Economy vs. Community: Macroeconomic Policy & Decent Work*

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For the last twenty-five years, economic and social policy in most of the world has been dominated by the Washington Consensus with its commitment to the competitive market and its emphasis upon open trade, the withdrawal of government from the economy through privatization and deregulation, and a stringent macro-economic policy. This last, which is of particular interest in this morning's session, has generally implied strict limits on government spending, a tight, deflationary monetary policy, and fixed exchange rates that limit a country's ability to compensate for lax domestic policy through progressive devaluation of its currency. But this conference is occurring at a critical juncture in which a reaction to those policies appears to be gaining momentum. The signs of that reaction include the election of a succession of presidential candidates in Latin America running against neo-liberalism and the Washington Consensus: Chavez in Venezuela, Lula in Brazil, Vazquez in Uruguay, Kirchner in Argentina, Bachelet in Chile, and Evo Morales in Bolivia. There also appears to be increasing resistance to labor market reforms designed to strengthen market forces in Western Europe, most notably reflected in the street demonstrations in France, but arguably in the election results in Germany and Italy as well. Even in the United States, the immigrant demonstrations and "general strike" last week presage new pressures for better working conditions and reinforced labor standards.

It is hard at this juncture not be reminded of Karl Polanyi's classic book, <u>The Great Transformation</u>. Looking at social and economic policy in industrial society stretching back to the beginning of the 19th century from the perspective of the Great Depression and World War II, Polanyi saw a double movement. One part of that movement was guided by a liberal, market-oriented philosophy, essentially the philosophy that is embodied in the Washington Consensus, emphasizing the free play of competitive forces in the allocation of labor, of land and in international trade. The second movement was a visceral reaction of society to the disruptive effects of the market upon the community. It reflected the fact that human beings understand themselves and create meaning in their lives in a social context, anchored in particular personal relationships and specific places. The constant redeployment of labor and land produced by a competitive market disrupts these relationships and thus undermines the stability that is required for people to realize themselves as human beings.

Polanyi speaks not only to the issues raised by neo-liberal reforms but also to the process of globalization to which those reforms are linked. We think that we are living through an unparalleled process of globalization, one that is both inexorable and irreversible. The appeal of the Washington Consensus to policymakers and politicians is partly the product of this belief: The global integration the Consensus promotes is presented as the inevitable result of the underlying technological trends, and the policies it advocates thus seem to emerge as necessary to adjust to natural developments. But Polanyi's focus is on a remarkably similar period of global integration in the late 19th and early 20th centuries, but integration then was first aborted, and then actually reversed, in a process that led to the Great Depression of the 1930's, to Fascism in much of continental Europe, and ultimately culminated in the Second World War. His book is basically an attempt to understand how this happened. He identifies the chief culprit in that process as the gold standard. The gold standard created a mechanical linkage between national economies and the global marketplace. Each time a country's economy stepped out of line with international trends, its currency would lose its value progressively until domestic economic activity and growing unemployment forced the country to lower wages, lay off workers and dismantle barriers to economic efficiency. Ultimately, these adjustments would enable domestic producers to compete once again in the international marketplace. But the stringent macro-economic policy imposed in this way was ultimately destructive of social stability, provoking the second movement which I just described.

If there is a difference between this earlier period and our own times, it is here: The gold standard has been replaced by a network of multinational institutions that we have created to oversee and govern the process of economic integration. Relative to Polanyi's double movement, these institutions are of two kinds. One set of agencies – the IMF, the World Bank, the WTO – control and channel the economic forces. In principle, they are in a position to mediate the impact of trade imbalances on particular national economies. The lending capacity of the IMF especially puts it in a position to moderate macro-economic pressures in the light of social reality and give a country the latitude and flexibility to adjust to economic pressures gradually in the way that the gold standard regime did not. A second set are the social agencies represented in this room – the International Labour Organization, ECOSOC, the United Nations Development Programme, the United Nations High Commission for Human Rights, etc. They are designed to cushion the blows leveled by unfettered economic exchange. Whether or not this panoply of agencies is doing a better job of staving off the social reaction which brought the early era of globalization to a halt is really the question we ought to be debating in this forum. In the economic agencies, the ideology of neo-liberalism has in many respects been as rigid as the old gold standard. The current political turn in Latin America suggests that if the economic agencies have in fact moderated the competitive forces unleashed in the process of global integration, they have certainly not moderated them enough to forestall the reaction. This has increased the pressures on the social agencies to act as moderators. But, at least in the workplace and the labor market, the social agencies have yet to play their role.

A further important difference between the first period of globalization and our own makes it both easier and harder for them to do so. In the earlier period, the reaction to the liberal policy was expressed in terms of a series of more or less well defined ideological and programmatic alternatives. The most coherent and politically successful of these were fascism and communism. Part of Polanyi's own pessimism reflected his horror at the political consequences which these alternatives seemed to entail. By the time his book was published, however, Keynesian economics had emerged and appeared to provide a framework for reconciling the underlying conflict. But each of these philosophies has since been discredited, and the reaction against neo-liberalism today is distinguished from that in the past by the intellectual vacuum in which it seems to be occurring. This vacuum makes it in some ways more difficult to create a coherent alterative to the Washington Consensus. But at the same time, it frees us to experiment with new approaches to practice and to seek fresh perspectives on social policy. I see the concept of decent work as an attempt to capitalize on this opportunity.

In the context of the problem as Polanyi laid it out, decent work takes on a very specific meaning. Decent work is work which enables people to create and sustain the social contexts in which we create meaning in our lives, and that meaning then comes to be embedded. The social role of work is twofold: Work itself takes place in a social setting, and a stable workplace thus contributes directly to our need for a stable social context. But work also generates the income which supports virtually all other social activity. An adequate and stable income is thus a second requirement of decent work. But, to have a decent economy, not every job need necessarily have these characteristics. Individuals obviously vary in the extent to which they understand themselves in terms of the social setting of the workplace. We also differ in the extent that our own work generates income supports for other social activities. Historically, adult males have tended to work full time and to constitute the major support of a household. They have thus been particularly dependent on a stable, secure workplace for their meaning and self-definition, and the social life of households to which they are attached are similarly dependent on their income.

But the women and children in these households have tended to be secondary earners who found their purpose and meaning in life outside of work and whose income was incidental to the stability of the household environment. The role of work and the importance of the earnings for particular household members obviously changes over the course of economic development, and in advanced industrial societies it has changed enormously in recent years as women have assumed a more prominent role in the labor market, and both younger and older workers have withdrawn increasingly from full time activity. This implies that the amount of decent work which the society must generate varies over time with changes in the structure of society, as much or more so as the capacity of the economy to generate such work changes. Then, whatever institutional mechanism we create to promote decent work must be flexible and responsive, able to adjust over time as much to the shifting social environment as the economic.

This view that the central component of decent work is security and stability places Polanyi's framework squarely in the center of debates about restrictions on layoff and discharge in Western Europe.

I want to conclude with some brief (and deliberately provocative) remarks about this debate, especially as it relates to macro-policy. The unambiguous implication of Polanyi's argument is the restraint on layoff and discharge necessary to manage the double movement and to prevent the kind of extreme reactions that led to the Great Depression and World War II. But these very employment protections have been widely blamed for the high rates of unemployment in many Western European countries. This view follows directly from the economic logic underlying the Washington Consensus, and it has achieved almost universal acceptance in the media and among informed observers, policymakers and the political elite (whatever their public stance toward the reforms which it implies). But in point of fact, there is very little empirical evidence which supports this view. And if it is not correct, then the high rates of unemployment most likely reflect the restrictive macro policies that have been pursued on the Continent in the run up to the introduction of the common currency and in the aftermath of that introduction by the newly created central bank and governments trying to live up to the budgetary conditions which the adoption of common currency imposed. This is incidentally equally consistent with the logic of the Washington Consensus and with the policies it has promoted.

My own reasons to doubt that role of employment protection is that the system of labor market regulation which is pictured in the debates about employment protection are a characteristic of the system actually in place, at least as I have encountered them not only in Europe and Latin America but also in the United States. That is to say, the European and Latin American systems actually have considerably flexibility. In Southern Europe, in particular, they are administered by a system of labor inspection in which the inspectors at the base have considerable discretion in the way in which they enforce the regulations and exercise that discretion to adjust the rules in the light of economic and social conditions. The flexibility does not mimic that of the competitive labor market of economic theory, but less because of an inherent rigidity than because the inspectors seek to balance the economic pressures emanating from the market against the social pressures associated with Polanyi's second movement. On the other hand, the U.S. labor market is not free from regulation in the way it is pictured in the debate about flexibility; employers here too are limited in layoff and discharge by legal and administrative restrictions and by collective bargaining contracts. It may well be that the costs in the U.S. are less than those in Western Europe but one would have to make the calculations to figures that out; it is not a proposition which is obvious *a priori*. We thus see here that "decent work" as a counter to the Washington Consensus implies a whole program of social science research that we have only just begun.