The Globalisation of Poverty
Sovereignty, transnationals, and economic policy

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The world has changed radically in the last thirty years. The 1950's and 60's, though hardly ideal in today's social terms, saw some of the most rapid economic growth in human history. They were times of hope not just amongst the wealthy countries, like New Zealand (then with one of the highest per capita incomes in the world), but it was the era of decolonisation for much of the rest of the world.

But since the 1970's we have seen the end of one stage of world capitalist development and the beginning of a new one. Economic, financial and social crises seem to be constant occurrences. Hope amongst the decolonised countries, and many others besides, has disappeared in what has been called the "lost decade" of debt during the 1980s. A few of the low-income countries appeared to be counter-examples to that rule: they were called the tiger economies. The so-called "Asian crisis" confirms doubts as to the soundness of their development paths. We frequently hear the term "globalisation" used to describe these developments, as if that explains them.

Last month, Professor Michel Chossudovsky visited New Zealand, and in Christchurch, Wellington and Auckland spoke about the effect of these developments, describing what he has called the "Globalisation of Poverty". Jean has given me the formidable task of defining what that means, and explaining how it relates to New Zealand. Naturally, in the time I can only sketch some of these things. But I hope I can give you at least the framework for the way I think about these things, and why.

In the phrase "Globalisation of Poverty", there is a reasonably straightforward meaning to the word "globalisation": it simply refers to the terrible fact that, not just in isolation but around the globe, poverty is once again on the increase. Chossudovsky described some of it as poverty on scale never seen before in history, which is a indeed terrible poverty. But globalisation has another meaning: *increasing economic integration between countries*. That is by no means always benign. Chossudovsky was using both meanings of the word, and describing how this so-called increased economic integration is leading to the global spread of poverty. What I will try to do is show how this same increasing economic integration is also a major contributor to New Zealand's present state.

Globalisation has some positive effects: in particular, there is far greater interaction between peoples of different countries and cultures. That is wonderful and to be greatly encouraged. But it is unnecessary to have increased economic integration in order to achieve it. It is not a take-it-or-leave-it package. That is because in practical terms globalisation means the waning of the power of the governments of nations, in favour of privately owned transnational corporations. One must ask whether it is the end of national sovereignty, and with it the end of the possibility of democratically accountable government.

[1] Slightly edited from the original presentation.

Today, I want to talk about why this is happening, in terms of the change in the behaviour of the transnational corporations, and particularly the transnational financial institutions, which are the driving forces in the international economy.

I want to show you how that is expressing itself in international institutions such as GATT (now the WTO), the IMF and the World Bank, and in international trends such as high unemployment and attacks on welfare states, and particularly how it affects a small country like New Zealand.

Finally I want to draw some conclusions on future trends and what we need to do if we want New Zealand to survive as an independent nation and an attractive place to live.

Rather than start with the rest of the world, I'll look at New Zealand first, then generalise our experience to look at the globalisation of poverty, and then return to New Zealand to conclude.

Let's begin by looking at our current economic crisis and drawing some lessons from it. In the early 90's, Canadians described their experience as

> crisis levels of unemployment and poverty, deep cuts to the economic base, sustained attacks on social programmes and cultural institutions...[2]

A few years later, Australians commented that

> the capitalist economy internationally is in deep trouble, with recurrent financial instability, major trade imbalances, over 30 million unemployed and growing disparity in the distribution of incomes.[3]

Despite two or three years of rapid economic growth in the early 90's, all of these fundamentals remain "in deep trouble" in New Zealand, resulting in widespread social pain and demoralisation. Since then, that growth has been proved the exception rather than a new era in economic policy. Looked at objectively, the violent economic restructurings in New Zealand have provided precious few gains that benefit ordinary New Zealanders.

The book published recently by Statistics New Zealand, "New Zealand Now: Income"[4], tells a grim story. Since 1986, unemployment has doubled from 4% to 8%. The employment available is increasingly part-time: so the unemployment statistics hide the people who are unhappily in part-time employment and still looking for a full-time job. Though inflation has fallen, so have people's incomes. The average income after inflation fell 4% between 1982 and 1996 – but catastrophically for Maori (by one quarter, or 25%). But even that fall hides the fact that most New Zealanders did even worse: income inequalities have grown rapidly, probably the fastest in the OECD. The top 10% of income-earners have raised the share of income they take, from 34% in 1982 to 39% in 1996. The next decile has maintained its share. The rest have either lost or stayed where they were. By age group, the worst hit have been the young (15-24) followed by those of family-rearing age (up to 39). Not unexpectedly, despite highly publicised, punitive action to counter the trend, those on benefits of various kinds have increased by almost half since 1982 (the number fell slightly, but only slight-

[2] "Take Back the Nation", Maude Barlow and Bruce Campbell, Key Porter Books, Toronto, 1991, p.1.
[3] "Beyond the Market", Stuart Rees, Gordon Rodley, Frank Stilwell, Pluto Press, Sydney, 1993, p.10.
[4] February 1999.

ly, between 1991 and 1996). Disposable income (i.e. after tax) did actually rise – by 4% over the whole of the 14 years – as the result of changes to the tax scales. But again, that disguises the fact that the only decile that actually benefited was the top 10% – all other income earners lost shares or remained static.

Much more could be said, but the picture is one of increasing inequalities between rich and the not-rich, and between Maori and pakeha. It is one of forced increased dependence on the state, but increased attacks by the state on that dependence. It is one of increasing signs of real poverty: children coming to school without sufficient to eat, the rapid growth of food banks, and the reappearance of diseases of poverty such as TB. Economist Paul Dalziel of Lincoln University has estimated that the number of households below an absolute poverty line more than doubled from 4.3% in 1984 to 10.8% in 1993[5].

At the same time, while incomes were under attack, security of employment was too. The Employment Contracts Act, backed up by increased unemployment ensured no-one feels secure in their job. The unemployment is largely due to the decimation of our manufacturing industry (Brian Easton has estimated that if manufacturing was relatively as large today as it was in the mid-1980's, it would employ another 100,000 people[6]) and radical changes in the public service including widespread and continuing privatisations which frequently led to layoffs.

Who has benefited from this? Obviously the top 10% of the population has, but the corporate sector has as well. Between 1991 and 1997 alone, employees' share of the nation's output has fallen from 46.2% to 44.0% according to economist Peter Harris of the CTU[7]. Corporate income has increased its share from 30.0% to 32.5%. As Harris put it: "The New Zealand economic experiment is not about economic solvency or efficiency, but very much about the distribution of income."

Much of that increased corporate income has flowed outside the country: approximately a quarter of New Zealand's rather meagre real growth per capita since 1984 increased income to overseas investors. In other words, while the economy grew 16% per New Zealand resident from 1984 to 1998, only 12% of that growth benefited New Zealanders. The remainder went to overseas investors. That intensified between 1990 and 1998, when almost half of the real economic growth has gone overseas.

That brings us to the relationship with the rest of the world: the direct signs of globalisation. Despite the government having reduced its debt (the public debt) substantially, with regard to that part which is owed overseas (the official overseas debt), all it has done is effectively to privatise it. Not only has overseas debt been privatised, but it has increased enormously. It has risen from $16 billion in 1984 (all public debt) to $99 billion in 1998 (80% private).

That level of overseas debt would put us into the IMF's category of "Heavily Indebted Poor Countries" (the most desperate of the Third World) if we were a low income country. New Zealand's foreign debt exceeds our GDP (the country's annual output), and would take three and a half years of exports to pay off, if we were to completely cease importing for that time.

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5 "Economic Reform in New Zealand: Comment", Dr Paul Dalziel, Reader in Economics and Marketing, Lincoln University, 30 September 1997, based on a longer paper presented to the Annual Conference of the New Zealand Association of Economists in August 1997.

6 *Listener*, "Hands together", Brian Easton, 27 February 1999, p.56.

7 "The New Zealand "Experiment"", Paul Harris, unpublished paper, CTU, 1998.

The short term debt alone – the debt at March 1998 which was due within 12 months – would take over eighteen months of exports to pay off.

The rapid rise in foreign debt has been in part due to the failure of the economy to export sufficiently and to control imports either directly or by replacing them with domestically produced goods. This has contributed to permanent and rising current account deficits, which are funded by increased debt. This failure is astonishing, given that the stated purpose of the massive changes of the last 15 years was to make the economy "internationally competitive".

Part (but only part) of the reason for the failure has been the rise in the value of the New Zealand dollar, making exports uncompetitive. The dollar rose because of huge inflows of foreign investment, partly attracted by interest rates that prevent many production-based enterprises from being viable, and partly attracted by privatisations. New Zealand has the highest level of foreign direct investment amongst developed countries. It exceeds the level in most Third World countries. Overseas companies probably make half to two-thirds of companies' operating surpluses in New Zealand (i.e. profits before interest and tax have been paid). They own about 60% of the shares on the stock exchange. They dominate most industrial sectors, including flour, bread, and biscuits, news media, oil, airlines, rail, computers, telecommunications, motor vehicles, office supplies, brewing, and pharmaceutical manufacture. The great majority of the incoming foreign investment has not created new assets or industry: it has taken over. One government agency estimated that over 40% of it was to buy privatised state assets. I analysed all major overseas investments in the year 1995 and found that about three-quarters by value were takeovers. The largest part of the rest were in forestry – buying and developing land for forests.

The amount we pay to pay for the interest and dividends on the overseas debt and foreign investment here each year is more than the government pays for education and "law and order" together. Even more than the trade deficit, it is by far the largest contributor to our very serious balance of payments problems, which are now acknowledged to be at danger levels. In other words, servicing our debt is getting us further into debt. It is a completely unsustainable state to be in. And to all but a relative few of us, it has brought precious few benefits, and in fact increasing poverty to many. The survival of our economy – and hence the country – in its present state is not based on those much trumpeted "good fundamentals". It is based on the so-called "confidence" – the grace and favour, the approval – of investors and speculators sitting in New York, London and Frankfurt. They cast their often ill-informed judgements on our government, its policies, the state of the country's economy, and, perhaps most importantly, the risk they perceive to their investments.

It is worth remembering at this point the main policy changes made to bring about these effects, about which the government constantly boasts to prospective foreign investors. They are

- the floating of the New Zealand dollar;
- government budget surpluses, with debt repayment a priority;
- radical reform of the public services and a systematic privatisation campaign;
- the removal of almost all controls on trade and investment (so-called liberalisation);
- the Employment Contracts Act, removing many protections for workers and destroying large parts of the union movement; and

- the Reserve Bank Act, which prevents credit being controlled for any purpose other than to control inflation.

As I hinted at the beginning, the problems I have described are not unique to New Zealand, although we are probably doing worse than most – for example we were the only country in the OECD other than Japan and Korea to go into recession last year after the financial crisis in Asia.

The fact that this is a world-wide problem gives us some clues as to its source. Unless there is a worldwide epidemic of heartless, incompetent government, its source must lie in some structural change in the world economy. Let's look back at the last similar crisis: the "Great Depression" of the 1930's.

The lesson economists and capitalists learned from the economic crises of the 1930s was "Keynesianism": if you pay your workers too little, to increase your profits, and if governments cut spending too much, to reduce your taxes, no-one will have enough money to buy your products. In other words, capitalists relying on an enclosed home economy (whether large, like Britain, or small, like New Zealand) had an interest in paying above starvation wages, they had an interest in "their" government protecting their markets, they had an interest in social welfare being given to their customers, and in publicly funded projects paying them to build roads and schools. Meanwhile the more successful ones could exploit the industrially and politically undeveloped world for raw resources and cheap labour: their main markets were at home.

Why is this no longer an effective strategy? In a word: transnationals. Transnational corporations are those corporations that control assets in more than one country. Most are owned in the so-called "Triad": the EEC, Japan and the U.S. Despite their name, most are still controlled in one country, though increasingly there is cross ownership and agreements between companies of different nationality.

There is no doubt in anyone's book that the transnationals are a dominant force in the world economy. In 1988, according to the then director of the UN Centre on Transnational Corporations, Peter Hansen:

> Five hundred and seventy-nine transnational corporations accounted for about one fourth of the world's production and ranged in size from $1 billion to $100 billion in sales, which is greater than the GDP of all but 15 of the largest developed market economies of the world.[8]

These trends have intensified since then.

According to United Nations data, transnationals are at least one of the parties in two-thirds of world trade, and half of that is in fact trade within a single corporation. These are very important points to bear in mind when discussing trade. Much trade is not, and is not intended to be, "free trade" in the sense of trade on an open market between two equal and willing parties.

In contrast to the comparatively closed economies of the 1930s, the Transnational Corporations sell their products everywhere markets are open to them; they employ labour anywhere

[8] "Joint Ventures as a Form of International Economic Co-operation", UN Centre on Transnational Corporations, UN, New York, 1988, p.5.

there is an advantage to them. A "Japanese" Toyota car may have steering from Malaysia, engine from Indonesia, transmission from the Philippines, electrical equipment from Thailand, be assembled in any one of a number of countries, and sold in another part of the world[9].

So, even if the company's "home" market shrinks because people are paid less or are unemployed, they can sell their goods elsewhere. Their interests are uncomplicated by worries about their employees also being their customers: they simply want minimum costs everywhere. If wages in one country become more expensive, they move their operations to another (like our clothing manufacturers moving to Fiji, or forestry companies to Canada and Chile). If taxes are too high, they move their operations or their profits to a tax haven (or threaten to, in order to force the government's hand).

The same applies to their other "costs": environmental protections, working conditions, accident compensation, stroppy unions. Since transnationals have the freedom to move, produce or sell elsewhere, all can be avoided or bargained down. Fletchers threatened to divest from New Zealand and move to Chile and Canada if its workers at Kawerau didn't cut their wages. Carter Holt Harveys gave the industrial laws and forestry subsidies introduced by the military dictatorship in Chile as justification for it moving forestry investment there.

The ability of transnationals to move at will has dire consequences for the people of each country entering into this international dutch auction. Other things being equal, transnationals will establish themselves where wages or taxes are lower than "competing" countries, or where environment or health is taken more lightly. If national manufacturing industries want to compete against them, they must encourage the destruction of their home market by forcing down wages, taxes, social services etc., too.

Trade is therefore very important to transnationals. The global strategy is to move operations to where costs are lowest. The great majority of the output is then exported to the wealthy countries in the triad. The emphasis in the 1980s and early 90's was therefore to free trade from government imposed regulation – though, as we have noted, not freed from regulation by the transnationals themselves in their own interests. Hence we had the formation of the World Trade Organisation (the WTO) as a result of the GATT Uruguay round, which greatly reduced barriers to trade. The European Union increased its membership and removed further trade and investment barriers. The North American Free Trade Agreement between Canada, the U.S.A. and Mexico was formed. New Zealand's Closer Economic Relations agreement with Australia is part of that picture. The Asia Pacific Economic Cooperation forum (APEC) is another such arrangement. All of these are heavily influenced in their design by transnational lobby groups.

While globalisation is often identified with increased international trade, in fact the most important effect has been the growth of foreign investment. Foreign investment across the world has grown much faster than trade or world output. Assets owned by foreign investors more than tripled between 1987 and 1996 to US$3.2 trillion[10]. However, once again it is important to remember that internationally, the investment is very unevenly spread. Two thirds is from and to the so-called "triad" of Europe, Japan and North America. Of the rest, about third is to China, and the remainder has at least until recently focussed heavily on the "newly

9 "World Investment Report 1996: Investment, Trade and International Policy Arrangements", UN Centre on Transnational Corporations, UN, New York, 1996, p.100.
10 *Ibid*, p.3.

industrialised countries" of East Asia, and South America[11]. Large parts of the world – the most impoverished – are substantially ignored or avoided, though still cannot avoid its effects. In New Zealand's case, trade as a proportion of GDP has not changed a great deal since the 1960's, except that imports have risen faster than exports. However, as I have already shown, foreign investment has increased hugely: it is at least twice as important in relation to the economy as it was 15 years ago.

It should come as no surprise then that investment is being incorporated into these international agreements. It was strongly opposed by countries of the Third World in the GATT Uruguay Round, because of their natural fear that this would strip away their abilities to control their own economies. So it was limited to the rather artificial notion of "trade-related" investment, to services (including for example education) and to intellectual property rights. However the recent push has been towards agreements deregulating all investment. The Multilateral Agreement on Investment (MAI) which the OECD tried to negotiate in some secrecy, was one that caught people's attention for very good reasons. Despite the end of negotiations on the MAI, it is likely to resurface elsewhere – in the WTO, at the IMF, and in regional agreements. APEC has "non-binding" investment principles which are almost a MAI prototype, and which the New Zealand government is keen to develop.

The IMF and the World Bank have become the policemen for this economic order. Originally set up to stabilise the world economy and to prevent disruptions to trade and rising standards of living, the IMF was intended to provide loans so that when countries suffered from temporary balance of payments problems, they could trade their way out of their problems. However the IMF has attached increasing stringent conditions (which they call "conditionalities") to its loans, and has used that power effectively to become the policeman of this economic order. The World Bank, whose purpose is to provide development finance to developing countries, backs up the IMF by insisting on IMF austerity programmes as conditions of its loans.

These changes in the international ownership of production have led to a position similar to that which I described in relation to the lessons of the 1930's. Capitalism has been exceptionally effective at increasing output and reducing its costs – by new technology and by moving production from country to country. Yet that process has been built on forcing down incomes, both in the Third World where many industries have been moved, and in the rich countries, where wages have been pushed down by the stagnation of manufacturing where highest wages tend to be. That has forced down export prices, increasing the debt problems of the exporting countries, while increasing profits in the home countries of the owners of the investments. That has led to the current position of the wealthiest people in the wealthiest countries of the world – the triad – being awash with capital from profits. The 225 richest individuals in the world have wealth equal to the annual income of the poorest 47% of the world's population; the three richest have assets exceeding the combined GDP of the 48 least developed countries[12]. For almost everyone else, incomes are static or falling, and jobs are increasingly insecure and threatened by high levels of unemployment.

These vast amounts of capital have also increased the power of the international banks and investment funds. Productive investments for the capital are scarce – current investment activity is focussed on enormous takeovers rather than new investments – so more and more of this money is channelled into high risk speculation. Only 2-3% of foreign currency dealing

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[11] *Ibid*, p.xx-xxi.
[12] United Nations Human Development Report 1998.

internationally is related to trade: most of the rest is speculation. In New Zealand's case *daily* foreign exchange turnover averaged around $13.5 billion in April 1998[13], so just two days trading is worth about our *annual* exports of goods and services. New Zealand's currency fell by 10% in 1987 as a result of the deliberate action of a dealer working with the large U.S. bank, Bankers Trust, for hundreds of millions of dollars of financial gain[14].

That is what lies behind the current financial crisis. It has been called the "Asian crisis" because it appeared to start there, but it is showing itself in the former Soviet Union, and now South America. Huge amounts of money were loaned to these countries, frequently for unproductive purposes – often property speculation. In addition, in some cases, the increasing competition amongst exporters has made their high existing foreign debt levels unaffordable. The problem has not appeared suddenly. A number of observers and a small number of economists had remarked for years on the high debt levels, the corruption, and the unproductive investment which formed the basis of the so-called "miracle" economies in South East Asia for example. In 1997 however, foreign investors decided things had gone too far, and pulled out in a mass panic. They withdrew over US$100 billion in a matter of months.

It is instructive to look at the response of the International Monetary Fund to this terrible crisis. It applied a standard prescription. It offers loans with "conditionalities" attached. Those conditions are applied by releasing the loans only in steps (so-called "tranches"), each step dependent on the IMF being satisfied that its conditions have been met. Countries are forced to take these loans by their creditors (usually the large international banks) who refuse to reschedule or refinance loans unless the country accepts an IMF programme. Note that those loans rarely reach the countries themselves. They are used to repay the lenders, who come from the U.S.A., Europe and Japan. The lenders are in effect guaranteed the repayment of their loans, no matter how irresponsibly they were made. The people in the debtor countries suffer the "conditionalities" which have four main strands. I think you will recognise clear parallels with the policies followed in New Zealand.

Firstly, they are made to devalue or float their currencies. Note that most of these Asian countries had been praised by the IMF and World Bank for their economic policies in recent years, and it was on IMF advice that they maintained fixed exchange rates, to attract foreign investors by reducing the currency risk to them. The effect of devaluation is to make exports cheaper and hence more competitive. That frequently is of little benefit, because their competitors are also devaluing. But internally, it is devastating: it "dollarises" the cost of goods. That is, goods that were priced according to the internal market, suddenly increase vastly in price to international prices. In Indonesia, for example, this affected daily essentials: rice almost doubled in price and cooking oil rose almost four times[15].

Secondly, the government is instructed to balance its budget, and put debt repayment first in its priorities. Typically that takes the form of immediate cuts in subsidies on staple foods and other goods. It means large-scale cuts in public services, leading to layoffs of public servants, and rapid privatisation programmes. It is accompanied by dismantling any protection of wages, by cutting any links to the cost of living, and deregulating employment contracts.

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[13] Reserve Bank of New Zealand News Release, 30 September 1998, US$ converted to NZ$ at US$0.5531=NZ$1 (the mid-rate for April 1998).

[14] "The Money Bazaar – inside the Trillion-dollar world of Currency Trading", Andrew J. Krieger with Edward Claflin, Times Books N.Y., 1992, p.93ff.

[15] "Indonesia: one step forward, two steps back", by Nicola Bullard, *Focus On Trade*, No. 27, July 1998.

Thirdly, liberalisation of trade and investment is required. That means dismantling any tariff protection for local industry, and the removal of any controls on foreign investment. It means renouncing any controls on capital flows – something which Malaysia alone has refused to do, as it was the only way to control the devastating capital flight which led to the current crisis. As a result Malaysia has not had to call in the IMF with all its debilitating effects. The trade and investment liberalisation programme leads to bankruptcies amongst much local industry, and the takeover by foreign investors of the successful ones. Coupled with privatisation, it leads to a low-price bonanza for foreign investors. This programme of bankruptcies is quite deliberate: if it is not achieved in this way, other means will be used. Again, this leads to massive increases in unemployment and falling wages.

Fourthly, the IMF demands control of the money supply, through a central bank like our Reserve Bank. This prevents local excess industrial capacity from being utilised (as it was after the 1930's depression), resulting in the government being helpless to restore employment using local resources. It is explained as an attempt to control inflation, but the other policies make this is impossible.

For example, Michel Chossudovsky writes:

> In Korea, the IMF "rescue operation" has unleashed a lethal chain of bankruptcies leading to the outright liquidation of so-called "troubled merchant banks". In the wake of the IMF's "mediation" (put in place in December 1997 after high-level consultations with the World's largest commercial and merchant banks), "an average of more than 200 companies [were] shut down per day (...) 4,000 workers every day were driven out onto streets as unemployed". Resulting from the credit freeze and "the instantaneous bank shut-down", some 15,000 bankruptcies are expected in 1998 including 90 percent of Korea's construction companies (with combined debts of $20 billion dollars to domestic financial institutions). South Korea's Parliament has been transformed into a "rubber stamp". Enabling legislation is enforced through "financial blackmail": if the legislation is not speedily enacted according to IMF's deadlines, the disbursements under the bail-out will be suspended with the danger of renewed currency speculation.[16]

In Indonesia, millions of workers have lost jobs and income. GDP was expected to fall 25% in 1998 alone. The result is that the number of people living under the poverty line has risen from 22.5 million to 118.5 million, or 60.6% of the population[17]. The tensions this produces has led to riots, deaths and social turmoil. We can only hope at least that the turmoil has a positive outcome.

If most of these sound similar to what we have experienced in New Zealand, it is no coincidence. And if these all sound highly advantageous to transnational investors and banks, it is no coincidence either, because it is they who have the greatest influence over the IMF and World Bank. It is they who are being bailed out by the IMF; it is they who will profit from buying assets cheaply in these embattled societies.

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[16] "Financial Warfare", by Michel Chossudovsky, 1998.

[17] "Back to the Third World? The Asian Financial Crisis Enters its Second Year", by Walden Bello, *Focus on Trade*, No. 27, July 1998.

However, these actions by the IMF are not new. What Chossudovsky documents in considerable detail is how such policies, often in partnership with the World Bank, have led to impoverishment of people on an unconscionable scale that far exceeds even what I have described in Asia. It has led to the literal destruction of nations. I will describe just three of them in very little detail. They are truly horrific[18]. We see that underlying ethnic or cultural tensions are not the root cause of horrendous wars and inhuman acts, but are awakened by poverty and deprivation – in these cases quite knowingly brought about. Compare it to the rise of fascism and anti-semitism out of the brutality of the First World War and the following depression.

Yugoslavia

After the second World War, and until about 1980, Yugoslavia was a federation of republics and provinces which had a form of cooperative-based socialism where factories were run as cooperatives by their employees. Though it had increasing problems of foreign debt, and relatively high unemployment, it was in many ways a remarkably successful society, particularly considering where it had come from before the War. Economic growth averaged a remarkable 6.1% per year over the 20 years to 1980, there was free medical care with one doctor per 550 people. The literacy rate was 91% and life expectancy 72 years.

The foreign debt problems led to the IMF's involvement in 1980 at the instigation of creditors, shortly before Tito's death. A so-called "economic stabilisation package" was initiated in 1980 which "wreaked economic and political havoc… Slower growth, the accumulation of foreign debt and especially the cost of servicing it as well as devaluation led to a fall in the standard of living of the average Yugoslav… The economic crisis threatened political stability… it also threatened to aggravate simmering ethnic tensions." A second programme was applied in 1983 with IMF support. Industrial growth plummeted from 7.1% per year prior to 1980, to *negative* 10.6% by 1990. Wages were deregulated in 1988 after uprisings in two provinces. Industry was then deregulated, leading to hyperinflation of 2700% in 1989. Controls on foreign investment were removed. The Yugoslav premier visited US president George Bush that year and was promised a "financial aid package" in exchange for devaluation of the currency, a wage freeze, cuts in government expenditure and the conversion of the cooperative enterprises into private companies run by their owners and their creditors. The Yugoslav federal government was refused access to credit from its own central bank. The programme was backed by IMF and World Bank loans, and under their supervision.

The budget cuts, which were aimed at debt repayment, led to the suspension of payments to the governments of the republics and provinces of the federation, creating a de facto succession. Serbia rejected the austerity programme, leading to strikes by 650,000 workers, including Serbs, Croats, Bosnians and Slovenians.

Prices continued to rise at the rate of 70%, and real wages fell by 41% in the first six months of 1990. A further devaluation in 1991 led to inflation as high as 1,134% by 1993. Output (GDP) fell by 7.5% in 1990 and 15% in 1991 due largely to the enforced bankruptcy of the privatised industries. A programme was put in place that forced bankruptcy of enterprises after only 30 days of insolvency. The government was banned from intervening. In 1989, 248 firms were made bankrupt, laying off 89,400 workers. In the first nine months of 1990, a further 889 enterprises with 550,000 staff were closed: a total of almost a quarter of the

[18] These come from "The Globalisation of Poverty, Impacts of IMF and World Bank Reforms", by Michel Chossudovsky, Third World Network, Penang and Zed Books, London, 1997.

industrial workforce. Many enterprises stopped paying their workers in 1990 in order to avoid bankruptcy: some half a million workers were affected. A further 2,435 enterprises, employing 1.3 million workers were classed as insolvent, implying well over 50% unemployment amongst the industrial workforce.

More than half the country's banks – which were socially owned – were dismantled and the remainder privatised.

Formal succession by Croatia and Slovenia occurred in June 1991.

"Real earnings were in a free fall, social programmes had collapsed, with the bankruptcies of industrial enterprises. Unemployment had become rampant, creating within the population an atmosphere of social depair and hopelessness." In this atmosphere, Yugoslavian leaders "opted for war which would disguise the real causes of the economic catastrophe."

You know some of the rest from our television screens, but this gives only a distorted picture. While the fratricide continues, the now individual republics are being forced into similar, and even more destructive economic policies. The Yugoslav foreign debt has been carefully divided between them by the IMF, acting for creditor banks and Western governments. In Macedonia, every second company was classified as loss-making and marked to be closed. The most profitable assets were put up for sale. Bosnia-Herzegovina was banned for six years from having one of its own nationals as first head of its own central bank (the equivalent of Donald Brash), which was prevented from extending credit by creating money. (The current head of the bank is in fact a New Zealander who came straight from contracts with the World Bank and IMF, and is a former Reserve Bank of New Zealand deputy governor[19]). On the other hand, U.S. oil exploration companies were already at work in the Republic.

Former Soviet Union

Chossudovsky writes of the IMF- and U.S.-mandated "economic shock treatment"[20] in the former Soviet Union:

"When assessing the impact on earnings, employment and social services, the post-Cold War economic collapse in parts of Eastern Europe appears to be far deeper and more destructive than that of the Great Depression. In the former Soviet Union (starting in early 1992), hyperinflation triggered by the downfall of the rouble contributed to rapidly eroding real earnings. 'Economic shock treatment' combined with the privatisation programme precipitated entire industries into immediate liquidation leading to layoffs of millions of workers. In the Russian Federation, prices increased 100 times following the initial round of macro-economic reforms adopted by the Yeltsin government in January 1992; wages on the other hand increased tenfold; the evidence suggests that real purchasing power had plummeted by more than 80% in the course of 1992.

"The reforms have dismantled both the military-industrial complex and the civilian economy. Economic decline has surpassed the plunge in production experienced in the Soviet Union at the height of the Second World War, following the German occupation of Byelorussia and parts of the Ukraine in 1941, and the extensive bombing of Soviet industrial infrastruc-

[19] "Bosnia banks on a Kiwi", *Press*, 22 March 1999, p.7. He is Peter Nicholl.
[20] "Global Poverty in the late 20th Century", by Michel Chossudovsky, October 1998.

ture. The Soviet Gross Domestic Product (GDP) had, by 1942, declined by 22% in relation to pre-war levels. In contrast, industrial output in the former Soviet Union plummeted by 48.8% and GDP by 44% between 1989 and 1995, according to official data, and output continues to fall. Independent estimates, however, indicate a substantially greater drop and there is firm evidence that official figures have been manipulated. While the cost of living in Eastern Europe and the Balkans was shooting up to Western levels as a result of the deregulation of commodity markets, monthly minimum earnings were as low as ten dollars a month. 'In Bulgaria, the World Bank and the Ministry of Labor and Social Assistance separately estimated that 90% of Bulgarians are living below the poverty threshold of $4 a day'. Old age pensions in 1997 were worth two dollars a month. Unable to pay for electricity, water and transportation, population groups throughout the region have been brutally marginalised from the modern era."

In Russia, while many consumer goods were at international price levels, assets were being sold for almost nothing. State assets were valued for privatisation at the grossly devalued rouble book value; a rocket production facility could be purchased for US$1 million. Many were sold to top government officials. A top Russian scientist could be hired at US$100 a month – a fiftieth of his or her U.S. equivalent. By 1993 more than 50% of industrial plants had been driven into bankruptcy and by 1994 workers at 33,000 indebted enterprises were not receiving pay on a regular basis.

The implementation of this economic programme was only achieved through the destruction of what little democracy existed in Russia: to introduce the programme insisted on by creditors in 1993, Yeltsin dissolved parliament, suspended (or rather, ignored) the constitution, and sent troops to storm the parliamentary building, the Moscow White House.

That programme achieved little. The poverty is worsening inside the country. Late last year, Russia defaulted on its foreign debts, leading to parliament overruling a weakened Yeltsin and forcing the appointment of a Prime Minister of their choice. He has been unable to present a budget to the satisfaction of the IMF.

Rwanda[21]

Rwanda is a former Belgian colony with an economy reflecting that history. More than 80% of its foreign exchange earnings came from a single crop: coffee. "A rentier class with interests in coffee trade and with close ties to the seat of political power had developed. Levels of poverty remained high, yet during the 1970s and the first part of the 1980s, economic and social progress was nonetheless realised: real GDP growth was of the order of 4.9% per annum (1965-89), school enrolment increased markedly and recorded inflation was among the lowest in sub-Saharan Africa, less than 4% per annum". There was a degree of food self-sufficiency, and until the late 1980s, imports of cereals were minimal compared to other countries in the region, due to restrictions on food imports.

Coffee was purchased from farmers at a fixed price through a stabilisation fund and a processing and marketing enterprise, Rwandex. However in 1987, "the system of quotas established under the International Coffee Agreement (ICA) started to fall apart, world prices plummeted" and the stabilisation fund "started to accumulate a sizeable debt."

[21] See "The Globalisation of Poverty", *op cit*, Chapter 5.

"A lethal blow to Rwanda's economy came in June 1989 when the ICA reached a deadlock as a result of political pressures from Washington on behalf of the large U.S. coffee traders. At the conclusion of a historic meeting of producers held in Florida, coffee prices plunged in a matter of months by more than 50%. For Rwanda and several other African countries, the price drop wreaked havoc. With retail prices more than 20 times that paid to the African farmer, a tremendous amount of wealth was being appropriated in the rich countries."

Government revenue heavily depended on coffee. The collapse in coffee prices led to a debt crisis, in turn leading to an increased portion of the reduced coffee earnings being taken for debt-servicing, putting further pressure on small-scale farmers. Famines erupted throughout the country. Export earnings declined by 50% between 1987 and 1991, and per capita GDP growth fell from 0.4% in 1981-86 to –5.5% in 1987-91 immediately following the slump in coffee prices.

In November 1988, the World Bank sent a mission, which recommended a "strategy change". In 1990, the civil war began with an incursion from Uganda of the rebel army of the Rwandan Patriotic Front. A 50% devaluation of the Rwandan currency was carried out six weeks later "to boost coffee exports" following a meeting with the IMF in Washington. Instead it exacerbated the crisis, heightened by the civil war. Large increases in fuel and consumer essentials were announced, and inflation rose to 19% in 1991 (from 1% in 1989). The balance of payments situation deteriorated dramatically, and foreign debt, which had doubled since 1985, increased a further 34% between 1989 and 1992.

The IMF approval of the austerity programme led to millions of dollars of "aid" pouring in, earmarked for commodity imports. It is likely that a sizeable portion was diverted into armaments for the civil war. The army was increased in size from 5,000 to 40,000, largely enlisted from the hugely increased ranks of urban unemployed.

Meanwhile, public services collapsed. Health and education disintegrated under the austerity programme, despite "safety nets". Severe child malnutrition increased dramatically, recorded cases of malaria rose by 21% due to lack of anti-malarial drugs in public health centres, and the imposition of school fees led to a "massive" decline in school enrolment. Increased user fees were accompanied by lay-offs of health workers and teachers, and partial privatisation of education and health.

In 1992, farmers uprooted 300,000 coffee trees. Despite soaring domestic prices, coffee prices had been held at 1989 levels under the terms of the agreements with the IMF and World Bank (though significant profits were being made by local coffee traders and intermediaries). A second devaluation that year, during the height of the civil war, led to a further 25% cut in coffee production in a single year, and further increases in prices of essential goods. Farmers were not easily able to switch back to food crops, yet meanwhile liberalisation of trade and deregulation of grain markets was leading to cheap food imports and food aid from the rich countries, destabilising local markets.

Privatisation programmes, to fund debt servicing, led to further unemployment and rises in electricity prices, contributing to the paralysis of urban public transport. The World Bank recommended scrapping more than half of the country's public investment projects, including reclamation projects to create more arable land.

By 1994 there was widespread famine in southern provinces. There was total collapse of coffee production as a result of both the civil war and the phasing out of the state marketing system under the guidance of the World Bank.

"While the international donor community cannot be held directly responsible for the ethnic massacres and tragic outcome of the Rwandan civil war, the austerity measures combined with the impact of the IMF-sponsored devaluations contributed to impoverishing the Rwandan people at a time of acute political and social crisis. The deliberate manipulation of market forces destroyed economic activity and people's livelihood, fuelled unemployment and created a situation of generalised famine and despair."

Let's return now to New Zealand. Some people have done very well from the changes of the last 15 years, and are willing to defend them remorselessly. You need only read the business newspapers to see that. But very many other people in New Zealand feel battered and betrayed. What we can see from the international globalisation process is that New Zealand is not alone in what has happened. It has happened not from stupidity or incompetence, but because it enriches some very powerful commercial forces and a small but powerful section of the community. We can also see that, while people are unhappy about what has happened in New Zealand, there is no logical end to the process. The inequality and poverty we see increasing will not, without intervention, come to any natural conclusion: they can in the extreme lead to complete ruination of society.

If you wish to see the long term effects of free trade and free movement of capital then a good analogy is to look at the regions of our country. There is of course free trade and free movement of capital between, for example, the West Coast of the South Island and the rest of New Zealand, or between Auckland and the rest of the country. Has this led to uniform enrichment of all regions? No – Auckland has prospered, with a steadily increasing proportion of the country's population as people migrate north. Much of the country's services, industries – and employment – is concentrated there. At the other extreme, the West Coast has to contend with a constant loss of population – particularly the young and the skilled – as they migrate elsewhere. It has to fight constantly to maintain its essential public services such as hospitals, rail, and ports. Though rich in natural resources, very little processing of those resources is done locally: most are "exported", either to the rest of the country or overseas. Most of the wealth created by those exports goes to owners outside the Coast; most of the environmental and social costs remain[22].

New Zealand is not unique in this. All countries have their prosperous and their depressed regions: their Londons and their Liverpools, their Californias and their Alabamas. What saves the depressed regions from absolute poverty is central government intervention to transfer resources – usually by use of taxation – from wealthy to poor

I do not believe that New Zealand will benefit from free trade and an open economy. Effectively it sets us up to compete with the most heartless regimes in the world: those that are willing to sacrifice their people's living standards, health and environment to sell goods cheaply and to attract foreign investment. Some people will benefit: some farmers, some

[22] For example, Buller's mayor, Pat O'Dea, says that over 45% of his district's adult population are on benefits, and the district has one of the lowest per capita incomes in the country. Tranzrail, which earns over $30 million per year transporting Buller coal, employs only 12 full time staff there, and pays rates of only $12,600. "Buller seeks share of Lyttelton port profits", *Press*, 24 March 1999, p.4.

shareholders and managers in large businesses, some of the highly skilled. Even farmers will not win in the long run as they find WTO rules undermining their marketing boards and the returns on their products go to transnational agribusiness corporations. Shareholders increasingly find themselves minority owners of overseas owned company. But the overall effect will be greatly increased disparities between those doing well and the rest of us. As social services gradually deteriorate and a disgruntled minority suffering chronic unemployment make the country feel in a permanent state of crisis, the logic will become obvious. If we are going to be a depressed region of the world, we might as well be a depressed region of a larger country and have some of its wealth transferred our way. Union with Australia will become inevitable – but an Australia itself suffering from the same symptoms. As you might have noticed, that debate has already begun.

We would then have lost forever our independence to maintain a nuclear-free independent foreign policy, to put in place the range of economic and social policies necessary to build a fair, caring and sustainable society. I am not so pessimistic as to think that this outcome is inevitable. But if we do nothing, the outcome *is* inevitable. If ever there has been a time when doing nothing leads to disaster, this is it.

What can be done?

The policies currently being pursued are totally inappropriate for a small economy and population. We must use every tool at our disposal, rather than dismissing them on the grounds of theory that is ill suited to our situation and in any case built on dubious assumptions.

We must not be afraid of words like "government" and "intervention" and "protection" – nor of ones like "cooperation" and "sovereignty". We must question what have become the divine teachings of Free Trade and uncontrolled Foreign Investment. We need to have more faith in our own abilities, rather than continue to build a society dependent on someone else for its essential services, and in which the height of business success is to be bought out from overseas. We need to speak about these ideas publicly – to strive to have those ideas, those words, accepted back into the menu of palatable courses of action.

The choices being made for us, and presented as the only alternative, are ones that suit the rich and the ruthless. Even for them, they lead to embittered, alienated societies, and environmental degradation. I believe our history – Maori and Pakeha – shows we want more than that. We want a fair go, accountable government, an environment we can be proud of, and enough social support to ensure no-one is kicked when they are down. Increasingly the choice between the paths of rapid, ruthless development, and that of a fair society, are diverging. The transnational-owned road may or may not lead to faster increases in wealth, but it certainly will lead to steady worsening of our social and environmental problems. We need to say to ourselves and the rest of the world: what makes New Zealand different is its commitment to equity, democracy, sustainability and security. Other countries can continue along the other road; we will not. Our sovereignty is essential to make that commitment.

Otherwise, within our lifetimes, a fractious, depressed, depleted New Zealand will be debating terms for joining Australia.