GLOBALISATION, INCOME DISTRIBUTION AND THE ROLE OF THE STATE

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You will forgive me for believing that I have been asked to address you, in part at least, because South Africa has, among developing countries, done quite well in trying to resolve some of the tensions brought about by globalisation. Let me say at the outset that I believe that we have in many ways responded in the right way, and in some areas we have considerably more work to do.

Rather than detail what we in South Africa have done, which I am happy to discuss in the time available for questions, I want to take this opportunity to identify and provide some perspective on several aspects of how states need to respond to globalisation.

To my mind, globalisation encompasses a number of different dynamics. The most important of these, which I would like to speak to today, are:

First, how states contribute to economic growth.
The second involves how states provide an appropriate social and economic environment to resolve the discontinuities that arise from economic adjustment.
And, third, how governments and states manage the sustainability of economic development across international borders.

I have few doubts that there are many other facets of globalisation, but I wanted to set some parameters for my talk today. These that I have pointed out have specific implications for how governments organise the work of the state and how states interact with each other.

Managing economic growth

One of the larger challenges posed by globalisation is the extent to which governments need to adjust macroeconomic and/or microeconomic policies to achieve more rapid economic growth in an environment of open global and domestic markets. Dani Rodrik has suggested in a 1997 paper that Raoul Prebisch may have had it right all along -that macroeconomic adjustments to the fiscal deficit and the rate of inflation have been more important factors in achieving rapid growth than have been the post-1970s renunciation of import substituting industrial policies. (1)

In a more recent paper, Rodrik noted the importance for growth of microeconomic policies that facilitate the shifting of people from old and non-competitive industries to new industries and new forms of economic activity. (2) The latter policies entail assertive re-skilling, high quality education, and access to social and other forms of capital in open environments in which individuals can take advantage of new economic opportunities.

Was the 1997 or the 2000 Rodrik right? My answer is that both were right, in the sense that each of his papers captured important aspects of a more holistic view of economic growth. That is, that economic growth is a function of both prudent macroeconomic policies (lowish deficits and inflation and manageable debt levels) and microeconomic policies that facilitate adjustment through the provision of social capital and opening up of economic opportunity.

In addition, import-substituting industrial policies can be ok, if used in the right context (the infant industry argument) and if financial policies are not used to aggressively incentivise the flow of capital into protected industries. What the earlier Rodrik paper skimmed over, I think, is that in the 1970s, macroeconomic imbalances were often caused by widespread use of negative real interest rates to prop up protected and inefficient industries. Hence, poor industrial policy and bad monetary management can lead to very poor macroeconomic financial imbalances.

The lesson that I would like to draw from these considerations is that the experiences of the 1970s and '80s shows that governments can in fact find ways to facilitate adjustment in ways that can spur growth but also in ways that are socially advantageous.

The role of the state in balancing social and economic values

Rising competition in markets for goods and services has resulted in intense work on the organisation of production, firms, and the relationship between business activity and what economists call the 'factors of production.' The academic and quasi-academic industries that these efforts have generated run from the production of best-seller business management books to prescripts on economic regulation for governments.

In general, the message is largely the same - that to be competitive, to succeed in today's global markets, productive inputs need to be sourced at their cheapest possible cost at a given level of quality, whether they are labour, capital or natural resources. The changes implied here lie at the root of uncertainties that societies express in the face of globalisation. How should states be organised to address these uncertainties? First let me say that reversing market expanding and economic opportunity-raising policies is not the right approach, no matter how politically seductive this might be.

What is central, however, is to ensure that states balance the different social and economic values that any single society expresses. This means that states and governments need to be creative - they need to ensure that economic gains are distributed and redistributed appropriately, that the poor are offered both the opportunity to create their own income and take advantage of public services and welfare that help them to build their own social capital, and that markets are regulated to provide fair opportunity to new entrants while holding all to standards that ensure that private industry benefits society as a whole.

In short, while governments and states need to be inventive and devise new policies and new ways of resolving the problems caused by globalisation, these actions need to fulfil the relatively traditional functions of the state - providing economic security at the same time as they allow economic activity.

The implications of this are far-reaching, because in many senses, this basic idea about the role of the state has been around for along time but in recent decades has been forgotten. One especially pernicious aspect of globalisation has been the degrading of the idea that the state should fulfil a balancing function between social and economic values.

In terms of how this has affected economic regulation, it has led to the view that creating economic activity and reducing uncertainty are mutually exclusive. We must shrug off that mantra.

That particular view - that insecurity and opportunity go together, or that market regulation is inherently economic destructive - is simply the end-result of an idea from an ex-prime minister from the United Kingdom that became an ideology, and that has, fortunately, run its course.

If there is one lesson from the 1990s that we can use to guide policy in the present decade, it is that markets do not regulate themselves very well, and indeed can deregulate themselves in socially destructive ways. I do not need to recount the list of corporate malfeasance that has occurred over the last few years to make this point. But I do think it is important to emphasise that the role of regulator is a role for states, precisely because the state should perform the balancing act between social and economic values.

Yet merely insisting that the state must balance remains insufficient for our purpose today, because we are not talking necessarily about homogenous societies, such as exist in some northern European countries. Rather, the diverse societies of the developing and developed world are composed of a myriad of communities that can be distinguished by race, ethnicity, religion, language, income levels, and class, among other possibilities. Of particular relevance for our discussion is how states should address social and economic marginalisation of the poor.

A critical part of the balancing act of states is how to provide social insurance. From a macroeconomic perspective, one consideration is whether or not social insurance policies facilitate or impede the adjustment of individuals and communities to new forms of economic activity. The microeconomics of the problem is how and to what extent the precise social insurance policies or instruments incentivise individuals to choose between remunerative and non-remunerative activities.

But what has become increasingly clear to many policy makers is that even if social insurance is geared toward incentivising remunerative activity, there are many impediments that exist and which have become more debilitating over time, especially for the poor who usually have neither the social nor physical capital to overcome them.

In South Africa, for instance, one of the larger impediments to efficient job search is the simple lack of information readily available about what jobs are available, or even what skills employers are looking for. On the labour demand side of the market, there is also the information problem that an educational qualification tells little to a prospective employer about a job applicant. Simple information asymmetries like these have large repercussions, such as making employers more reticent to hire, dissuading individuals from looking for work as much as they should, or influencing what students choose to learn.

The concept of a social wage is one way in which these impediments can be reduced, through the public provision of services, such as inexpensive transport, better education, re-skilling, communications facilities and credit to name a few of the more important components.

Perhaps more importantly, these aspects of a social wage rise above the contradictions that do exist between creating economic opportunity and reducing economic insecurity. Better education or inexpensive public transport, for example, serve to both reduce economic insecurity and create economic opportunity by making it less costly for even the poor to engage in economic activity.

That said, it is also important for our social policies to address those that need welfare, that is those who cannot engage in economic activity regardless of the size and shape of the social wage.

States working together

Market regulation, proactive social policy, and the provision of a social wage are not only relevant to how states organise their domestic policies to address the economic adjustments and dislocations caused by globalisation. Of equal importance is how states work together, for this determines whether or not international markets are regulated, how capital and labour flow across borders and regions of the world, and how international public goods, or the 'global commons' is regulated.

Much has been said about the weakness of states in this era of globalisation, often with two opposing perspectives. One view is that states are weak and that this is a good thing. The other view expresses regret at this weakness. I believe that states are not weak in the face of globalisation, but tend to approach the problems as if they have no power.

Goods flow from the industrial north and capital and resources flow from the impoverished south.

Skilled labour, even where it is scarce and demand high, as in most developing countries, moves north. Unskilled labour stays at home, anxious for their livelihoods, the education of their children, and concerned about the cleanliness of the water they drink.

Many of the policies and approaches that I have already mentioned can play a role in reversing some of the negative flows of capital and people that bedevil economic growth and poverty reduction in developing countries. And while states are not, in my view, weak in the face of globalised markets, they do need to band together to create, and in some instances like agriculture adjust, the international market regulation that will ensure developing countries also benefit from global economic activity. Some of the areas that need special attention are agriculture, financial and other services, accounting and corporate governance, and financial and capital markets.

It is of course easy enough to say, let's band together, it is another to do this in a truly multilateral and accountable way. We simply do not seem to have the right sort of institutions for effective multilateral discussion and agreement between states. While the Bretton Woods Institutions nominally operate by consensus, they are steered quite convincingly by their major financial backers. This can have significant implications, for example, in deciding which countries the Fund should assist when financial contagion breaks out in several regions at once. Another example, and one that is especially pertinent in Africa, is how conditionality is applied to adjustment loans to a country hit by a decline in commodity prices.

An area that is in urgent need of multilateral dialogue and regulation is immigration, a topic of interest to the ILO, which while managed primarily by national laws, needs more international, multilateral attention. In what forum, and under what rules, do states address the shifts in skilled workers from one country to another? What mechanisms need to be put in place, what sort of policies, and what sort of assistance should be in place to help developing countries benefit from the resources they increasingly put into improving education systems?

For all of these reasons, the UN system and the World Summit on Sustainable Development and the Rio Summit are necessary. Part of their value is in periodically reminding national governments that there are other national interests out there. But the real value, and this I think is the challenge to us as leaders today, is in providing the forums for moving beyond recognizing the interests of others and agreeing in a multilateral way to resolving conflicts of interest and creating proactive plans to address 'public' problems. There need to be rules for how states engage with each other, and the UN system does provide those rules. All states should abide by them, not least because fair rules also protect those states in the minority, even if they are economically or militarily large. The safeguards in a rules-based international system operate in both directions, and this is a value we cannot rate highly enough.

In conclusion, it is critically important that multi-lateralism is revived. Alternative conceptions of just political and economic order is a value in this world, and societies can and do adjust over time to incorporate the lessons of value in any given period of time. Thinking back over the last few decades, it is striking how different each was in economic, political, and cultural terms, and yet how the good lessons and socially positive ways for governments and states to regulate economies remain to guide policy.

On both international and domestic levels of operation, states and governments need to be more proactive in putting in place socially-beneficial policy and regulation to ensure that the social dimensions of globalisation becomes one of integration and community rather than one of division and marginalisation.

References

1 Dani Rodrik, "Globalisation, social conflict and economic growth," December 11, 1997.

2 Dani Rodrik, "Development strategies for the next century" February 2000.