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The Post-Washington Consensus: The market disconnect and the public reconnect

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Introduction

After the protests in Seattle, Prague, Washington and Windsor, popular and national sovereignty have once again become powerful forces on the global stage. These agenda-setting fundamentals challenge the Washington Consensus goals and objectives of zero inflation, broadening market access and promoting privatization. The mood swing today is away from reliance on narrow market-led strategies and one of the casualties of this move is that the Washington Consensus is no longer a 'framework agreement' supported unqualifiedly by policy makers everywhere. Significantly, even John Williamson, who first coined the term, has criticized this neo-liberal framework of public policy-making as inappropriate and too rigid for developing countries. Its largest failure is that it has not produced the growth and jobs expected (1999). Williamson is not alone. Other mainstream economists, such as Joseph Stiglitz, Dany Rodrik, Sylvia Ostry, John Helliwell and Paul Krugman, have also questioned the appropriateness of market fundamentalism as the developmental strategy for southern countries. After close to two decades of triumphant market policies, new economic and social fundamentals for a different kind of consensus are needed to manage the global economy (World Bank 2000).

So far, two contending reform-minded agendas have emerged. The first is not all that different from what currently exists and could be called simply the Washington Consensus with a human face (World Bank 1997). Its goals include poverty reduction, improving equity and building socially inclusive societies in the developing world rather than narrowly market oriented ones. Adding hot-button words, such as civil society, capacity building and transparency, is

important but the basic problems remain unaddressed. There is no recognition of the basic incompatibility between the old policy instruments of structural reform and the new equity outcomes espoused by the Washington Consensus reformers. In their rush to give the Washington Consensus a human face, the reform-minded elites have not absorbed the lessons of the past decade, which suggest that poverty is part of a low growth cycle. When markets underperform, public authority does not have the resources at its command to ensure sufficient growth levels. Higher levels of growth require massive capital inflows but when interest rates remain in the doubt digit range, the first casualty is domestic growth. A good example of developing countries trapped in a long-term poverty cycle are the Latin American countries that cannot attract the foreign capital that they badly need and do not have the domestic resources to finance their own development (ECLAC 2000). As long as zero inflation goals define the macro-economic framework of good governance as laid out in the original, if now dated Washington Consensus, the rules and norms that underpin the present order are largely unchanged (Drache 2001). Paradoxically, the onslaught against the triumph of markets comes at a time when the triumph of market liberalism has converted the boardrooms and economic ministries around the world to its singularity of focus. Yet the free trade gospel no longer appears to be winning public opinion to its side. The new agenda pushed by civil society's social activists is that globalization requires a new model of governance without which international civil society lacks a defensive shield against market intrusiveness (Higgott and Phillips 2000).

The beginnings of change in public policy discourse is marked but still uneven, compared to the clear-headed if not simplistic goals espoused by the Washington Consensus benchmark. At present, the second agenda starts with the compelling view that global governance requires bar-raising standards of all kinds. These demands are front and centre on civil society's agenda,

including environmental and human rights, and labour and financial standards, such as closing off-shore tax shelters and holding corporations accountable for their investment decisions. The new expectations are that global public goods must be provided adequately and social protection must be accorded to the most vulnerable members of the world economy. If the line between the market and public domain is to be effectively redrawn to include these bar-raising standards, a large-scale reform of the institutions of global governance is required (Picciotto and Mayne (1999).

This paper responds to two compelling concerns: why have the zero inflation goals entrenched in the Washington Consensus framework proved to be counterproductive, if not self-defeating, even when the world's economy is more open than ever and trade barriers of all kinds have fallen? Once we see how the fundamentals of the Consensus are being challenged by new research about the asymmetrical effects of trade as a motor of growth and prosperity, a second concern emerges. With the crisis of markets, new trade rules, which provide collective goods and social protection as well as recognition of the critical place of the public domain in a modern notion of governance, are needed. The world's trading system requires a larger framework in order to provide an adequate level of access to the collective entitlements of society—to the resources shared in common. In Charles Taylor's term, the global politics of mutual recognition requires a strong public sphere as an essential element of democratic governance. The difficult but relevant question is, can the world's trade system be uncoupled from the programmatic reforms of the Washington Consensus so as to redraw the line between trade, investment and human development in an adequate fashion? This is a large and complex issue but the paper suggests some grounds for optimism are in order.

Table 1 The Elusive Goal of Trade Convergence in the World Economy **The Degree of Openness For Select Countries in %**									
Countries	**Degree of Openness of Economy**			**Import Penetration of Internal Market**			**Exports as a % of GDP**		
	1980	**1990**	**1998**	**1980**	**1990**	**1998**	**1980**	**1990**	**1998**
Germany	28.7	30.8	25.7	28.7	32.1	25.6	28.5	36.4	25.8
Argentina	8.0	7.5	11.7	9.0	10.6	12.7	6.7	19.7	10.4
Australia	17.4	17.1	20.7	13.7	14.8	21.1	17.0	16.3	19.8
Brazil	10.0	6.8	8.9	10.8	5.6	9.9	8.9	7.2	7.6
Canada	27.4	25.4	40.6	26.9	24.9	40.4	28.3	25.2	41.3
China	n.d.	15.7	20.1	n.d.	18.0	18.6	n.d.	20.1	22.3
United States	10.4	10.4	12.2	10.7	11.1	12.8	10.2	9.9	11.3
France	22.1	22.5	24.7	22.5	22.7	24.0	21.5	22.6	26.0
India	8.3	8.4	11.9	9.7	9.1	13.0	6.6	7.5	10.4
Indonesia	26.1	26.3	46.9	24.2	25.2	44.2	29.7	25.9	40.6
Italy	21.9	18.8	23.1	23.0	19.6	22.2	19.8	19.2	24.7
Japan	15.3	10.3	10.1	15.6	9.4	9.3	14.9	10.7	11.1
Mexico	13.0	16.1	32.2	13.4	13.5	32.5	12.6	19.7	31.3
United Kingdom	26.1	25.5	27.3	25.6	26.5	27.5	27.2	24.8	26.9
Thailand	27.2	37.7	45.4	28.3	40.8	45.2	24.5	36.8	46.9

Source: OECD 2000; WTO 2000; Simao Davi Silber, 2000.

The contradictory effects of competitive markets

Contrary to conventional wisdom, the Washington Consensus has failed to create a one-size-fits-all policy model. It was never meant to be the Ten Commandments of public policy. It was only the beginning point for change, not a final goal. The Washington Consensus was a set of principles used by the elites as an authoritative benchmark but was without a clear definition of priorities (Naim 2000). It was intended to be a moving consensus that could be adapted to different conditions. Countries were free to choose how to implement its different goals and priorities in the same way Keynesian goals were adapted to sharply contrasting national realities. Few countries embraced full employment objectives as a rigid rule of policy-making. Similarly, zero inflation targets were interpreted with marked variation. The US goal was a three-percent inflation rate, while the Bank of Canada fixed on zero-percent resulting in an unemployment rate nearly twice the US target level.

While the Consensus defined benchmark goals of macro-economic management for all governments, few anticipated the increasingly divergent outcomes, which resulted when national needs and institutional practices asserted themselves. In Latin America structural adjustment programs became the norm of the Washington Consensus (Ramonet 2001). In Canada, while there was no need for structural adjustment of finances the government did embark on a program of sharp and prolonged deficit reduction between 1993 and 1998. Canada reduced its rather middle of the road deficit of seven percent of GDP more sharply and quickly than any other G-7 country did. Compared to other jurisdictions such as the UK, New Zealand and Australia there was no wholesale privatization movement in Canada, but there was a massive sell-off of state enterprises provincially and federally. Canada was not subject to the worst kinds of IMF conditionality that many developing countries faced when seeking badly needed loans to reduce

their debt burden. Still without being forced to do so, Ottawa retrenched social and health transfer payments cutting deeply into the social safety net. In the absence of agreement on goals and outcomes, the hollowing out of public authority has been dramatic with state authority being diffused downwards, sideways and upwards, and the leakage of power pronounced. So, even though there has been no wholesale convergence to the 'less state less tax model,' as predicted a decade ago, the benchmark of good governance has been redefined by the exigencies of trade openness (TD Economics 2001).

Despite acceptance of the broad framework of the Washington Consensus, integration into the world economy and the benchmark of competitive markets has produced not less but more contradictory effects, even amongst industrialized countries with highly developed economies. Even the simplest idea that economic integration is the universal trend line is wrong. Economic integration, despite the formation of trade blocs, remains partial and uneven. Many countries are less integrated than previously, according to conventional measures. Germany's degree of trade openness, measured by the standard economic criteria of imports plus exports, actually declined from 1980 to 1998—28% to 25.7%. Argentina's economy shared little in the competitive drive to acquire new markets during the same period yet rose from 8% to 11.7%. The United States, the defender of global free trade, saw its trade openness rise minimally from 10.4% to 12.2%, hardly the success story of global forces at work. To make matters more complex, Japan was more trade dependent in 1980 at 15.3% than in 1998 at 10.1%. If globalization is such a universal force, why is Japan, one of the world's leading trade nations, seemingly moving backwards? (See Table 1: The Elusive Goal of Trade Convergence in an Open Economy).

By conventional measures, the Canada-US model has been a commercial success.

Canada has been a leader in embracing global free trade, first with the Canada-US Free Trade Agreement, signed in 1988. Five years later, the far-reaching North American Free Trade Agreement (NAFTA) with Mexico and the US created the largest free trade area in the world. Yet Canada's core competitiveness has been eroded directly and indirectly by the general framework of the Washington Consensus and the Canadian economic recovery, post-94, was driven by the US business cycle, rising commodity prices for Canada's energy products and a devalued dollar. Living standards in Canada declined sharply, as trade liberalization gained momentum. Canada's real GDP per capita income in 1980 was almost 90% of GDP in the US, by 1999 it had dropped twenty points to 70%. This is an impressive statistic because it attempts to measure living standards converted at 1995 purchasing parity exchange rates and there is little evidence that opening Canada's economy and relying on exports has transformed the economy in ways that global free trade predicted (Helliwell 2000).

Significantly, among OECD countries, Canada achieved its best ranking in real GDP product per capita prior to 1990. Since the two trade agreements have come into effect, Canada has fallen from 4th to 7th place among OECD countries. What no free trade theorist can explain is why Canada made its greatest strides when the economy was less open and its trade was less concentrated on the US. Over the past fifteen years, Canada's economic performance measured by percentage change in real GDP per capita growth has been 4th last among OECD countries. Canada ranks just behind Greece but ahead of Sweden, New Zealand and Switzerland. Canada's fifteen year compound annual growth rate was only 1.61% and its fifteen year cumulative growth rate was 27.0%, compared to the US, its best trading partner, with a 39.7% cumulative growth rate and a 2.25% compound annual growth rate.

This evidence raises troubling questions about the adequacy of free trade theory,

particularly its belief in the automatic benefits that accrue from integration into the world economy. Many of the gains appear to be ideological rather than structural, as the promise of dynamic efficiency gains, cheaper goods and job creation have not materialized as trade theory predicted. Certainly there is no template operating at the international level (Gilpin 2000). New Zealand's Labour government, a flag-bearer for neo-liberalism, carried out the most radical reforms of state-market relations, yet had the lowest compound annual growth rates of the last fifteen years at 1.1%. Sweden did not do much better than New Zealand at 1.3% but maintained most of its social market welfare state programs with a full commitment to an export-led economy. These numbers raise troubling questions about the framework of the Washington Consensus that its vigorous supporters cannot answer with credible data.

Table 2: Population living below US $1 per day in developing countries 1990 and 1998

	Number of people below US $1 a day (millions)		Poverty Rate (%)	
	1990	1998 (estimate)	1990	1998 (estimate)
East Asia	452.4	278.3	27.6	15.3
Excluding China	92.0	65.1	18.5	11.3
South Asia	495.1	522.0	44.0	40.0
Sub-Saharan Africa	242.3	290.9	47.7	46.3
Latin America	73.8	78.2	16.8	15.6
Middle East/N. Africa	5.7	5.5	2.4	1.9
Europe and Cent. Asia	7.1	24.0	1.6	5.1
TOTAL	1276.4	1198.9	29.0	24.0

Source: World Bank. Global Economic Prospects and the Developing Countries 2000. (2000).

The reality for many countries is that the benefits of participating in the world economy have been distributed asymmetrically (Myrdal 1957). Frequently, the costs of import penetration outweigh the benefits of increased exports. More jobs are lost than gained and factory closings multiply. For many countries, investment and technology flows from the modernization of the economy and industry did not occur or occurred too weakly. Instead of a dynamic comparative advantage, global free trade frequently results in the reinforcement of existing trade specialization in primary products or low value-added exports. Far from moving up-market, in terms of value-added goods and services, the free trade effects are very different from the theory's promise (Ostry 1998). In many developing and First World economies, the stress on competitiveness and market access has resulted in deepening the existing division of labour, which is often of a low value-added, traditional kind. What can be said with an absolute degree of certainty is that free trade has proven to be a poor substitute for strategic trade policy or for addressing the problems of development more generally (Greider 1997).

In Latin America, Asia, and Africa, the idea of competitiveness, mixed with the zero-inflation targets of the Washington Consensus has proven to be a failure. Latin American countries have seen per capita incomes drop, unemployment soar and productivity falter (Mattoso 2000). Even though many Latin American countries have a surplus in their primary account, they have been unable to attract sufficient volumes of capital inflows because they cannot pay the high-risk premiums that bankers demand. Interest rates have to come down if countries in the developing world are to break this cycle of integration and exclusion. Where public authority has been unable to bring interest rates down to the levels needed to rekindle investor and consumer confidence, the high interest rates continue to keep growth rates low. The

disappointing GDP figures for Latin America demonstrate just how inadequate the existing framework is. A recent Economic Commission for Latin America and the Caribbean (ECLAC 2000) report emphasized that GDP growth needs to be about twice the existing levels for countries such as Brazil, Mexico and Argentina.

Trade and social exclusion

There is a new understanding among experts that the spread effects of globalization are uneven and contradictory. Particularly for developing countries, global free trade has strong exclusionary features. In the 90s, as the industrial world enjoyed an unprecedented boom of growth and prosperity from trade and investment flows, the number of people living on US $1 a day fell only marginally from 1.3 billion in 1990 to 1.2 billion in 1998. This slight reduction was offset by a disturbing trend, namely that the number of people living on less than US $2 a day rose from 2.7 to 2.8 billion in the same period (Ben-David 2000).

Countries that did the best in poverty reduction, such as those in East Asia, were significant exporters with strong national economies, well-developed institutions and a large role for the state. In Latin America, North and sub-Saharan Africa, and the Middle East, where state structures and policies are weak and underdeveloped, poverty rates remain unacceptably high. In European and central Asian countries, where state institutions experienced severe crises during the transition from socialism to a market economy, poverty rates exploded rising from 7 million to 24 million between 1990 and 1998 (Chen and Ravallion 2000).

Economists now understand that poverty is significantly affected by economic growth, particularly when countries export a large share goods and services. The poor may actually experience an average growth in income as inequality rises. While it appears perverse, there is a

trade-off between poverty reduction and increasing inequality.

Per capita incomes are not only influenced by trade liberalization. They are also influenced by technological change, investment patterns, changes in relative productivity, and particularly, changes in institutional conditions, for example the role of trade unions in setting the terms and conditions of the contract between workers and employers.

The intellectual ideas behind the Washington Consensus have been discredited because markets continue to be poor allocators of resources and have a persistent history of underperforming. In the 60s during an earlier period of unprecedented trade liberalization, the average per capita income gap between the twenty richest countries in the world was fifteen times that of the poorest. Over the last forty years, this gap in per capita incomes for the poorest twenty countries has hardly changed at all.

In a recent examination of the impacts of globalization, the World Bank (1997) acknowledged that trade opening can lead to increased macro economic instability for southern countries. As Dany Rodrik argues, the primary reason for this is that increased openness reduces governments' ability to raise revenues because the 'mobile' factors, such as capital and labour, that make countries competitive can no longer be taxed readily. So even though tariff rates tumble, government revenues fall precipitously. With constrained revenues, developing countries have to curtail expenditures on so-called non-essential trade programs, such as social and other poverty alleviating policies (Rodrik 1997). Frequently new taxes are levied on staples and other goods; the burden of increased taxes weighs more heavily on the poor. The suggestion that there is a tight fit between structural adjustment, stabilization, liberalization and poverty has a stronger historical basis in fact than is commonly recognized. The poorest countries have become poorer still with negative per capita income growth. It is forecast that without fundamental changes in

the world trading order, income disparity in the world will double in the next century and a half.

For poor and developing countries, this is the bicycle theory of economic progress in reverse: the more a country peddles, the farther behind in the pack it finds itself. There is a great deal of empirical evidence that in countries with a surplus of labour and no enforceable minimum wage, trade liberalization destabilizes the existing wage structure, most often downwards. The chain of reaction is often pronounced. Without an enforced minimum wage, wages on the formal side of the economy rise only with difficulty. While wages in the informal sector, which are often below poverty levels to begin with, fail to rise above very low subsistence levels.

A recent study from Brazil's trade unions, examined the impact of trade liberalization on the Indian manufacturing sector (Mattoso 2000). Contrary to the fundamentals of Washington Consensus neo-liberal principles, it found that although employment in the formal manufacturing sector grew faster after trade liberalization in the mid-90s—doubling from 3.8% to 9.5%—wages fell. Equally disturbing, employment in the informal manufacturing sector suffered a decline. Given that the formal sector in India accounts for only 1.3% of the work force, the decline in the informal sector far outweighed the increase in formal employment. Such evidence demonstrates again that the current model of global free trade undermines the ability of governments to protect the most vulnerable members of society from the negative effects of globalization and IMF conditionality.

The over-reach of the Washington Consensus

So far, international efforts to mount a sustained program towards poverty alleviation have failed. Many trade reforms negatively affect government revenues because the burden of

cutting government expenditures, in the name of becoming more nationally competitive, inevitably falls disproportionately on the poor and expenditure cuts directly and indirectly contribute to falling aggregate incomes. In many countries with leaky tax systems, raising revenue from the poor is easier to manage than increasing the tax burden on the rich. In other instances, reforms have had many unintended consequences, as people have been encouraged to switch their economic activity from the non-market to the competitive side of the economy. In this instance too, strengthening domestic performance may be more beneficial to low- and middle- income groups than channelling resources to the export sector. New economic activities are often riskier than established ones. A principle characteristic of labour markets in developing countries is that in the absence of adequate institutional arrangements there is no causal link between employment growth and increased wages (Stiglitz 1999).

Furthermore, whether or not the Washington Consensus has contributed directly to the growing income gap between countries is a mute point. Certainly the weight of the evidence shows that is has had strong indirect effects that are real and impact negatively on incomes and the standard of living of those at the bottom of the wage pyramid. The more pressing issue is that asymmetrical gains from trade between the North and South have had a major impact on income divergence. Dan Ben-David's study of the disparity gap among nations convincingly demonstrates that the poorest group of countries had the largest relative income gap in 1960 and this worsened over the next four decades. Middle income countries experienced the second largest income gap and this too diverged over time. The poorest group included eighty-two countries with 25% of US income as the dividing point, while the middle income group of fifteen countries had a cut-off point of 60% of 1960 US income. Only sixteen countries, mainly the OECD club, exhibited strong divergence in per capita income and even then, as we saw earlier in

terms of Canada-US Canada's per capita income has declined significantly after signing two free trade agreements (Ben-David 2000). These numbers underscore the reality that Southern countries need to grow as fast as trade race leaders if they expect to catch up to it.

Finally, while the Washington Consensus set a new standard of fiscal conservatism that required many governments to reduce their large and costly deficits, the prospects for sustained recovery with higher levels of growth remain uncertain. The case of Brazil is typical of the glass 'half-full' or 'half-empty' syndrome. The Brazilian economy has outgrown the rate of inflation for the first time in fifty years, with growth forecast at 4.5% and inflation holding steady at 4%. Yet even with the prime-lending rate falling to the lowest level in fifteen years, it is not clear that Brazil, and other countries in similar situations, are entering a virtuous cycle of growth based on "strong fiscal adjustments".

Under the Washington Consensus rules, many countries reduced nominal deficits drastically but debt obligations were not reflected in the official statistics. International finance is not fooled by this sleight of hand accounting ruse. Heavy debt loads weigh on a country's sovereign credit rating and growth potential. In the case of Brazil, obligations such as the workers savings fund and the government mandated mortgage guarantee fund amount to 10% of GDP (Colitt 2001). So, while the fundamentals appear to be in Brazil's favour, the reality is the country remains as dependent on foreign capital as ever and is no less vulnerable to external shocks.

Evidently the stabilization goals of the Washington Consensus are not sustainable for an extended period of time once they are achieved. The volatility of the global economy makes this impossible. So far, Brazil's trade deficit has been absorbed by its floating exchange rate. Direct foreign investment is expected to fall, from approximately thirty billion last year to 23 billion

this year, creating a large and growing current account deficit. Present thinking suggests that Brazil has to create a protective shield against external vulnerability. This would include tighter controls on capital, more export incentives and an effort to increase domestic reserves with higher savings. All of these defensive developmental strategies require 'a more state and more tax' strategy, not less as advocated by Washington Consensus ideal policy prescriptions.

The public domain: A unique public sanctuary for governance

The Washington Consensus fundamentals are not working to raise the living standards of all. There is a crisis, not only about the shortfall of the market and its performance, but more fundamentally, on the most basic of issues, namely, what goods and services should be delivered by public authority and what should be delivered privately. Conceptually, policy-making is impoverished because few public authorities continue to believe in the 'big state hypothesis' that governments can and should do everything. The most pressing issue is that public authority lacks the confidence and mind-set to address larger issues. It has become locked into a middle-management mentality with no larger vision or capacity for leadership. At the same time, markets have proved to be a dismal failure in supplying adequate levels of public goods and services and in protecting the social bond from wanton market intrusiveness.

As the goals and values of global free trade are more contested than ever, countries everywhere need to rethink the role of the public, those goods and assets, which are owned in common and not traded on the open market. It is here that the older notion of the public domain is crucial. In the words of Jacques Attali, states and civil society require large sanctuaries outside the reach of the price system. The public domain should not be used interchangeably with the public sector, with which it is often confused, nor should it be limited to the provision of public

goods, a staple of modern liberalism and development economics. In the primary sense of the term, the public domain is about the resources carved out of the market, which empower and transform both state and non-state actors (Drache 2001). Civil society, a term much in vogue these days, refers to the social relations which are separate from the state and underlie democratic institutions. The public domain is about *the resources and the institutions of empowerment* that civil society has need of if it is to be a vital free-standing force.

The Elusive and Contradictory Gains of Global Trade Liberalization for Southern Countries	
Tariff Reduction	The beneficial spread effects from tariff reduction are much less for developing countries than predicted because the adjustment costs for unskilled and low income families are difficult to control and manage without strong minimum wage guarantees and other redistributive provisions.
Job Creation	In many developing countries, trade liberalization results in job creation but wages move negatively and the trickle-down effects are not sufficient to compensate for increases in the prices for basic necessities. Evidence shows that job creation is mixed with traditional sectors losing but modern sectors unable to provide sufficient levels of job creation.
Poverty	Trade theory has butted heads against the reality of growing income inequality and trade theory has come out the loser. Many studies demonstrate that even when developing countries economies demonstrate strong growth by conventional standards, income divergence increases and poverty, both relative and absolute, is a result.
Comparative Advantage	Comparative advantage can be measured in a variety of ways but the most important is to demonstrate whether it remains static or functions as a dynamic with respect to the composition of exports, as well as degree and kind of specialization. Much of the evidence is unclear whether the trade push enables or disables developing countries from moving up the specialization curve from labour intensive to technology intensive exports. Many economists doubt that the process is automatic, left to market forces and the price mechanism. In most cases, the turn toward the world economy is anchored in domestic arrangements and local networks. Countries such as India, Brazil and China rely heavily on their domestic market to increase their international performance.

Adjustment	The single area where trade theory is unambiguously deficient is with respect to the adjustment process. The benefits from free trade will largely be asymmetrical and import competition and job loss are likely to be more important for most countries as the benefits from strengthening the export side of the economy and new economies of scale are elusive and difficult to capture.

Source: Drache 2002

The principle casualty of the triumph of the markets is the loss of any vital notion of the public and a strategic sense of public interest. Without a pragmatic sense of the public, it is easy to accept the idea that the nation state is much diminished in the area of economic management and yet no state has been dismantled and in the EU, Canada and even the US public spending has increased (Arthurs 2001; Rhodes 1999).

The public domain provides the glue of belonging that enables society to maintain its social cohesion and broaden the parameters of inclusion. The provision of public goods and services, the creation of public places and the maintenance of public space, so essential for democracy, provides the material environment for those without entitlements, most often those outside of the organized sectors of society. More importantly, it provides society with the means to establish its collective identity, despite the reach of private property and the power of privilege that the price mechanism confers on those with resources (Sen 1999).

Under the powerful credo of the Washington Consensus, the private was given a carte blanche to trump the public. The rollback of the public has been psychologically and politically empowering for elites devaluing the role and legitimacy of the public sphere that, both nationally and internationally, has always been a contested site (Lasch 1994). Historically, the public was pervaded by hierarchies of status that gave rights to some, while excluding others. The market has also been part of the emergent public sphere in which people could act on their own interests. Since the publication of Karl Polanyi's *The Great Transformation*, the consensus amongst

political economists is that the market requires regulation and people require collective goods that the market cannot reasonably deliver (Marquand 2001).

The basic lesson the Washington Consensus drove home to elites was that the common good had to be subordinated to the private good. In the post-Washington, post-Seattle, post-Quebec Summit world, anti-globalization social movement protestors have sought to strike a new balance between public and private by struggling to reassert the common good as a benchmark of governance. Success has been partial and uneven so far. The extreme expression of the Washington Consensus, the TINA syndrome—there is no alternative—is being challenged by the archetypal idea of TAPA—there are plenty of alternatives—as evidenced by the recent World Social Forum in Alegre Brazil (Millennium 2000).

Even though the public has always been a site of policy contest, the public domain is an incipient concept that still needs definition and restatement. It is an area of social life with its own rules, norms and practices. It emerges out of the constant clash between the predatory aspects of the price system and the bureaucratic top-down practices of the state whether for stability or continuity. As such the public domain supplies civil society actors with a powerful lever against a purely economic discourse.

In its Keynesian incarnation, the public domain included a number of policy areas, including social policy, housing and autonomous public spaces that became a fact of national life and essential to the institutions of liberal democracy. Citizenship rights, rather than the market, guaranteed the allocation of social goods. In many Southern countries, these policy spaces were carved out from adjacent private and market domains. And in all democratic societies, the public domain contributes to the mutual obligation of common purpose, the provision of collective goods and other non-income objectives (Drache 2001).

The Global Public Domain: An Elusive or Incipient Standard?

At a time when the disjuncture between the economic side of globalization and its social impacts has reached its peak, the need to limit market intrusiveness is high on the agenda of global civil society.[1] After two decades of the Washington Consensus, there is a growing awareness that if there are "dumb" ways to respond to global pressures there must also be "smart" responses that reinforce the new equity outcomes that civil society demands. Social movements expect a high standard from the nation-state as the defender of the public interest. The idea that trade liberalization, financial deregulation and asset privatization can be an untroubled, "ethics-free zone" is no longer viable. New policy objectives and new policy instruments are required for poverty reduction, improving equity and building socially inclusive societies. All of these have direct global implications (Cox 1999).

In its brief existence, the WTO has narrowly focused on enhancing investment and property rights, promoting trade and services and broadening market access. If this trend line is to change, the frontier area to address is social regulation and development. Sylvia Ostry makes the important argument that it is a utopian fantasy to launch a drive to build a single global market with such a minimal governance structure as the WTO in charge. The only recognition in the WTO that the social deficit created by global trade liberalism needs to be addressed is in the area of the Technical Barriers to Trade Agreement (TBT). Ostry describes the TBT agreement as a mind-boggling WTO instrument (Ostry 2000). It allows the countries of the world to deal with everything from product standards, environmental regulation, standards for food and potentially even labour standards. In all of these critical areas, there is a need for public supervision, regulation and goods; in short, the construction of viable global rules and principles to limit the

intrusiveness of markets. As Stiglitz argues; “trade liberalization conducted in the wrong way, too fast, in the absence of security nets, with insufficient reciprocity and assistance on the part of developed countries can contribute to an increase in poverty” (1999: 53). He needed to add that losers in the global trade wars, most often the poor and the marginal, are never compensated.

So a different framework for the world trade regime is needed and that will require a substantive rewriting of trade rules and first principles. How should the line between trade investment and the social dimension of markets be redrawn so that the global commons is not turned into a global commodity for export? It is this question above all that has captured the imagination of the public’s mind.

Few would wager that the WTO will address the social dimensions of international trade and investment in the next trade round but this is one of the most important conditions for reaping the benefits of expanded trade. If in the global economy not everything is to be for sale, a potentially commercializable commodity to be exported for one country or another, no-go preserves are needed to ensure a more balanced approach to trade (Barlow 2001). Many areas of national and international life need to be ring-circled and protected as part of the global public domain.

High on the agenda of those areas to be protected are the public spaces, places, goods and services that an interdependent world has need of. While the following list is meant to be illustrative and not definitive, the next round of WTO negotiations must protect global public space from powerful market actors (Kaul 2001; Kaul, Grunberg and Stern 1999). What appears today as a somewhat utopian set of issues is likely to become tomorrow’s pragmatism. Some of the key areas where trade rules and principles need to be rethought are:

- Food – intellectual property rights to the world’s genetic heritage has re-defined the role

of agriculture. Much of the world's food could be genetically engineered, so a new code is required to protect the right of nations to manage their food supply according to their best practice.

- Water – water is another part of the global commons, which can be sold and traded in the open market. Water is one of the last untapped frontiers of global resources. If water is included in the service agreement of the WTO, it will be placed on the open market for sale. In order to protect the basic needs of people everywhere, a new global agreement is required to prohibit the trade in water as a commercial service.
- Labour Standards – so far the attempt to link labour standards and trade has been stalemated. While international labour rights are not a new departure for the international community, it is doubtful that agreement on core principles will transform the work and employment conditions for workers the world over. Core labour standards will not revolutionize the 'satanic mills of capitalism'. The challenge is to develop bar-raising standards of all kinds; rather than that compatible with building a level playing field for commercial purposes (Compra 2000).
- Social Services – the fastest growing sectors in international trade are the trade in health and education services. In many countries these are provided publically for the majority and privately for the elites. With global expenditures on education and health targeted to rise above the $2.5 trillion mark, new rules of international competition and discipline are required to protect public health and education programs from for-profit corporations.
- Culture – there have been seven complaints concerning culture, in the first five years of the WTO's. From a trade perspective the question is, is culture simply an entertainment industry with its many-sided services to be bought and sold, or are these cultural

industries part of a country's identity and heritage? The reason that cultural policy is such an explosive issue is that the need for cultural exemption challenges many of the new investment provisions of GATS (General Agreement on Trade and Services) and TRIPS (Trade-Related Aspects of Intellectual Property Rights Agreement). the telecommunications sector, which contains almost all aspects of the WTO's high power future trade agenda, including the Internet, broadcasting patterns, and trademark and copyright laws. The need for states to protect their cultural industries from US dominance has become one of the flash points of the world's trading order.

- Pharmaceutical drugs – Huge pharmaceutical companies control the supply and cost of miracle drugs, as well as drugs needed to restore health to the planet's billions. The issues are profound. Many of the drugs that the poor of the world require cost mere pennies to produce but often sell at fifty- to sixty-times the cost of production. Here again, intellectual and patent protection are core issues, as it is not clear that essential drugs should be patented for profit. Commercial criteria give primary access to the wealthy parts of the world where people are more able to afford the drugs. For people desperate to gain access to life-saving medicine, social need must be a determining factor. New rules and conventions are required to guarantee access to generic drugs for all in need (Drache et al 2002).
- Corporate Rights – In the area of investment and corporate behaviour there is little in the WTO about the obligations and responsibilities of private corporate actors. The social movements are intent that corporations have to be held accountable for their investment decisions, as well as for their labour standards and other practices that have direct social impact on communities. Presently it is not difficult to arrive at the position that there is a

fundamental imbalance in the world trading system when there is no link between rights and responsibilities. The OECD recognizes the need for full transparency in corporate financial reporting and many of the most offensive kinds of tax loopholes, which legitimate corporate tax avoidance behaviour, are likely to be closed in the coming period. Yet the largest legal deficit still exists because WTO trade rules are too intrusive on national laws and practices designed to protect health, human security and human rights. It is a dangerous precedent that the WTO has over-ride provisions in sensitive areas of social regulation without any checks and balances. Here too international trade institutions have to address the need for public rights and negotiate areas that are off limit to privatization all together.(Picciotto 1998)

Trade rules cannot be seen as universally applicable to all aspects of activity particularly including public health, safety, welfare and well-being. There are goods, services and sectors that should not be subject to WTO disciplines because bio-diversity, the integrity of eco-systems and subsistence for human communities involve the common public rights of all.

Global governance requires different solutions than the template ones of increasing market access and entrenching trade opennness. Recent research demonstrates that trade is not a panacea for the complex issues of worldwide poverty, global financial instability and indebtedness. It is possible that the WTO has sown the seeds of its own organizational demise as a responsible and accountable trade authority because in previous rounds of trade liberalization it refused to recognize that as the world's trade guardian it gave too much power to sovereign private actors. It is no wonder the triumph of markets has twisted and turned into the global crisis of markets (Drache and Wai 2002).

Since the Washington Consensus was reached in the early 1980s, trade policy has

demonstrated that it is a poor guide to achieving the gains that flow from increasing economic interdependency. Market signals are increasingly difficult to read with any degree of accuracy because goals and outcomes are less linked today than in the past, particularly with respect to orthodox notions of trade (Gilpin 2000). In a global age, the distribution of man-made resources matters more than ever and differences in social capital are crucial. Each new round of trade liberalization has exacerbated and accelerated the asymmetrical gains of trade openness, deepening the fault line between North and South over time. At this juncture, the absence of an adequate supply of global public goods, particularly health, clean water, adequate housing and agreement on food standards poses the most serious threat to the world trading (Group of Lisbon 1995).

Addressing the democratic deficit globally requires an international public authority with a different mandate, one capable of establishing what is public and what will be private. The WTO will have to adapt to the new circumstances or face progressive marginalization, as countries choose to make other arrangements and set their own rules of international behaviour (Held 1999).

A final word

If there is a common understanding forming at the margin, it is that unfettered global market forces have produced a large and dangerous social deficit. The anti-globalization social movement protestors are increasingly doubtful that the existing global order can survive without major social reform (Boyer and Drache 1996). The basic problem is that there is no explicitly ethical commitment to building a socially inclusive global economy. Collective action is still a work in progressl and global public goods, ranging from a sustainable environment to human

rights, and labour and health standards are in short supply (Commission on Global Governance 1995). There is an urgent need to conceptualize the global re-connect and develop a viable and sustainable notion of the public domain that gives authority everywhere a choice between it and the market. The polity needs to be governed and the post-Washington Consensus world is about building institutions internationally, as much as nationally, by political means for public ends (Krasner 2001). The concept, idea and goal of the public domain are surely a very large part of the new policy agenda. It ought to be if it already is not and the public reconnect must find a way to rediscover first principles? Time seems to be on the side of the global sceptics and the angels of hope or is it?

Notes

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[1] Significantly, governments are continuing to spend money on non-market activities. There is no evidence that the state is being dismantled as countries everywhere seem less intent than ever in adopting the American model of less state-less tax or its equivalent. Still, there is a need for a grammar of the public, which is not as state dependent as it once was. In Canada, Ottawa has decided to restore cuts to the national health plan. Cities are trying to address homelessness rather than leave it to private sector actors to supply 'public' housing. The European Union has committed itself to reducing social exclusion. Even the Blair government now realizes that markets have very fixed limits and large amounts of public monies have been committed to rebuilding British infrastructure, as well as hospitals and schools. This movement of investing in the public will spread, as the under-provision of collective and public goods becomes evident.

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