Globalisation, Neoliberalism and Inequality in Australia

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Abstract

The paper has two main objects. The first is to discuss the nature of (economic) globalisation and the extent to which it can be considered an exogenous development. Globalisation since 1970 is contrasted with that in the 19th century. It is argued that the current experience of globalisation is simply the international manifestation of the swing towards neoliberal policies of market oriented reform that has taken throughout the world since 1970. The second object is to consider the relationship, if any, of globalisation to the increase in inequality evident in a number of developed countries. It is argued that increased inequality is the result of the neoliberal reform program as a whole and that the role of globalisation per se has been overstated.

Introduction

In every era, there are 'vogue' words that suddenly become ubiquitous. These vogue words often emerge from academic discourse into the public debate, where they take on a life of their own. Unlike the typical technical jargon of academic specialties, however, vogue words are used in different ways by different disciplines, and even by members of the same discipline. In the 1960s, 'alienation' was such a word, used in distinct, but related ways by economists (primarily Marxian), psychologists and sociologists. 'Systems' and 'structural' had their vogue in the 1970s, and 'sustainability' in the 1980s. At the height of their popularity such terms are often seen as

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capable of explaining all the issues of the day. In retrospect, it is often judged that having been used to explain everything, they really explained nothing.

Undoubtedly the vogue word of the late 1990s is 'globalisation'. Although it has economic, cultural and political dimensions, the economic aspects of globalisation are dominant in most discussions. The central claim associated with economic uses of the term 'globalisation' is that the world economy now transcends national boundaries in a way that reduces or eliminates the scope for national governments to influence economic outcomes.

This paper has two main objects. The first is to discuss the nature of (economic) globalisation and the extent to which it can be considered an exogenous development. It is argued that globalisation is simply the international manifestation of the swing towards neoliberal policies of market-oriented reform that has taken place throughout the world since 1970. The second object is to consider the increase in inequality evident in a number of developed countries, and its relationship, if any, to globalisation. It is argued that increased inequality is the result of the neoliberal reform program as a whole, and that the role of globalisation *per se* has been overstated.

The paper is organised as follows. The first section compares two eras of globalisation: that of the global economy before 1914, based on the gold standard, and that of the period since 1970, based on floating exchange rates. These two eras were separated by the collapse of the gold standard, leading to the Great Depression and the long boom from 1945 to 1970, in which national governments pursued Keynesian macroeconomic policies within the co-operative international framework of the Bretton Woods system. The next two sections deal with explanations of globalisation and with the relationship between globalisation, wages and inequality. In each case, three approaches to the problem, focused on trade, technology and neoliberal economic policies respectively, are considered. Finally, some concluding comments are offered.

Two eras of globalisation

Much of the discussion of globalisation, particularly that put forward by right-wing advocates of globalisation, is based on the assumption that we are dealing with a wholly new phenomenon, to which the old responses of the social-democratic welfare state are inappropriate. For example, Latham (1998) contrasts the tasks of the 19th-century labour movement, which supposedly sought to civilise national capital, with his proposed 'third way', aimed at civilising global capital. As will be shown in this section, the 19th century was one of global capitalism. The progressive social reforms of the 20th century rested on an assertion of state control over the economy, including previously unrestricted international capital movements. Conversely, the resurgence of global capital has been closely intertwined with the retreat of the social democratic welfare state from the 1970s onwards.

The global economy before 1914

On many measures, the world economy was more integrated during the period before 1914 than it is today. There were few restrictions on the movement of goods, labour or capital. In particular, the reliance of colonial countries like Australia and of the newly independent nations of Latin America on overseas investment was greater than that of developing countries today. On the other hand, international integration of manufacturing was rather less advanced than it is today. The most important feature the global economy of the late 19th century that has not been restored during the move towards globalisation in the late 20th century is free international movement of labour. Surprisingly few advocates of globalisation favour a return to unrestricted migration.

Table 1, shows a variety of measures of global economic integration. For each measure, estimates are presented for the period before 1914, the mid-20th century and the current period. By all measures, the world economy was less integrated in the mid-20th century than it is today, and was before 1914. On some measures, including labour mobility and the size of current account deficits, the world economy of the late 19th century was more integrated than that of today. On other measures, such as the share of exports in world GDP, the reverse is true.

Table 1. Measures of Globalisation

Measure	Pre-1914	Mid-20th century	1990s
FDI[1]	9.0 (1913)	4.4 (1960)	10.1 (199
CAD[2]	3.8 (1910-14)	1.8 (1950-54)	[illegible]
Net migration USA[3]	5.4 (1870-1901)	2.7 (1950-60)	[illegible]
Merchandise exports[4]	8.7 (1913)	7.0 (1950)	13.5 (199

Notes:

1. World foreign direct investment stock as % of world output
2. Absolute value of current account deficits/surpluses as % of world output
3. Net immigration to the United States as a proportion of US population
4. As % of world GDP

Sources: Baker, Epstein and Pollin (1998), Dawkins and Kenyon (1999)

Since different measures give different results, there is little value in disputes over whether the economy of the 1990s is more or less globalised than that of the 1890s. The crucial observation is that the process of globalisation went into reverse for most of the 20th century. To understand this process, it is necessary to examine the global economic institutions of the 19th century and the way in which they broke down.

The gold standard

The central institution of the global financial system in the 19th century was the gold standard. Under the gold standard, currencies were freely convertible into gold at fixed rates. The exchange rate between any two currencies was the ratio of their values in gold.

Under the gold standard, exchange rates were fixed. If a country's exports declined, or investors wished to withdraw capital, gold stocks would run down. Banks would then raise interest rates until they could attract sufficient deposits of gold to meet the demand. The increase in interest rates would depress economic activity and lead to deflation, that is, a reduction in the general level of prices and wages. With fixed exchange rates, deflation made exporting more attractive and importing less attractive, until the initial shock was counterbalanced and equilibrium was restored at a new, lower, price level.

Although this 'specie flow mechanism' worked to sustain the system of fixed exchange rates, it did not work particularly well. Deflation is generally a painful process, involving long periods of high unemployment. Fixed exchange rates and free movements of capital (in the form of gold) were achieved at the cost of a cycle of boom and bust about which governments could do nothing. This is an example of what has been referred to as the 'impossible trinity', based on the analysis of Mundell (1963) – it is impossible to have fixed exchanged rates, free capital movements and independent domestic economic policy. By sacrificing any one element of the trinity, it is, however, possible to have the other two.

Another critical feature of a gold standard economy is the central role of business confidence. In view of the costs of responding to an outflow of capital, governments under such a system must do their best to ensure that such outflows do not occur. This means doing nothing that would be seen as a threat to the interests of owners of capital. The system offered few intermediate positions between complete conformity with the policies demanded by owners of capital and the extreme alternative of repudiating debt.

The Bretton Woods system

The integrated world economy, based on the gold standard, was broken up by World War I. After the war, a number of countries, notably the United Kingdom, made strenuous attempts to re-establish the system with prewar parities. The resulting deflation caused high levels of unemployment throughout the 1920s. The gold standard was finally abandoned during the Great Depression, which was also accompanied by greatly increased tariff barriers. By the end of World War II, international movements of capital and goods were rigidly controlled.

The victorious allies saw the Depression as a major factor in the rise of Hitler and sought to establish an international financial system under which it could not recur. Meeting at Bretton Woods (New Hampshire, United States) in 1944, the Allies agreed to establish a new international financial structure. The object of the structure was to control capital flows in a way which allowed for both fixed exchange rates and sufficient domestic freedom in economic policy to permit the maintenance of full employment. The objective of the system was to expand trade in goods but to ensure that fluctuations in exchange markets did not create instability like that of the Great Depression. Hence, although tariff barriers were reduced, tight restrictions on capital movements were retained.

The Bretton Woods system established two international institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The IMF was to provide short-term assistance to countries experiencing balance-of-payments problems. The World Bank was to provide long-term finance for development projects. These institutions, it was hoped, would provide a framework for international capital flows which captured the benefits available from international borrowing and lending without the instability associated with uncontrolled international financial markets.

The Bretton Woods system represented internationalisation as opposed to globalisation. The 'beggar thy neighbour' policies of the interwar era, a failed response to the breakdown of the uncontrolled global economy, were replaced with a set of policies and institutions designed to foster co-operation between nations. From 1945 to the end of the 1960s, the Bretton Woods system, in association with the use of Keynesian macroeconomic policies, functioned effectively in most developed countries. The period from 1945 to 1970 was unparalleled in the history of capitalism as one of full employment and rapid economic growth in the developed countries.

However, the Bretton Woods system came under increasing strain from two main sources. The first was the rise of inflation rates in most developed countries. Sustained inflation undermined both the international role of the US dollar as a reserve currency pegged to gold and the Keynesian system of domestic economic management. The second source of strain was the gradual relaxation of the tight restrictions on international capital movements that prevailed at the end of World War II. Exchange controls were relaxed in many countries. Moreover, acting from a variety of motives, governments acquiesced in the development of a 'Eurodollar' market, trading in $US-denominated financial instruments but operating in European centres outside the control of the US Federal Reserve.

The inflationary surge associated with the financing of the Vietnam war would eventually have forced the abandonment of $US convertibility into gold. However, the process was accelerated by the increased capacity of participants in international financial markets to speculate against currencies seen as overvalued. In 1971, convertibility was abandoned and the Bretton Woods system collapsed. The result was rapid deregulation of international capital markets, which enhanced pressure for deregulation of domestic capital markets and a consequent reorientation of all forms of government activity to meet the demands of national and international capital.

Experience since 1970

With the breakdown of the Bretton Woods agreement and the inflationary boom and slump of the early 1970s, the system of fixed exchange rates was abandoned. Most countries allowed their currencies to float, and relaxed or abandoned restrictions on international capital flows. This episode is often referred to as the 'OPEC oil shock'. However, an inflationary surge, leading to a boom in commodity prices was well under way by the time the Organisation of Petroleum Exporting Countries (OPEC) raised oil prices in October 1973. The oil shock was a consequence, not a cause, of the breakdown of the Bretton Woods system.

The move to floating exchange rates was associated with a reaction against Keynesianism. The standard Keynesian framework offered no prescription for a combination of inflation and unemployment. The briefly fashionable monetarist approach, advocated most effectively by Friedman (1968), appeared to offer a solution which would work well in the context of floating exchange rates. In terms of the 'impossible trinity', Friedman argued that the exchange rate could be left to the market, which would eliminate any unsustainable deficits or surpluses by bidding exchange rates up or down. Hence, governments could allow free flows of capital and still pursue independent macroeconomic policies.

The policy favoured by Friedman was one in which the rate of growth of the money supply was fixed at a level consistent with low inflation. Although monetarist policies never worked well and were quickly abandoned, Keynesianism has not regained its former dominant position. Over time, most countries moved to a system that may be referred to as 'monetary activism' in which monetary policy is adjusted by central banks to stabilise the economy (with a heavy emphasis on controlling inflation) and only modest use is made of fiscal policy.

The breakdown of the Bretton Woods system and the abandonment of Keynesian macroeconomic policy contributed in a number of ways to a more general turn towards free-market policies. Belief in the effectiveness of government intervention in general was undermined by macroeconomic failures, and support for free-market policies grew.

Moreover, rising unemployment and declining rates of economic growth produced what has been called 'the fiscal crisis of the state' (O'Connor 1973). This term refers to the incapacity of governments to meet the obligations associated with expanding provision of health, education and welfare services without raising taxes beyond the level that individual taxpayers and more seriously, owners of capital, are willing to accept. The clear need to constrain the growth of public expenditure strengthened the position of advocates of neoliberal reform, who had always regarded cuts in public expenditure as desirable, and were keen to propose a range of measures designed to roll back the growth of the public sector.

Globalisation since 1970

The rate of growth of world trade declined after 1970 . Unfortunately, the rate of growth of world output declined even more. As a result, trade in goods and services continued to grow faster than world output as a whole. This fact, along with the rise of manufacturing industry in East and South-East Asia, is commonly cited as evidence of increasing globalisation.

Nevertheless, the recent popularity of the term 'globalisation' primarily reflects the growth of international capital markets. The aggregate value of financial instruments traded in international capital markets is now 100 times as great as the value of imports and exports, and this ratio is growing. The massive growth in the volume of financial transactions is predominantly due to growth in short-term transactions, which have been facilitated by improvements in computing and communications technologies and by the development of new financial instruments, generically described as 'derivatives'. On the other hand, the volume of long-term international capital flows is still smaller, in relation to world output, than it was at the turn of the century.

The main difference between the globalised economy of today and that of the 19th century is therefore the greatly increased volume of short-term financial transactions relative to 'real' flows of goods, services and long-term investment. The Bank of International Settlements (quoted by Baker, Epstein and Pollin 1998, p.10) reports that, for the United States, the ratio of cross-border financial transactions to real flows rose from 9 per cent in 1980 to 135 per cent in 1995.

Explanations of globalisation

In much of the discussion of globalisation, the complex history described above is ignored. Simple monocausal explanations are put forward with great confidence, or implicitly assumed. Three main types of explanation are prominent. The first focuses on the growth of trade, which is sometimes regarded as an exogenous development and sometimes as the result of the removal of tariffs and other impediments to trade. The second focuses on technological developments, particularly those relating to computers and telecommunications. The third treats globalisation as the result of policy choices associated with a broader program of neoliberal reform.

Globalisation and development

One view of globalisation is that it simply represents the extension to the entire world of the institutions of liberal capitalism, primarily free trade and private enterprise. This view is particularly favoured by American writers such as Friedman (1999) who see both globalisation and the end of the Cold War as confirmation of the superiority of American institutions. This view represents a continuation of the world-view dominant in the United States since World War II, in which all world events have been seen through the lens of the struggle between the United States and the Soviet Union. In this view the failure of the Soviet Union is seen as having left the United States as the unchallenged leader of the world in political and economic, as well as military terms.

Analysis based on this view focuses on the real economy and, particularly on the international integration of manufacturing. Feenstra (1998) shows that the ratio of imported to domestic intermediate inputs has risen in most countries over recent decades. However, the increase is generally comparable with the increase in the ratio of imported final products to GDP. With trade growing relative to GDP, it is not surprising to observe more trade in intermediate inputs. Feenstra's data is not sufficient to demonstrate a qualitative, as opposed to a quantitative, change in the character of international trade.

In examining the growth of international trade, it is important to observe the rapid growth in intra-European trade, which has gone in parallel with the development of the European Community. Increasingly, the European Community is taking on the characteristics of a federal state, with a Parliament, a common currency and free movement across borders. It is, therefore, questionable, whether the growth of intra-European trade should be regarded as part of the process of globalisation. Some of the issues raised here, such as questions of trade creation and trade diversion, may be considered in the light of the literature on customs unions, but the European Community is much more than a customs union.

Globalisation and technology

The phenomenon of globalisation is commonly claimed to be the inevitable result of technological changes and, in particular, the striking innovations in computing and telecommunications that have taken place since the 1970s. Claims of this kind are often associated with a more general argument that these technologies are associated with the development of a flexible 'New Economy', which will be characterised by rapid growth and the end of the 'boom–bust' business cycle.

The technological explanation of globalisation is popular among those advocates of free-market policies who were formerly socialists or social democrats (Latham 1998; Tanner 1999). If the technological explanation is correct, the social-democratic policies of the long boom were appropriate for their time, but are now out-of-date. It is therefore possible to argue that, in embracing free-market policies, social-democratic political parties are not abandoning a tradition of interventionism and egalitarianism, but maintaining a tradition of supporting policy innovations appropriate to the day.

Despite its superficial appeal, the technological explanation of globalisation is inconsistent with the evidence. The technological innovation central to the argument, instantaneous communication between international financial markets, was introduced with the laying of the Atlantic submarine cable in 1866, which made it possible to transmit messages between Europe and America by telegraph using Morse code. By 1872, the Overland Telegraph connected the major Australian cities with England, and the world.

Since the birth of the 'wired world' in the 19th century, technological improvements have increased communications capacity by a factor of around one million (the ratio of the information content in a 15-minute telephone call to that in a 15-word telegram). However, an order to buy or sell assets worth billions of dollars can be transmitted just as effectively in a 15-word telegram as in a 15-minute telephone conversation. Hence, although technological improvements might explain the globalised economy of the late 19th century, they cannot explain its collapse in the early 20th century or its recent resurgence.

Moreover, improvements in transport and communications technology continued throughout the 20th Century, even as flows of capital were subjected to increasingly stringent restrictions and governments intervened more and more in the market. The first telephone connection between Australia and Europe was made in 1930, when the international financial system was in a state of collapse. The 1950s, a period when Western countries routinely employed dual exchange rates and import quotas, saw the rise of the 'jet set'. The phrase 'the global village' was coined by Marshall McLuhan in the 1960s, when the Keynesian Welfare state, allegedly doomed by globalisation, was reaching the peak of its growth and self-confidence.

Most notably, the rise of globalisation has been accompanied by a slowdown in technological progress, rather than the acceleration implied by much of the rhetoric of globalisation. Although developments in computer technology are impressive, other areas of the economy have been technologically stagnant. This is particularly noticeable in the case of transport technology. Although improvements in transport are often cited as a cause of globalisation, there has been no major innovation in this field since the introduction of the jumbo jet in the late 1960s. Moreover, the productivity improvements generated through the use of computers have proved disappointingly hard to measure. Nevertheless, the Internet boom has led to a general suspension of disbelief, at least as long as stock prices stay high.

Globalisation and neoliberalism

A third explanation of globalisation is that it is simply the international manifestation of the general shift towards market-oriented neoliberalism, and away from social-democratic intervention, which has taken place since the early 1970s. According to this view, the growth of unregulated international capital markets is closely intertwined with the shift to free-market domestic policies including privatisation, capital market deregulation and the abandonment of Keynesian macroeconomic management.

This is true in two senses. First, the two policy processes have taken place in parallel and have reinforced one another. The interaction between domestic and international policy is particularly evident in relation to the breakdown of the Bretton Woods system. The abandonment of convertibility of US dollars into gold was necessitated by the combined effects of inflation in the United States and the growth of international financial markets. Similarly, the Hawke–Keating government's deregulation of international capital flows in 1983 rendered the existing system of domestic financial regulation unsustainable and facilitated the government's decision to deregulate interest rates and bank lending policies. The need to please international financial markets encouraged the privatisation of public assets. Privatisation yielded direct income to the financial institutions that managed public floats and trade sales as well as being interpreted by financial markets as a sign of fiscal rectitude. Moreover, it soon became evident that the prices that could be realised by selling enterprises such as electricity, water and telecommunications services to transnational companies in the same line of business were far higher than those that could be obtained using the initially popular method of a public float, limited to Australian residents. Hence, even when privatisation was undertaken primarily for domestic reasons, it reinforced the pressure for financial globalisation.

The interaction between financial globalisation and free-market reform may be seen as a vicious or virtuous circle, depending on one's political viewpoint. The international mobility of capital has weakened public control over the domestic economy and has intensified pressure for free-market 'reforms'. These 'reforms' have increased the power of financial markets and therefore encouraged the removal of barriers to capital flows and to the control of economic activity by transnational private enterprises.

More fundamentally, the claim that globalisation is inevitable and desirable is based on the same arguments that imply that intervention in the domestic economy is unsustainable and undesirable, even in the absence of substantial exposure to trade and capital flows. The point may be made most clearly in relation to Keynesian policies of macroeconomic stabilisation. Free-market critics of Keynesian policy have long argued that such policies can, at best, produce a short-run improvement in economic outcomes at the cost of a long-run acceleration in inflation. These criticisms are based on the central assumption of classical economics, that unregulated markets, including capital markets are, at least in the long run, self-stabilising and self-correcting. The case for unregulated international flows of goods and capital stands or falls on precisely the same assumption.

Globalisation, Wages and Inequality

During the long boom the distribution of income and wealth became more equal in all developed countries. It was widely argued that modern societies were effectively 'classless', being dominated by a large middle class, which supplied both the great majority of the workforce and the mass market towards which production was targeted. Since the beginning of the slowdown in 1970, inequality has increased in many countries.

Growth in inequality has been most marked in the United States. On standard measures, real wages for workers with high school education fell throughout the 1970s and 1980s and have yet to return to the values of 1970 (Freeman 1995). This estimate may be qualified when account is taken of non-wage benefits and of the conclusion of the Boskin Commission that standard price indexes overstate the rate of inflation by 1.1 percentage points per year (Boskin et al. 1998). Nevertheless, there is no doubt that the inequality of wages has risen substantially. Most of the income growth in the United States over the past three decades has accrued to the top 20 per cent of households and, within that group, the top 1 per cent has benefited disproportionately. Similar increases in inequality have occurred in the United Kingdom and New Zealand.

The growth in the inequality of income and wealth in the United States has a number of dimensions. First, the share of national income accruing to labour has diminished while that accruing to capital has increased. Expectations that this trend will be maintained have led to substantial increases in the value of capital assets, particularly shares, and the resulting capital gains have been a major contributor to a consumption-led boom. The increase in inequality in wages has arisen both from an increase in the differentials associated with higher levels of education and experience and from an increase in the variance of wages within groups of workers with similar observable characteristics.

By contrast, there is no clear evidence of a trend towards growing wage inequality in other OECD countries. Dawkins and Kenyon (1999) state that inequality has increased modestly in Canada, Japan, Spain and Sweden, while France, Germany and Italy have experienced no change in inequality and the Netherlands a small decline.

Krugman (1996) and others have argued that the high unemployment experienced by European countries such as France and Germany is the result of the same forces that have led to increased wage inequality in the United States, the United Kingdom and New Zealand. Krugman argues that there has been a change in the pattern of labour demand, biased towards high-skilled workers. Because of the rigidity of the European labour market, relative wages have failed to adjust . Instead, unemployment has risen.

Two objections may be made to this argument. First, a number of European countries, including the Netherlands, Norway and Austria have achieved low rates of unemployment (below 5 per cent on the standard OECD measure) without any increase in wage inequality. Admittedly, both the Netherlands and Austria have high levels of disguised unemployment in the form of workers on sickness benefits, but the same is true of the United Kingdom and New Zealand. In the United States, incarceration plays a similar role, removing around 2 million unskilled workers from the labour force.

Second, the Krugman argument implies that unemployment in Europe should have risen only for unskilled workers. In fact, unemployment rates for skilled workers have also risen. Although the unemployment rate is higher for unskilled workers, this has always been the case. It does not appear that the ratio of the unemployment rate for unskilled workers to the rate for skilled workers has changed significantly. This pattern is consistent with excessive real wages for all workers or with a Keynesian recession arising from restrictive macroeconomic policies, but not with skill-biased changes in the pattern of labour demand.

Table 2. Distribution of earnings for Australian full-time non-managerial workers (earnings as a percentage of median earnings)

	Bottom 10%	Bottom 25%	Top 25%	Top 10%
Males				
1975	76	85.6	121.1	141.2
1980	73.8	84	123.2	150.4
1985	72.5	80.7	125.7	154.1
1990	69.5	80.6	126	156.3
1995	67.7	79.4	127.8	160.7
1998	65.5	78.4	128.7	162.6
Females				
1975	80.2	88.8	115.3	136.5
1980	81.8	88	119.3	142.8
1985	78.6	87.3	121.2	147.9
1990	74.9	84.1	123.1	147.6
1995	73.4	84.1	125.3	152
1998	71.8	82.3	127.5	150.4

Source: Norris and Maclean (1999)

The Australian evidence is mixed. Analysis of aggregate data by Gregory (1993) and Norris and McLean (1999) shows an increase in inequality since 1975. As can be seen from Table 2 the income of the top 10 per cent of workers has risen relative to the median, while the income of the bottom 25 per cent has fallen relative to the median and that of the bottom 10 per cent has fallen even further.

However, unlike the US case, there is little evidence in Australia of increases in returns to education and experience, or of an increase in differentials between occupations. Norris and McLean (1999) and Dawkins and Kenyon (1999) suggest that the growth in inequality may be explained by growth in employment of high wage workers rather than changes in the relative wage of high wage and low wage workers. However, it is difficult to see how this explains the decline in relative wages of those at the bottom of the income distribution.

Assuming that there has been a general tendency towards greater income inequality in the developed countries, it is natural to look for common causes. Not surprisingly, the main suspects are the same factors which have been proposed as causes of globalisation: growth in international trade, technological change and neoliberal reforms.

It is not always possible to distinguish among these factors. For example, Feenstra (1998) argues that much of the growth in income inequality has arisen because of the process of global integration of manufacturing processes, in which much low-skilled production work, formerly undertaken in developed countries, has been outsourced to suppliers in less developed countries. This is basically a trade explanation but it involves a change in the technology of production and as Freeman observes, it is observationally equivalent to a technological change that reduces the demand for unskilled labour.

Wages and trade

Even taking into account the crisis that commenced in 1997, the growth of East Asian and South-east Asian economies over the past few decades has been striking. The best performances have been those of the Four Tigers, (Hong Kong, Singapore, South Korea and Taiwan). Less dramatic, but still substantial, growth rates have been achieved by Thailand, Malaysia and Indonesia.

It is natural to ask whether the good performance of these countries is linked to the economic problems of Australia and other Western countries, particularly rising inequality and high unemployment. In a simplistic form, this question is posed in terms of industries 'moving off shore' to take advantage of cheap labour in Asia. A more sophisticated version of the same argument is developed in terms of the Hecksher–Ohlin factor-price-equalisation theorem. This result states that under free trade, workers with the same skill levels will earn the same wages wherever in the world they are located. The most obvious implication is that the wages of unskilled labour in developed countries such as Australia must ultimately be driven down to the levels prevailing in the Third World. (Conversely, Third World wages should rise). Skilled labour can continue to earn a premium but only as long as the required skills cannot be hired more cheaply elsewhere in the world. Wood (1994, 1995) argues that the decline in the relative wages of unskilled workers in developed countries is primarily due to the increase in imports of manufactured goods from less developed countries

The factor-price-equalisation theorem appears to provide an explanation of growing wage inequality that is directly linked to the rise of a global economy. Moreover, it implies that, despite growing inequality in the developed countries, the aggregate effect of globalisation is to make the distribution of income for the world as a whole more equal.

An obvious difficulty is the question of why the factor-price-equalisation theorem should be relevant now, but not during the long boom. The rise of the Four Tigers alone is not a sufficient explanation. Their combined population is only about seventy million, and their combined GDP not much greater than that of Australia. Such a small addition to the labour force of the developed world (considerably less than that arising from natural increase and migration over the past ten years) could scarcely have much impact on wages. Adding Thailand, Malaysia and Indonesia into the picture does not change this argument. Although their combined population is nearly 250 million, employment is still predominantly agricultural, and their total manufacturing output is smaller than that of Australia.

Given the experience of the 1950s and 1960s, there would be no reason to suppose that the rise of the Asian economies should depress wages in the more developed countries. During that period wages in the rich countries rose rapidly, and inequality declined, even though countries such as Japan and Italy were greatly increasing their output of manufactures and other traded goods, and wages in those countries were rising rapidly. Moreover, wages in Japan and Italy in the 1950s were lower, relative to those of the richest countries, than are wages in the 'tiger' economies today.

In summary, it does not appear that the expansion in international trade, considered in isolation, can explain much of the growth in inequality during the long slowdown. At most, it is one of a number of explanatory factors.

Technological change and labour demand

Other things being equal, technological change will increase the inequality of wages if it is biased in favour of skilled workers, that is, if it increases the productivity of skilled workers relative to that of unskilled workers. It is easy enough to see that many technological changes are biased in favour of skilled workers. Whereas the folk hero John Henry used his raw muscle power to hammer steel into the ground, the steam hammer against which he raced required a skilled operator. The gradual decline in the proportion of jobs available to unskilled workers in most industries is evidence that the general tendency of technological change has been biased against unskilled labour.

During the long slowdown since 1970, a general decline in the rate of technological progress has been offset by rapid progress in computers and communications technology. There is some evidence to support the hypothesis that technological progress in computing increases the relative productivity of skilled workers. Krueger (1993) shows that workers who use computers receive higher wages than other workers with similar observable characteristics who do not use computers. However, this may simply reflect the fact that workers who are more adaptable (and therefore more productive) are readier to adopt computers than others.

Assuming the supply of unskilled workers remained constant, skill-biased technological change could be expected to lead to a reduction in the wages of those workers. This, in turn, would lead to the expansion of industries that used unskilled labour intensively and were less affected by technological change. Such an expansion has been observed in the United States.

So, if all other things were equal, skill-biased technological change would explain growing wage inequality. However, all other things are not equal. Over long periods, the bias of technological change towards skilled workers has been balanced by an increase in the average education and skill level of the workforce. During the postwar boom, despite rapid technological progress, wage inequality declined. In part, at least, this decline was due to reforms which broadened access to education.

To explain growing inequality then, it is necessary either that the skill bias in technology must be greater now than in the past or that the rate of increase in the education level of the workforce has slowed. For the United States, the latter condition was fulfilled for much of the 1970s and 1980s. After growing rapidly until 1970, rates of school completion and university attendance stagnated between 1970 and 1990 (Bound and Johnson 1992). By contrast, in most other developed countries, rates of school completion and university attendance were well below the US level in 1970, but have risen steadily since then. Hence, a technological explanation of inequality leads to the conclusion that the sharp rise in inequality observed in the United States reflects a discrepancy between technological progress and improvements in the education level of the workforce.

The technological explanation of the growth in inequality does not work so well in explaining the increase in inequality in the United Kingdom and New Zealand or the growth in unemployment in most European countries. Although education levels in the United Kingdom and New Zealand are low by OECD standards they have been rising, which should have offset the tendency to greater income inequality. As noted above, unemployment rates for skilled workers have risen in Europe, suggesting that unemployment reflects macroeconomic factors rather than skill-biased technological change.

Inequality and neoliberal reform

The view that globalisation is merely the international component of a broader program of neoliberal reform leads naturally to the conclusion that the observed increase in inequality is the result of neoliberal reform. Globalisation and trade are part of this story, but only part.

Neoliberal reform has contributed to increased inequality in many different ways. Most obviously, neoliberal reform of tax and welfare systems has resulted in less progressive tax systems and less generous social security systems, thereby increasing the inequality of the distribution of post-tax income.

Moreover, the relatively modest increase in competition from imported goods and services, discussed above, has been accompanied by policies which increase the competition faced by workers whether or not the goods and services they produce are traded internationally. Increased reliance on outsourcing and competitive tendering has reduced the employment security of workers, even those employed by profitable enterprises or public sector organisations. This insecurity has been enhanced by the removal of constraints on the power of employers to hire and fire at will.

Neoliberal reforms have contributed to labour market inequality in two ways. First, they have, in general, favoured managers and highly-skilled workers and have removed interventions that protected the interests of less-skilled workers. Increasing wages for highly-skilled workers and reducing wages for less-skilled workers obviously leads to greater inequality.

More generally, the weakening of unions and awards has affected less-skilled workers more severely than highly-skilled workers.

Less obviously, but perhaps equally importantly, the increase in employment insecurity associated with neoliberal reforms tends to increase the importance of stochastic elements in income determination. White-collar workers formerly faced relatively well-defined career paths, with income rising steadily until retirement. In the more flexible labour market created by neoliberal reform, there are greater opportunities to rise to highly-paid positions in senior management, but also much greater risks of dismissal or redundancy, leading to long-term unemployment or to the necessity of accepting relatively low-paid work.

An increase in income insecurity leads to an increase in the variance of incomes received by individuals in the same occupation, with similar education, experience and other observable characteristics. Such an increase in variance has clearly been observed in the United States and appears to be evident in Australia also, as shown in Table 2.

The response of supporters of neoliberal reform and globalisation to evidence of increasing inequality is striking. In the past, it has been argued that all Australians would benefit, at least in the long run, from freer world trade and neoliberal reform. Although some workers in formerly protected industries might suffer short-term dislocation, it was argued, adjustment assistance could be used to smooth their path to new and better jobs. More recently however, supporters of globalisation have begun to accept and welcome increased inequality. There is increasing emphasis on the need for 'competitiveness' to include competitiveness in wages as well as in technical efficiency. The consequence of greatly increased inequality is now regarded with equanimity, as a necessary adjustment to the global economy. Acceptance of this reality is made easier by the fact that it implies substantially increased incomes for highly educated professionals such as economists, and increased returns to owners of capital, including the growing numbers of wealthy individuals with direct personal shareholdings in addition to superannuation investments.

Summary and conclusion

The concept of globalisation obscures as much as it reveals. Globalisation is not an exogenous technological shock, forcing governments to adopt neoliberal policies of market-oriented reform, and generating greater inequality in labour market outcomes. Rather, the breakdown of controls on international capital markets is the international manifestation of a broader process in which the institutions of the postwar long boom have partially, but not completely, failed to deal with fiscal crisis of the state and the reduced effectiveness of Keynesian macroeconomic policies. The response to this failure has been the adoption of neoliberal policies, both domestically and internationally.

The question of whether the neoliberal policy framework associated with globalisation will prove politically and economically sustainable remains open. The advocates of neoliberalism have made premature claims of victory on a number of occasions, notably during the 'Reagan boom' and the 'Thatcher miracle'. However, there is as yet no convincing evidence to show that neoliberal policies can produce either stable macroeconomic outcomes in individual countries or a stable global international financial system. Moreover, the inequality produced by globalisation and neoliberalism has generated a political backlash in many countries, including Australia. A modernised version of Keynesian social democracy, modified in the light of tight budget constraints and the need for monetary stability, remains an attractive option.

Notes

1 Incomes policies were suggested as a solution to the problem, but generally failed to cope with the accelerating inflation of the 1970s. Such policies have been more successful in periods of decelerating inflation. In Australia, for example, the Prices and Incomes Accord helped to sustain a combination of decelerating inflation and declining unemployment during the 1980s.

2 Fukuyama (1992) and other writers include democracy among these institutions. However, there are plenty of examples to show that liberal capitalism can operate without democracy (Hong Kong, Chile). If liberal capitalism is defined broadly enough to encompass countries like Sweden and India, it is true that only liberal capitalist countries are democratic. But a definition as broad as this is useless in the debate over globalisation, which is largely concerned with the relative merits of American-style free-market capitalism and European social democracy.

3 However, Nevile and Saunders (1998) argue that the apparent absence of any increase in returns to education is the result of aggregation bias, and estimate that, for private sector employees, the wage premium associated with a degree rose by 20 percentage points between 1981-82 and 1989-90.

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