

## **A RESPONSE TO DEACON'S PAPER ON GLOBALIZATION AND SOCIAL POLICY**

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Cautious optimism can best sum up Bob Deacons' views towards social policy in the context of globalization ("Can a South-South Dialogue on Globalization and Social Policy Benefit from 'Northern' Debates and Experiences?," February 2001). That is, there is space for social policy to assert equity without sacrificing efficiency and competitiveness.

While I support his core principles and arguments, I however would adopt a less optimistic though not cynical view.

### **Neoliberal Globalization**

But first, we need to clarify what we mean by "the neoliberal character of globalization." The current president of the University of the Philippines, a Marxist, would rather use what seems to be an out-of-fashion term: "imperialist globalization." For the ideological radical Left, "the neoliberal character of globalization" is but a euphemism for imperialism, which according to Leninist interpretation anticipates capitalism's decline. In spite of recent spirited challenges mounted by antiglobalization forces as well as by mainstream critics (e.g., Joseph Stiglitz, Dani Rodrik, Douglas North), neoliberalism remains dominant, far from being in the throes of death.

Another tendency is to collapse neoliberalism with neoclassical economics. After all, neoclassical economics upholds economic liberalism. But this tendency ignores the development of neoclassical economics. To illustrate, a branch of neoclassical economics has gained headway in exploring and developing institutional economics. It has been said, too, that the sharpest critiques of neoclassical economics come from those who have a solid grasp and appreciation of it.

It must likewise be said that neoliberalism is not just a case of applying liberalization, privatization, and globalization. (Incidentally, in India, critics have a metaphorical short name for the above--LPG.) For even in economies marked with significant state intervention, LPG has become

governance structures” (Joseph Lim, 2001, unpublished). Furthermore, the survey says that “almost all would condemn current neoliberal trends as biased towards the First World in a hypocritical situation wherein developed countries are able to protect their products and initiate easily antidumping measures, health standards and labor standards to protect their industries while developing nations are forced to fast-track their tariff reduction and removal of import quotas.”

## **Social Policy**

We also need to clarify what we mean by social policy. The two approaches to social policy (redistribution and risk management) explained by Deacon are in fact noncontradictory.

Even in an economic liberal regime, redistribution and regulation have important utility. Rational states (in the Weberian sense) are distinctive for their healthy institutions of regulation, even in a situation where business interests are stronger than the state machinery. Further, in these states, taxation and public spending have a redistributive function.

Risk management, meanwhile, assumes an increasing role in a world characterized by uncertainty and volatility. It is wishful thinking to believe that national economies can escape from macro-wide shocks, man-made or natural.

Risk management (and social protection in general) must therefore be integrated into ex ante measures to mitigate the social impact of shocks.

Furthermore, public policy and regulation are as important as markets in risk management. Macroeconomic policy is essential to proactive risk management. The state is likewise the provider of health, unemployment, and old-age insurance in many countries, even as privatization of insurance in other countries entails state regulation.

A last point on social policy that I wish to comment on is the statement that “economic growth and politics shape social policy.” The statement may not arouse full objection, but it may restrict the scope of social policy. Undeniably, the macroeconomic plan and environment affect social policy. It is established that growth is a necessary condition to reduce poverty and achieve other social development goals. But “getting the basics right” goes beyond macroeconomics. Other variables that shape social development outcomes such as provision of health and education do not fall under the exclusive domain of the macroeconomy (although having causal links to growth). Such variables are not explicitly political, either.

## **Threat to Social Welfare**

As earlier said, the Deacon paper is cautiously optimistic that social policy need not be undermined by the “neoliberal character of globalization.” The paper allays the fear that social policy would inevitably take a neo-liberal character.

The utmost significance of social policy in the age of globalization should no longer be a subject of a contentious debate. As Deacon himself has pointed out, the “global discourse has shifted from a socially irresponsible neoliberal globalization to one that expresses concern about global poverty.” George Soros, the International

Monetary Fund (IMF), the British Tories, and the US Republicans have joined the global chorus in singing praises to social development and poverty reduction. The Right in the US has coined a term for this--compassionate conservatism. In other words, globalization with a human face. The conservatives concede that globalization creates losers as well as worsens the welfare of the impoverished who could not adjust to the new order.

And while many insist that this expression of compassion remains on the level of rhetoric, some symbolic but significant actions have taken place. The cancellation of debt of a number of severely indebted low income countries is an illustration. The modest reforms in the World Bank under James Wolfensohn's presidency is another example.

But we should not miss the point that neoliberalism can accommodate a human face and will do so for its own preservation. It is also in the interest of markets to have a more educated, more healthy, more contented labor force. What matters in the end is neither the type of social policy nor the motivation behind social policy but its outcomes.

The irony is that the Washington Consensus supposedly instilled the positive lessons on growth and development but virtually ignored what should have been the main lesson drawn from what is arguably the most successful experience in the last quarter--i.e., the NICs (newly industrializing countries) achieving rapid growth with equity done through systematic state intervention within a market friendly framework.

### **Neoliberal Counterattack**

The so-called debacle in Seattle and the string of militant antiglobalization protests that followed may have wounded neoliberal globalization. But like a bloodied but relentless gladiator, neoliberalism is fighting back, with a vengeance.

Consider the following developments:

1. The United Nations (UN), the global institution that is most sensitive to social development remains weak. As Deacon succinctly puts it, the issue revolves around power and resources, which the UN lacks.

And on a critical occasion, the UN played second fiddle to the IMF, the World Bank and the Organization for Economic Cooperation and Development (OECD). In the World Summit on Social Development (WSSD) +5 in Geneva, Koffi Annan joined his counterparts in the IMF, the World Bank and the OECD in signing a manifesto sprinkled with neoliberal jargon. Even the outcome of the WSSD +5, from the standpoint of many progressive organizations, is mediocre. The US, Japan, and some OECD members rejected innovative proposals such as a harmless study of the currency transaction tax. New provisions are but a follow-up of initiatives already undertaken. In the meantime, previous commitments (e.g. increased official development assistance from donor countries) remain unfulfilled.

2. The reform initiative in the World Bank has stumbled. It is now clear that Wolfensohn cannot widely deviate from the official line of his principal--the US government. The reformers within the World Bank, especially the critics of the

Washington Consensus, have been neutralized. The maverick Stiglitz had to resign. So did Ravi Kanbur, the original principal author of the 2000-01 World Development Report (WDR) on poverty, whose strong advocacy for equity was met with stiff resistance from within the World Bank and from the US government.

Some senior people in the World Bank have observed that the institution has become resistant to pressure in the wake of intensified antiglobalization protests that have targeted the Bank as an enemy. This either means that the World Bank is incorrigible or that the tactics of bashing the Bank may not be effective.

3. The politics and economics of the most powerful countries--those countries that shape global rules and institutions and hence global income distribution--have tilted to the Right. The Republican capture of the US presidency is a setback for social development in the US and in the rest of the world. The so-called third way being promoted by New Labor in the United Kingdom and the Social Democrats in Germany is criticized by many as, in essence, an abandonment of social democracy.

### **Challenges**

It is not only the resiliency or strength of neoliberalism that underlines my less optimistic view towards the prospects of progressive social policy gaining ground. What is likewise disturbing is that the forces expected to neutralize neoliberal globalization are incoherent.

For example, the worldwide antiglobalization movement is an uneasy alliance of strange bedfellows--on the one hand, those who fight for social inclusion and for the interests of developing countries and on the other hand, those who defend protectionism for the developed countries and the elite in undeveloped countries, invoking nationalism and using labor and environmental standards as their cover.

And even among progressive organizations in the South, their alternatives to current globalization diverge. The dominant tendency, however, is to reject privatization and liberalization and to favor 1960 prescriptions to 21<sup>st</sup> century problems. Many still believe in nationalization and protectionism even in conditions where states are patrimonial or held captive by elite interests (hence, in this case, an uncanny alliance with the Right).

Regionalism is another counterweight to the neoliberal onslaught. Regional cooperation and coordination have become necessary in many areas--collaborating in the provision of services, expanding trade relations, establishing financial arrangements, etc. However, an obstacle to strengthened regionalism, as in the case of the Association of Southeast Asian Nations (ASEAN), is that member-countries may have conflicting national interests. In ASEAN, the countries are competing with one another in trade and in investments. From a broader regional perspective in Asia, China is seen by some as the biggest threat. In the process, beggar-thy-neighbor practices and neomercantilist policies undermine regional solidarity. But it is precisely the competition as well as unevenness of development among countries in a region that makes regionalism an imperative.

At the national level, space for crafting progressive social policy can still be expanded. This requires boldness and innovation. "New forms of universalism

indeed have to be developed, especially to respond to the rise of new types and patterns of vulnerability.

In this light, the challenges to fiscal policy have to be addressed decisively. The fiscal challenges include: a) plugging the loopholes that abet tax avoidance and evasion, b) resisting the reduction of income tax rates in the wake of locational competition, c) broadening the tax base, d) improving excise taxes on affluent consumption, e) reallocating budgetary resources (with intersectoral and intrasectoral implications) to have a greater impact on poverty reduction, f) cutting inefficient as well as pro-rich public spending, and g) fighting graft and corruption.

### **Universal Social Provision**

The mobilization of resources is underscored, for a serious constraint to social protection is the perennial problem facing developing countries—that of scarce resources, in particular government revenues. It is this resource constraint that puts into question the sustainability or viability of universal public health provision and public education **at all levels**.

This brings to the fore the debate on whether to target subsidies that are limited to the absolute poor. It is indeed an attractive option for resource-deficit states to limit subsidies of public goods (with the exception of basic health, basic education, sanitation, and other essentials) to the chronic poor.

Moreover, such targeting has a direct impact on equity. Why, for example, subsidize the university education of the children of upper classes when their parents can well afford the costs? In the Philippines, the best university in terms of academic excellence is the state-financed University of the Philippines (UP). Yet, the majority of students enrolled at UP come from middle class families who are willing to pay more than the subsidized tuition fee. They are willing to pay precisely because UP offers the best education in the Philippines and is competitive with other universities in the region.

It is better to have a multi-tiered, socialized tuition fee for tertiary education, in which the poor students are heavily subsidized, a segment of the middle class students are partially subsidized, and the rich students are charged with the full costs.

Even if universal provision at all levels is applied, this would not necessarily result in a shift by the middle class from privately provided services to publicly provided services. If universal public provision would remain inferior, the middle class would stick to private provision.

The key issue then is not the universality of services at all levels, but the quality of services of the public sector. Then can we expect the middle class to avail themselves of public social services. More importantly, the middle class would willingly pay for the quality of these services. Raising the quality of services entails more resources. Thus, let those with the ability to pay shoulder the costs, and use the taxpayers money to subsidize the poor.

Nevertheless, in some cases (e.g. in times of economic crises), expanding the coverage of subsidies to include a limited segment of the nonpoor becomes necessary.

The objective is to minimize resistance to propoor--including redistributive--programs and to build propoor coalitions.

### **Conclusion**

I may have a less optimistic view regarding the outcomes of social policy at this conjuncture of neoliberal dominance. At the same time though, I see the openings, as discussed in Deacon's paper, in which we can assert progressive social policy.

Deacon has likewise provided us a sketch of some options to take in defending or promoting social development at the global level--rethinking and reforming social policy, tackling the fiscal challenges, consolidating regionalism, promoting South-South dialogue, and, may I add, strengthening the capability of civil society organizations to intervene. These are some of the building blocks in which we can reconstruct globalization that works for the poor and the vulnerable.