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Is there an acceptable future for workers in capitalism?

The case of Latin America

Alejandro Valle Baeza

In 2003 a Latin launderess in New York worked more than 80 hours per week, earned US$3 per hour, far less than the legal minimum, received no payment for extra hours, had no vacations and no healthcare (González 2003). The migrant population accepts these working conditions because their situation would be even worse in their own countries. Haiti was once self-reliant in rice, a fundamental component of the national diet, but now a large share of the rice consumed in the country needs to be imported. This is one of the consequences of the implementation of neoliberal policies in the country. Rice imports in Haiti resulted in the destruction of local production capacity and generated none of the promised jobs in alternative industries. For some time now, Haiti has been undergoing an economic and social crisis, which is worsened by the rise in the cost of raw materials and food staples:

The Haitian crisis is so extreme it forces people to eat (non-food) mud cookies (called 'pica') to relieve hunger. It's a desperate Haitian remedy made from dried yellow dirt from the country's central plateau for those who can afford it. It's not free. In Cite Soleil's crowded slums, people use a combination of dirt, salt and vegetable shortening for a typical meal when it's all they can afford.

(Lendman 2008)

The large rises in food prices in the early 2000s have contributed to the deterioration of working conditions in large areas of the world. A humanitarian organisation in Argentina reported that each day children die of hunger in a country whose per capita income once ranked above those of several developed countries, and that had a positive food trade balance exceeding 10 per cent of GDP in 2004–5.² In Argentina and Haiti, as in many countries, capitalism is not providing enough jobs for the vast majority of the population to lead a dignified life.

This chapter examines the question: is there an acceptable future for workers in today's capitalism? The answer seems to be no, especially in the 'developing' countries (as the official agencies often call them). The answer to this question relates to the following facts:

- Around the world, living conditions were already bad for a large number of workers, and they were deteriorating further even before the start of the crisis in 2007. This is because capitalism in the last 30 years, i.e. neoliberalism, has successfully managed to increase the exploitation of the workers. This has resulted in the absolute impoverishment of a large part of the population, which has been unable to achieve the requirements for decent conditions of reproduction.
- In the underdeveloped countries, especially in Latin America, these shortcomings of capitalism predate neoliberalism. So, even if neoliberalism was to disappear, the problems of many workers would not necessarily be resolved by capitalism.
- Neoliberalism has intensified the destruction of the environment, directly threatening life on the planet.

Everything points to the conclusion that capitalism is exhausted, and human beings should overcome this form of social organisation in order to avoid going backwards. Socialism or barbarism is the dilemma we will have to face in the not-too-distant future.

The situation of labour in the world

Four out of ten workers in the world are poor,³ half are own-account workers or family workers classified by the International Labour Organisation (ILO) as being in vulnerable employment. The latter category requires some explanation.

The vulnerable employment indicator is the sum of own-account and family workers as a share of total employment. These workers are less likely to have formal work arrangements. If this ratio is sizeable, it may suggest widespread poverty (ILO 2008a: 11, n.5). This data suggests that capitalism keeps nearly half of the workers in the world in a state of poverty and leaves 40 per cent out of its influence, after several centuries of reigning all over the planet. Poverty among workers is not only found in countries such as Haiti, but everywhere in the world where hunger prevails.

On 10 December 2008, the FAO warned that:

<table>
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<th>Region</th>
<th>Unemployment</th>
<th>Youth unemployment</th>
<th>Vulnerable employment</th>
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<td>World</td>
<td>6.0</td>
<td>12.3</td>
<td>49.9</td>
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<td>Latin America and the Caribbean</td>
<td>8.5</td>
<td>17.2</td>
<td>33.2</td>
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<td>Sub-Saharan Africa</td>
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<td>Developed countries</td>
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Source: author's elaboration from ILO (2008).
Another 40 million people have been pushed into hunger this year primarily due to higher food prices. . . This brings the overall number of undernourished people in the world to 963 million, compared to 923 million in 2007 and the ongoing financial and economic crisis could tip even more people into hunger and poverty.

(FAO 2008b)

Nearly one-sixth of the world's population suffer from hunger, even though most of them are employed.

There are huge differences between regions. In sub-Saharan Africa nearly nine in ten workers are working poor, while in the so-called developed world, the ratio is less than one in ten. Nevertheless, the situation of the workers in rich countries is not as good as the ILO suggests:

In advanced industrial countries, near-full employment prevailed until the mid-1970s when the first 'oil shock' induced an employment problem. The problem still persists today despite some improvements in the 1990s. The unemployment rate exceeds 5 per cent in 14 of 23 advanced industrial countries. Over 15 per cent of jobs are part-time in 13 countries, and part-time employment appears to have substituted for unemployment to a significant extent. In the 1990s, most countries sought to address the employment problem essentially through policies designed to increase labour market flexibility. But these policies had very limited success in reducing unemployment and instead led to growth of low-paid part-time and temporary jobs and even to two-tier labour markets. This is surprising considering that the 1990s was actually a period of rapid economic growth.

(ILO 2008b: 2)

As early as in the mid-1990s it was widely accepted that jobs had tended to become more precarious:

Part-time and half-time employment has increased from 23% in 1933 to 24% in 1995 in the United Kingdom. In the United States and in Japan, the percentage is about 20%. Half or maybe more of the new jobs created in the eighties in France, Germany, Netherlands, Luxembourg and Spain were temporary hiring. Self-employment has also increased: in Portugal, for instance, it went from 12% of the total work force in 1979, to 17% in 1989.

(OECD 1996: 192)

In 2003 a recovery in some aspects of labour market was publicised: the improvement in the employment level in some countries such as Ireland and Spain, the decline in the unemployment rate that, according to orthodox theory, does not result in accelerated inflation (NAIRU) in most of the OECD, and so on. However, falling unemployment in Spain and Ireland had only reduced it to levels similar to those prevailing during the crisis of the 1930s, in both cases, above 20 per cent. Although the OECD considered that progress had been achieved, it also recognised that there were problems in the quality of jobs because the intensity of labour and worker insecurity had increased. How could labour in the world come to be in this situation?

The United States is a good example of labour precarisation in rich countries. The term 'walmartisation' was coined there to refer to labour hired under low wages, poor benefits, and no right to form trade unions.4

Figure 15.1 shows how average wages in the United States have been brought to a standstill since 1964. Productivity increased significantly since then, but inequality among employees has increased, resulting in the impoverishment of many working families in the most advanced capitalist country in the world.

Income inequality in the United States in 2000 was as high as in the 1920s, with households in the highest 5 per cent income bracket earning six times more than those in the lowest 20 per cent bracket. In 1970, the ratio was only four times. Research by Paul Krugman (1992)5 suggests that 70 per cent of the total income increase in the 1980s ended up in the hands of the richest 1 per cent of households. As to the wealth in the United States, in 1995, the top 1 per cent owned 42.2 per cent of the shares, 55.7 per cent of the bonds, 44.2 per cent of the trust funds, 71.4 per cent of all non-corporate companies and 36.9 per cent of non-housing real estate. This unevenness has grown since then (Yates 2004).

One of the main priorities for neoliberalism was to lift the rate of return of capital (the ratio between earnings and total capital), which had declined since the end of the Second World War. For example, in the 1950s the average rate of return in the United States was around 20 per cent, and in the early 1980s it was only 6 per cent. In order to raise the rate of return, neoliberal governments imposed severe wage contraction and cuts in government spending, especially social spending. Before the 1980s it was not easy to reduce wages in the United States, especially nominal wages, but it has become much easier to do this since then. In 1982, in US

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4. The term 'walmartisation' refers to the practice of hiring low-paid workers in large retail stores like Walmart.
5. Paul Krugman's research suggests that the majority of income gains went to the wealthiest Americans during the 1980s.

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Figure 15.1 Average hourly earnings in the United States (total private) (source: author's elaboration based on the Economic Report of the President 2008).
industry as a whole, 36 per cent of the workers agreed to have their wages fixed or reduced during their contracts; this included 43 per cent of manufacturing sector workers and 23 per cent in non-manufacturing industry. In 1987, after a five-year period of growth, 15 per cent of the workers had their contracts renovated without a wage rise (Economic Report of the President 1988: 79). Two emblematic industrial conflicts help to explain why real wages could be cut: the air traffic controllers’ strike in the United States in 1981, and the coal miners’ strike in Great Britain in 1984–5. The air traffic controllers’ strike ended in August 1981 when 11,000 union members were fired and their leaders were imprisoned. The coal miners’ strike was defeated, and the entire industry was rapidly closed down with the loss of almost every single coal-mining job in the country. Real wage cuts and higher capitalist earnings have been two of the most remarkable achievements of neoliberalism around the world, as Dumênil and Lévy (2004) have conclusively shown.

Neoliberalism in Latin America

Between 1950 and 1980 the labour force grew very rapidly in Latin America. This has often been compared to its growth rate in United States during the period 1870–1910, as shown in Figure 15.2.

It is noticeable that population growth in Latin America was faster than the growth of the labourforce, while the opposite was true in the United States. Obviously, this is because of the exceptionally rapid growth of the migrant labourforce in the United States. It is also noteworthy that a significant share of Latin American jobs were precarious (underemployment or informal employment), or low productivity jobs (Garcia and Tokman 1984: 106). Research by UN–ECLAC shows conclusively that underemployment grew as fast as formal employment between 1950–80 (Couriel 1984). In 1980, 42 per cent of the Latin American labourforce was underemployed, while in 1950 46.1 per cent were underemployed.7 In the 1970s, 40 per cent of the Latin American population lived in poverty and were considered to be undernourished. There is a clear link between underemployment, undernourishment and poverty.

In the 1980s, a time known as the ‘lost decade’ in Latin America, the region’s GDP per capita declined, on average, by 0.9 per cent per year. Inflation skyrocketed: around 1986, three out of every four Latin American countries had annual inflation rates above 30 per cent. Behind these problems there were high interest rates and trade imbalances, along with unpayable foreign debt. Between 1970 and 1979, the Latin American foreign debt increased from US$19 billion to US$166 billion. It continued to grow in the 1980s, reaching US$360 billion in 1984. This explosive growth was due to the abundance of credit, while countries had to go into debt in order to finance their current account deficits and pay interest on their accumulated balances.

Crisis occurred when these countries were unable to service their debt, and had to be rescued by International Monetary Fund, which required significant policy changes from the debtors in exchange for its credits (conditionality). Initially most Latin American countries were forced to reduce government spending, which helped to raise the average rate of unemployment in the region to nearly 9 per cent. This labour market shift helps to explain the decline of real wages and the growing share of precarious jobs among the new posts created in the region in the 1980s (Weeks 1999).

Later, especially during the 1990s, a raft of neoliberal policies were implemented across the region: trade and capital account liberalisation, domestic financial deregulation, widespread privatisations and tax cuts for firms and the higher income brackets, supplemented by higher indirect taxes such as VAT.

The neoliberal reforms were called ‘structural’ and, although they were implemented at different times, in different orders and with different intensity in each case, they were always intended to address the obstacles to growth posed by foreign debt and inflation.8 For example, it was argued that protection for local industry between 1950–80 favoured the adoption of techniques intensive in capital, which contributed to the persistent unemployment in the region. Consequently, trade liberalisation and the entry of foreign investment would help to create more and better jobs. However, Figure 15.3 shows that the unemployment rate in Latin America rose after the reforms:

![Figure 15.2 Latin America and USA population and labour force growth (source: author’s elaboration with data from Garcia and Tokman 1984).](image)

![Figure 15.3 The unemployment rate in Latin America (%) (source: author’s elaboration with data from CEPAL, Estadísticas e Indicadores Sociales).](image)
The last decade and a half has witnessed profound changes in Latin America’s labour market. Growth in gross domestic product (GDP) per capita has been slower than in developed countries, as a result disparity in income levels has deepened, and the labour force has continued to grow at a relatively fast pace. Additionally, the changes brought about by democratisation, economic stabilisation, and globalisation have disrupted the traditional patterns of integration through public and formal employment without producing an alternative channel of social integration through the labour market. And even though unemployment surged to very large numbers in only five countries in the region during this time period, increasing informality and a slow rate of wage growth mean that most jobs being created are ‘bad’ jobs that are precarious and low-paying.

(Inter-American Development Bank 2007: 85)

The reality is even worse than official reports suggest. For example, according to UN–ECLAC Mexico is one of the countries that have attempted to address poverty most consistently recently. In 2003, urban unemployment in Mexico was 3 per cent, the lowest among the countries in Latin America and the Caribbean. However, 25.3 million workers out of 41.1 million in the country had no benefits such as medical care. This contributes to explain the poor nutritional and health standards of the population. According to Adolfo Chávez, researcher at the National Nutrition Institute, the prevalence of malnutrition in the country has remained unchanged in the last 15 years. In many counties, malnutrition is as severe as in some of the poorest African countries, and it potentially affects 50 million Mexicans across the country, as stated by Norma Bellino, local FAO representative.

If more than half the workers have precarious employment in one of the richest countries in the region, it is not surprising that in poorer countries precarious employment affects an even larger share of the workforce. This suggests that the employment situation in Latin America and other parts of the underdeveloped world cannot be explained as part of a painful but necessary path towards ‘development’, because it has tended to deteriorate further even as countries become richer. From China to Argentina, and from South Africa to South Korea and India, precarious employment has been encroaching in all regions of the global South. Growing numbers of workers, once organised, are being pushed towards increasingly insecure and precarious jobs, having to struggle to secure minimum standards of subsistence, and without the benefits and security that were once available to them. After more than 20 years of the neoliberal reforms, unemployment and precarious employment are still central problems for the working population.

Explanining employment problems in underdeveloped countries

The first cause of the employment problems outlined above is the type of growth in underdeveloped countries. Just as during the lost decade in Latin America, firms have been hiring fewer workers because they are growing slowly. In the 1980s, many countries in Latin America had to assign a larger share of their output to service their foreign debt, since both interest rates and the amount of debt had increased. Even in countries experiencing rapid growth, such as China and India, precarious employment is not declining as rapidly as should have been expected because of rapid productivity growth in these countries.

Productivity growth is one of the features which make capitalism strong. Usually, firms that manage to produce at lower cost than their rivals earn higher profit rates, grow faster, and tend to prevail on the market. Lower costs usually mean producing with less labour per unit of output. This does not necessarily mean that there will be spare workers because, as productivity rises, more can be produced or a shorter working day may be sufficient to produce the same quantities of goods and services. Capitalism fights the reduction of the working day, and always prefers to produce more per worker.

In 1960, General Motors’ (GM) global assets were worth US$8.5 billion dollars. The firm had 595,000 workers, or a capital–labour ratio of US$14,300 per worker. In 2005, GM had only 327,000 workers, and its capital per worker had risen more than 100 times, to US$1,453,000. The firm was producing more, and increasingly complex, automobiles, with much less workers. The computing power of a modern car is similar to that in the lunar module of the Apollo 11. What has happened in the auto industry has also occurred in manufacturing sectors around the world, to the extent that manufacturing employment has decreased in absolute terms despite the growing abundance and sophistication of the goods available for sale.

This type of productivity increase was anticipated by Marx when he stated, in his General Law of Capitalist Accumulation, that capital should grow more rapidly than labour and, in so doing, capital tended to dominate labour. For Marx, capital is due to the surplus extracted from the workers by the capitalists; as it grows faster than the workforce it can restrain them and control wages. Unemployment is produced by capitalism, as it achieves productivity increases requiring increasing amounts of capital per worker. In order to control wages and restrain the workers, capital uses not only the unemployed but also precarious labour due to their low wages and poor working conditions. When workers are said to be too demanding, capital can always replace them with its reserve army of spare workers among the unemployed and precarious workers. If the size of the reserve army is sufficient, discipline and wages are controlled by capital; however, if it is too large capitalist expansion is hampered, but there is nothing to force capitalism to absorb all the exploitable workforce. Thus, capitalism raises productivity in such a way that it makes part of the working population unnecessary. Those expelled workers, even if they get to be re-hired, will have been through an instructive experience. They are not necessary for capital, but they cannot live a dignified life without work: capital is vital for them, but not the other way around. Today capitalism is characterised by an enormous amount of spare labour. This is the case all over the world, but in underdeveloped countries it is even more serious because the progress of capitalism has destroyed employment in agriculture without creating industrial employment as fast as it did in the rich countries.
To fully understand the differences in growth in different countries let us assume that there is only one company in the studied branch, and being in an underdeveloped country a considerable amount of its means of production must be imported. This simplification leaves aside rivalry between branches. Because of their need to import means of production, especially machinery, underdeveloped countries must export goods that cost more due to their backward condition. This can only be explained with the Marxist theory of value. This theory holds that capitalist society needs to organise social labour and so it requires counting how much labour is used in production. Capitalism does this calculation through prices that measure how much labour society spends in the production. Such measurements are made in an approximate manner and without letting producers and consumers know. Several functions are accomplished in measuring spent labour. One of great consequence is establishing how much of each product can be consumed: if a product costs ten times more work than another one it can be consumed ten times less. This is an objective fact, so if prices do not reflect cost variations capitalism is not working well.

This point can be illustrated by reference to two countries, Argentina and the United States. Take the price of a 2009 Chevrolet Aveo. In Argentina, this car costs between 48,000 and 60,000 pesos; at the February 2009 exchange rate, this is equivalent to US$13,500–16,900. In the United States, the same car costs between US$12,000–15,400. Their prices are similar (differences may be explained by differences in transportation costs and tax regimes). However, the GDP per worker is very different: it is between three and four times higher in the United States. This implies that average productivity in Argentina is between one-third and one-fourth of average productivity in the United States. A Chevrolet Aveo is much more expensive in labour terms in Argentina than in the United States, despite its similar price in dollars. Similarly, means of production imported by Argentina will cost several times more in labour terms than in the United States, even if they have similar prices. Obviously, it will be more difficult to obtain the necessary means of production to absorb the labourforce in Argentina than in the United States. An underdeveloped country that imports means of production, even if local prices correspond to world prices, will normally pay more for them in labour. This hinders labourforce absorption and productivity growth.

Conclusion

Apologists of the system argue that, thanks to capitalism, ‘we are all slowly walking towards utopia’, an expression coined by J. Bradford De Long, an economist at the University of California, Berkeley, who also said that the entire world is slowly but surely advancing towards the lifestyle of the US middle class. This statement contradicts all the evidence available. Capitalism could never fully exploit the available labourforce in Latin America, and perhaps in the entire periphery. A large number of workers were left outside the capitalist sphere as autonomous labour; another significant share is subject to capitalist relations but this cannot be successfully reproduced because they are employed in unprofitable firms. This is almost impossible to change, if we consider what has happened in rapid growth countries such as China, where most new employment remains precarious.

Under neoliberalism, many workers in the so-called developed countries have been falling into precarious employment. Around the world, there is a race to the bottom of labour standards, and every worker has been told to ‘reduce your standard of living, renounce your victories, because that is the only way to keep your job’. If what has been happening for years adds to the current world crisis which will surely reduce workers’ standards of living, the only possible conclusion is that capitalism does not offer an acceptable future for workers.

Notes

1 Faculty of Economics, Universidad Nacional Autónoma de México.
2 See FAO (2008a: 2).
3 Their earnings are less than two US dollars per day (ILO definition).
4 Looking at the period between 1992 and 2000, we find that the opening of a single Wal-Mart store in a county lowered average retail wages in that county by between 0.5 and 0.9 percent. In the general merchandise sector, wages fell by 1 percent for each new Wal-Mart. And for grocery store employees, the effect of a single new Wal-Mart was a 1.5 percent reduction in earnings. When Wal-Mart entered a county, the total wage bill declined along with the average wage. Factoring in both the impact on wages and jobs, the total amount of retail earnings in a county fell by 1.5 percent for every new Wal-Mart store. Similar effects appeared at the state level.

(Dube et al. 2007: 1).
5 Quoted by Yates (2004).
6 ‘In general terms Latin America does not seem to move away from the model followed by countries which are now developed’ (Garcia and Tokman 1984: 106). It is noteworthy that these comparisons often ignore significant differences between the United States and Latin America. For example, the significant technological innovations in the United States, such as the telephone, the lightbulb, and so on.
7 Data from Couriel (1984: 39), considering rural unemployment as own-account labour and unpaid family workers. Urban unemployment includes these categories but not professional and technicians.
8 It was assumed that reforms would result in ‘a greater efficiency at a microeconomic level, better use of scale economies, and a moderation of stagnation and progress cycles (stop-go) stemming from scarcity of foreign exchange’. And ‘that in eliminating distortions originated by the imports substitution model, more employment would be produced, especially for non qualified workers’ (Stallings and Weller 2001: 193).
9 Quoted by Yates (2004: 1).

References

Neoliberal Central Bank policy

Throughout history Central Banks had a dual role: economic development, and stabilization of the currency (in the past referred to as protection of its value). Central Banks were strongly influenced if not controlled by the government, had the goals of financing governments, managing exchange rates and promoting development, including sector-specific development, and used direct methods such as directed credit allocation to promote development. As the neoliberal model of capitalism has come to dominate capitalist ideology and practice over the last 30 years, it has brought with it a fundamentally new model of central banking. This neoliberal Central Bank model is characterized by Central Bank ‘independence’, inflation suppression (with or without a formal inflation-targeting policy) as its central if not single goal, and the use of short-term interest rates (an indirect and non sector-specific tool) as its dominant policy tool.

Neoliberal Central Bank policy can be thought of in this framework in two different ways. These extensively overlap, but they are not equivalent. On the one hand, neoliberal Central Banks can be considered to have abandoned the goal of development in favour of the goal of monetary stabilization, which they take to mean low and stable inflation. This is the way heterodox critiques often present the present conduct of Central Banks, and they then call for Central Banks to reclaim their abandoned role of developing the economy. On the other hand, neoliberal Central Banks can be considered to have continued their policy...