doing well in terms of outcome, but less well in terms of either Input or Process or both; the Conventionalists are those that have high scores in terms of Input and/or Process but somehow have a less satisfactory Outcome sub-index; the Much-to-be-Done cluster consists of those countries doing poorly in all respects.

Figures 11 and 12 indicate the geographical spread of countries by extent of economic security. Table 1 presents the four clusters of countries. Although the overall scores are approximately normally distributed, the sub-indexes are not. For that reason the two largest clusters are the “most insecure” and “most secure” countries. Together, the “Pacesetter” and “Much-to-be-Done” clusters account for over two thirds of the 90 countries, respectively 24 and 42.

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32 For four of the 90 countries one of the seven security scores could not be estimated. It is assumed that this would not alter their final score, so their ESI was based on the normalized value calculated for the other security scores. The four countries are Azerbaijan, Congo (Democratic Republic), Senegal and Turkmenistan.

33 The Kolmogorov-Smirnov test shows the hypothesis of normal distribution of the ESI scores cannot be rejected.
The “Pacesetters” are dominated by European countries, 17 from Western Europe and four from Eastern Europe. By global standards, all Western European countries provide satisfactory levels of economic security and all are classified as “Pacesetters”. Only three non-European countries qualify as “Pacesetters” - Canada, Japan and Israel. While no doubt improvements could be made in all pacesetting countries, all are exemplary in terms of policies to protect workers and citizens economically. The highest performers in terms of overall economic security are Sweden, Finland, Norway and Denmark.
Table 1: Economic Security Index (ESI)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Countries</th>
<th>Countries</th>
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<tbody>
<tr>
<td>Africa and Middle East</td>
<td>Israel</td>
<td>Mauritius</td>
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<tr>
<td>Americas</td>
<td>Canada</td>
<td>Barbados</td>
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<td></td>
<td>Japan</td>
<td>Costa Rica</td>
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<td>Australia</td>
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<td>Asia</td>
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<td>Czech Republic</td>
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<td></td>
<td>Hungary</td>
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<tr>
<td>Eastern Europe and Central Asia</td>
<td>Austria</td>
<td>Luxembourg</td>
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<td></td>
<td>Belgium</td>
<td>Netherlands</td>
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<td></td>
<td>Denmark</td>
<td>Norway</td>
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<td></td>
<td>Finland</td>
<td>Portugal</td>
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<td></td>
<td>France</td>
<td>Spain</td>
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<td></td>
<td>Germany</td>
<td>Sweden</td>
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<td></td>
<td>Greece</td>
<td>Switzerland</td>
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<td></td>
<td>Ireland</td>
<td>United Kingdom</td>
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<td></td>
<td>Italy</td>
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<tr>
<td>Western Europe</td>
<td>Argentina</td>
<td>Brazil</td>
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<td></td>
<td>Ecuador</td>
<td>Colombia</td>
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<td>Panama</td>
<td>Honduras</td>
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The four Eastern European countries in the “Pacesetter” cluster differ from neighbouring “transition” countries for a variety of reasons. In the case of the Czech Republic, the country undoubtedly benefited from its separation from the Slovak Republic, where moribund heavy industry was concentrated in the Soviet era. During the 1990s, it achieved a reasonable level of income security. It also has a high level of education and a long democratic tradition predating the Soviet era.

The high level achieved by Hungary is due primarily to the country’s very high level of skills security; Hungary is world famous for its educational attainment. Like Hungary, Latvia has benefited from substantial flows of investment and technical assistance, mainly in its case from its Scandinavian and German neighbours. As a result it has been able to generate employment while pursuing a balanced social development strategy. Bulgaria is rather more surprising, in that its economy performed poorly in the 1990s. However, it has a long tradition of community solidarity, and the trade unions continued through the 1990s to exert pressure on successive governments to preserve some of the social fabric.

Notable among the “Pragmatists” is the United States. Although achieving a satisfactory level of economic security by global standards, it does not qualify as a “Pacesetter” because it has a low score on the Input sub-index. The United States has not ratified key ILO Conventions, has no legal requirement for notice periods prior to termination of employment and has no statutory requirements in the case of collective redundancies, including prior administrative authorization or statutory payment.

Several OECD countries (Australia, New Zealand and South Korea) are also among the “Pragmatists”. A more surprising member is South Africa, which along with Mauritius is doing much better than the rest of the African continent. South Africa’s relatively strong position reflects its high level of voice representation security, even though it scores poorly on labour market and income security.

The “Conventionals”, with high scores on input and/or process but not on outcome, are dominated by Eastern European countries. They include Russia, which has had a low outcome in terms of economic security in the decade following the break-up of the Soviet Union. Many of these countries, as we have had occasion to emphasize, have retained formal laws that promote security in some way but have had poor outcomes. The reality is that they have what is euphemistically called a governance challenge.

The “Much-to-be-done” cluster contains most African and Middle Eastern countries (19 out of 24). The majority of the Asian and Pacific countries (8 out of 13) are also in this cluster. It is noteworthy that the majority of countries from all regions except Western Europe are in this cluster.

Also noteworthy is that at least one country from each region has been able to “escape” the “Much-to-be-done” category, with the exception of Central Asia where no country has managed to provide a satisfactory level of economic security. Several

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Latin American and Caribbean countries (Costa Rica, Chile and Barbados) have performed better than the majority in the region. Similarly, Estonia, Slovakia and Lithuania have achieved much more than their neighbours to the east and south.

Economic security clearly does vary across the world. It is to be valued as one of several forms of security that make up society, alongside security against the threat of civil or international conflict. Economic security is what all individuals, families and communities crave for to give them a sense of social involvement. Governments should surely wish to promote it for its own sake. However, it may also be related systematically to other aspects of development and social performance. We can consider the possibilities in an exploratory way, hoping that this will encourage others to pursue the issues in a more systematic manner.

(i) **Links between forms of security**

How does each particular form of work-related security relate to the others and to overall economic security? In previous chapters, some linkages have been identified, such as the evidence that strong representation security enables people to bargain to achieve better work security and job security.

First, one major difference between countries with high scores on particular security indexes and those with low scores is that their coefficient of variation between the seven security indexes is low in the “secure” countries and high in the “insecure” ones. This implies that the result in terms of overall economic security is associated with the way achievements are reached at the level of each of the seven forms of security, whether they are achieved in a balanced or unbalanced way.

Although there is no statistical reason for this, the best performing countries have high scores in all forms of security. This indicates that they have pursued a consistent set of policies. In other words, good overall performance goes together with comprehensive and balanced policy approaches towards the various forms of workers’ security. Sweden, the most economically secure country, has high scores in all forms of security, as reflected in the lowest coefficient of variation (0.6%). By contrast, among countries that perform poorly, one finds situations in which, say, high work security coexists with medium representation security and low levels of other forms of security. Lack of policy coordination, limited resources and/or sectoral inefficiencies may cause such imbalances. Thus, Bangladesh, the third least economically secure country, has the highest coefficient of variation (94%).

Second, there is a strong positive correlation between all the forms of security. This does not mean that all countries with high scores on one form have high scores on all others, but often good scores on one go with good scores on various others. All coefficients of correlation are highly significant. This corresponds to the idea that

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36 The coefficient of variation is a measure of dispersion defined by the ratio of the standard deviation to the mean. In this case, for each country, it measures the variation among the seven security scores.

37 Each of the seven Security Indexes is based on a set of between ten and 20 indicators; in all, a total of 108 different indicators are used. Only ten of those enter more than one Index and of these only two enter more than two indexes. Co-linearity can therefore be regarded as small.

38 The correlation coefficients are significant at the 1% level, 2-tailed, and range from 0.723 to 0.879.
the notion of decent work is best understood as a system of complementary forms of social and economic security, each form contributing to the others. We will return to this point shortly.

Third, as argued elsewhere, income security and representation security can be expected to play a prominent role in shaping other aspects of economic security. Regressions show that if representation or income security is very low, all other forms of security are low. But, as shown in Table 2, income security emerges as more important than representation security as a determinant of other forms of security, being positively associated with all work-related securities.

<table>
<thead>
<tr>
<th>Table 2. Regression results of linkages between forms of security+</th>
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<tbody>
<tr>
<td><strong>Beta coefficients</strong></td>
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<tr>
<td>Representation security</td>
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<td>Employment protection security</td>
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<td>Job security</td>
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<tr>
<td>Work security</td>
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<tr>
<td>Skills security</td>
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* These results are derived from 5 bi-variate linear models where the dependent variable is one of the other forms of security and the independent variables are representation and income security.

Note: *** = significant at 0.01; ** = significant at 0.05; * = significant at 0.10.

As should be expected, job security is the most positively affected by representation security and the least affected by income security. This does not mean that the causal relation is simply one way. But it does suggest that where unions and collective bargaining have been most successful, job security has been most strengthened, at least in the 20th century sense of that term.

Indeed, these exploratory findings suggest that representation security as developed in the 20th century may have achieved more in terms of job, work and employment security than in terms of either labour market or skills security. In the globalization era, all commentators seem to agree that it is skills security that is crucial for social, economic and cultural development.

What do the indexes show in connection with the traditional relationship between skills and income? First, the correlation coefficient between the two indexes is high and significant (0.814), confirming the usual postulate on the close relationship between economic and knowledge development. This relationship holds at high levels of economic development but not to the same extent at very low levels of development. Looking at the top 20 countries in terms of skills and income security, the richest countries are also top performers in skills security. There are two exceptions: unsurprisingly, Hungary is in the “Pacesetter” cluster of skills, although it is not in terms of income security. Surprisingly, Austria is only in the top cluster of income security. The first corresponds to the well-known excellence of the Hungarian education system, and their current economic situation. As for Austria, it’s skill security level is reduced by the fact that the country scores low in terms of its input indicators. Contrary to many of its neighbours, it has not ratified ILO Conventions (140 and 138) on educational paid leave and minimum age for work.
Looking then at the 20 most insecure countries skill- and income-wise, the picture is more differentiated. Only 13 of the 20 countries are represented in both lists. Central Asian Republics are illustrative of this differentiation, as they are not on the list of the skills-insecure countries but are on that of the income-insecure. Other poorer countries with similar pattern are: Colombia, Peru, Congo, Zimbabwe and Indonesia. Finally, there are countries that are not among the poorest but lack skills security. Not surprisingly, they are all sub-Saharan countries: Benin, Burkina Faso, Senegal, Madagascar, Rwanda and Ghana. Egypt is also a part of this group but the only one outside that sub-region.

(ii) The impact of globalization on economic security

Various factors were identified earlier to suggest that globalization, and policies associated with it, would have an adverse impact on economic security and the several forms of work-related security. Without going into a detailed examination of the determinants of economic security, it may be useful to consider several hypotheses in terms of the several indexes.

Before doing so, it is worth noting that, while our Economic Security Index is positively correlated with other measures of social and economic development, it is not merely another way of expressing the same thing. It is positively correlated with the UNDP’s Human Development Index and with GDP per capita. But at the simple correlation level, it is not signifi cantly related to economic growth.

It was suggested earlier that globalization is best seen as a steady opening of national economic systems. While economic openness may have a beneficial effect on economic growth it could have a disruptive effect on economic stability and economic security, particularly at a low level of economic development, when institutional safeguards may be relatively weak.

Economists have debated the possible links between openness and economic growth, openness and income inequality and openness and poverty. There is no consensus on any of these, apart perhaps for the finding that financial liberalization in developing countries must be handled slowly, with prudential regulation and only on attainment of stable macro-economic conditions.

<table>
<thead>
<tr>
<th>Is economic security related to economic openness?</th>
</tr>
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<tbody>
<tr>
<td>The correlation between trade openness — adjusted for level of development - and economic security was -0.275 and statistically significant.</td>
</tr>
<tr>
<td>Two models were tested. One is based on a quadratic relation suggesting that economic security declines sharply as trade openness increases from very low levels ( (R^2 = 0.455) ). It then levels off and subsequently increases but only at very high levels of openness. The second model is a semi-log function, which suggests the higher the extent of trade openness the lower is economic security ( (R^2 = 0.524) ).</td>
</tr>
<tr>
<td>These results suggest that economic security is inversely related to openness,</td>
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</tbody>
</table>

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except for extreme cases where trade “openness-development” ratios are either very large (as in Nigeria, Burundi, Congo and Madagascar, for example) or very small (as in Argentina, Australia, Japan and the United States). In such exceptional cases, there is no significant relationship between openness and security.

To test this, a measure of a country’s economic openness is constructed to include both trade and capital account openness. Trade openness is defined as the sum of exports and imports as a share of GDP, which is the standard measure. Capital account openness is measured by the Capital Account Openness Index, derived from the IMF’s 13 categories of international transactions.

To convert these variables to measures of openness relative to level of economic development, both are divided by the country’s GDP per capita, giving two “openness-development” ratios. In terms of simple correlations, both these ratios are negatively related to economic security, the “capital-ratio” having a higher negative correlation (-0.302) than the “trade-ratio” (-0.275). This result implies that when openness is large relative to the level of development, economic security is reduced. However, it could be affected by the influence of other variables. Accordingly, we created an Openness Index by averaging the normalized values of the trade and capital account openness ratios, and have estimated a multiple regression function that takes account of other possible influences.

The first of these is economic growth, the supposition being that high and sustained economic growth could be expected to improve economic security and the component forms of security, while low or erratic growth would have the reverse effects. As a measure of this, the total growth rate for the 20 years up to the end of the century is taken as an independent variable.

A second control variable and influential factor in its own right is the government’s commitment to social policy. This is measured by the percentage share of GDP spent on social security. It is hypothesized that the higher this share the greater the level of economic security and the greater the level of the various forms of work-related security.

There are also reasons for believing that political freedom and political democracy promote a social environment where various aspects of economic security are strengthened. To measure the impact of these factors, the Freedom House Civil Liberties Index is used. Since prior creation of political freedom could be expected to have an effect on economic security later, the value attained in 1990 is used as one

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39 Some observers claim that only the export share of GDP should apply, since changes in imports do not appear to affect economic growth. P.A.Yotopoulos: Exchange Rate Parity for Trade and Development: Theory, Tests and Case Studies (New York and London, Cambridge University Press, 1996). Some have used “input” measures. Thus, Rodriguez and Rodrik used an index of tariff and non-tariff barriers and found that countries with more restrictive systems did not have slower growth than others. F.Rodriguez and D.Rodrik: Trade policy and economic growth. A sceptic’s guide to the cross-national evidence”, in B.S. Bernanke and K. Rogoff (eds.): NBER Macroeconomics Annual 2000 (Cambridge, MA, The MIT Press, 2001).


41 These two correlation coefficients are statistically significant at the 0.01 level (2-tailed).
independent variable. A second variable is the change recorded between 1990 and 1999, the expectation being that if freedom improved so would economic security.

While more complex modeling is in order, a set of multiple ordinary least-squares regressions was run, with the Economic Security Index and individual forms of security expressed as functions of economic openness, social policy, economic growth and political freedom, as just defined. The results are presented in Table 3.

### Table 3: Explaining economic security: exploratory models

<table>
<thead>
<tr>
<th>Security Indexes</th>
<th>Beta coefficients</th>
<th>R² (adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic security</td>
<td>0.043*</td>
<td>0.459**</td>
</tr>
<tr>
<td>Labour market security</td>
<td>0.114***</td>
<td>0.504***</td>
</tr>
<tr>
<td>Employment protection security</td>
<td>0.069*</td>
<td>0.512***</td>
</tr>
<tr>
<td>Job security</td>
<td>0.024</td>
<td>0.516**</td>
</tr>
<tr>
<td>Work security</td>
<td>0.025</td>
<td>0.491**</td>
</tr>
<tr>
<td>Skills security</td>
<td>0.008</td>
<td>0.595**</td>
</tr>
<tr>
<td>Representation Security</td>
<td>0.039</td>
<td>0.379**</td>
</tr>
<tr>
<td>Income Security</td>
<td>0.045*</td>
<td>0.447**</td>
</tr>
</tbody>
</table>

* These results are derived from eight multi-variate linear models (N = 74) where the dependent variables are the various security indexes and the independent ones are those described above in the text.

Note: *** = significant at 0.01; ** = significant at 0.05; * = significant at 0.10.

What do these results suggest? They indicate, quite clearly, that operating in a democratic setting and having an effective commitment to the social sphere are the two most conducive elements to economic security. This holds true for economic security as a whole and for its different components.

More precisely, “democracy” is important for all forms of securities, including of course representation security. But the closer link is found with skills security. The direction of the causal relationship, if any, is unclear as one could equally argue that greater democracy is a function of higher education levels, and that higher and more equal access to skills can only be achieved in a society where the majority of the population is effectively represented.

Economic security is also positively associated with the share of national resources allocated to the social sector. Thus, social spending by governments has a strong positive effect on economic security, and on all forms of work-related security. As expected, the most significant impact of social expenditure is on income security, very probably reflecting the role of pensions in social security expenditure. Its least significant impact is on skills security, possibly because the private sector and other influences play a major role in this area.

More controversially, economic performance and openness seem to play a minor role. They have a significant overall impact on economic security – the first a positive

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42 Several variants were tested, including a semi-log form and an equation that included dummy variables for the various regions of the world.
and the second negative one – but they only relate selectively and significantly to specific forms of security, namely to labour market, employment protection and income securities.

A straightforward interpretation is that growth sets the scene for an increase in job opportunities as well as for higher and more regular earnings from work, enhancing income security. A less obvious relation is between growth and employment protection. More dynamic economies may be more inclined than stagnant or declining economies to cover work-related risks and implement schemes based on solidarity. Additionally or alternatively, strong employment protection may enhance, and is certainly no impediment to, economic growth.

On openness, it appears that too much at early stages of development leads to more insecurity in these three same aspects. Economies opening “excessively” to foreign capital and/or trade may inhibit domestic job creation and incomes, and induce more employment flexibility or precariousness, generating a decrease in the country’s overall economic security.

9. Where to pitch the progressive response?

The underlying argument of this paper and the work of our Programme is that globalisation, or whatever we want to call the impact of the economic liberalisation policies of the past two decades, has generated more economic insecurity, at macro-level, in workplaces and for individuals and their communities. We believe that issues of poverty and underdevelopment cannot be tackled effectively unless policies and institutional mechanisms are strengthened for providing greater economic security.

If the policies of the era have not had universal success in raising growth, it cannot be said that there has been a loss of faith where it counts. The dominant ethos has involved a spread by “package deals” — the Washington Consensus, “structural adjustment”, “shock therapy”, “good governance conditionality”, PRSPs, and so on. But these have all been geared to promote liberal market economies, typically in the mould of the United States, with a residual “welfare state”, with extensive privatization of production, privatisation of social policy and most recently privatisation of regulations.

Whither the response? There is no need for pessimism. The failures of the wholesale commodification of human life, the erosion or non-creation of essential public goods and services, and the weakened sense of social solidarity are creating a world in which the winners are faced with mounting insecurities. They may incarcerate more of the losers, as they do in the USA where millions of young people are in prison or are criminalized in some other way, or they may take away meagre state benefits, or resort to artificial “safety nets”. But more of the winners are living in fear, spending more on their societal and personal defence systems, running scared.

43 Even someone as critical of the Washington Consensus as Joseph Stiglitz has advocated that foreign assistance should aim to achieve “the transformation of societies”, a highly paternalistic objective. For a critique, see G.Standing, “Brave new words: A critique of Stiglitz’ World Bank rethink”, Development and Change, Vol.31, No.4, Sept.2000, pp.737-63.
with their alarm-assisted homes, many retreating into the new spectre of “gated communities”, with armed guards, high walls and much else.

It is a melancholy vision, which will surely make more of the winners realise that they must join those struggling for something much better. The hope must be that the human need for basic and universal social and economic security will be the undoing of the Washington Consensus and its offspring.