The Post Washington Consensus: The Market Disconnect and the Public Reconnect

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Introduction

After the protests in Seattle, Prague, Washington[1] and Windsor, popular sovereignty and national sovereignty again have 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 by governments everywhere. The mood swing today is away from reliance on narrow market-led strategies and one of the casualties 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 both inappropriate and too rigid for developing counties. Its largest failure is that it has not produced the growth and jobs expected. He is not alone. 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.

So far, two contending reform-minded agendas have emerged. The first is not all that different from what currently exists and should be called simply the Washington Consensus with a human face. Its goals include poverty reduction, improving equity and building socially inclusive societies in the

[1] The normal academic infrastructure of referencing will be provided in the next draft. Apologies. However, the bibliographic references have been provided.

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 that there is a 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 that poverty is part of a low growth cycle when markets underperform and 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. Latin American countries cannot attract the foreign capital that they badly need and do not have the domestic resources to finance their own development. So 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. Paradoxically, the onslaught against the triumph of markets comes at a time when the triumph of market liberalism has converted the boardrooms and the 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 being pushed by civil society's social activists is that globalization requires a new model of governance and that international civil society without it lacks a defensive shield against market intrusiveness.

The beginning 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 the present time, the second agenda starts with the compelling view that global governance requires bar-raising standards of all kinds and these demands are front and center on the agenda of civil society. They include environmental, human rights and labour standards, as well as financial ones, such as closing off-shore tax shelters and holding corporations accountable for their investment decisions. The new expectation is for global public goods to be provided adequately and social protection to be accorded to the most vulnerable members of the world economy. Bar-raising standards require much institutional reform if the line between the market and public domain is to be effectively redrawn.

This paper examines two compelling propositions: 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, this takes us to our second concern, the crisis of markets defined by the need for new trade rules, collective goods and social protection kinds as well as the critical place of the public domain in a modern notion of governance. The world's trading system needs a larger framework to provide an adequate level for the collective entitlements of society. In Charles Taylor's fulsome term, the politics of mutual recognition requires a strong public sphere as an essential element of democratic governance. This requires giving people a claim to carve out from the resources 'shared in common' access to them. 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 difficult 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 Even For Advanced Countries

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 end point. It was a set of principles used by the elites as an authoritative benchmark but without a clear definition of priorities. It would be a moving consensus that could be adopted to different conditions as they emerged. Countries were free to choose how to implement its different goals and priorities just like the way the Keynesian goals were adapted to national realities but in sharply contrasting settings. Few countries ever embraced the full employment objectives as a rigid rule of policy-making. Similarly zero inflation targets were interpreted with marked variation. The US goal was three percent inflation rate while the Bank of Canada fixed on zero with an unemployment rate nearly twice the US target level. But it did define the benchmark goals of macro-economic management for all governments but what few anticipated was that outcomes increasingly diverged as national needs and institutional practices asserted themselves. In Latin America structural adjustment programs became the norm of the Washington Consensus. By contrast, in Canada there was no need for structural adjustment of its finances but the government embarked on a program of sharp and prolonged deficit reduction between 1993-1998. Canada reduced its rather middle of the road deficit of seven percent of GDP more sharply and quickly than any other G-7 country. Contrary to other jurisdictions there was no wholesale privatization movement compared to the UK, New Zealand the Australia but there was a massive sell-off of state enterprises provincially and federally. Canada was never subject to the worst kind of conditionality demanded by the IMF for many developing countries when they needed to obtain badly needed loans to reduce their debt burden. Yet the Ottawa, without being forced to do so, retrenched social and health transfer payments that cut deeply into the social net. Even without any agreement on goals and outcomes, the hollowing out of public authority has been dramatic with state authority being diffused both downwards, sideways and upwards and the leakage of power pronounced. So there has been no wholesale convergence to 'a less state less tax model' to the degree predicted a decade ago but the benchmark of good governance has been redefined by the exigencies of trade openness everywhere.

Integration into the world economy and the benchmark of competitive markets has produced, not less but more contradictory effects, including for industrialized countries with highly developed economies despite the acceptance of the broad framework of the original Washington Consensus. Yet the simplest idea that economic integration is the universal trend-line is wrong. For some it has meant For instance, economic integration despite the formation of trade blocs remains partial and uneven and 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 from 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 degree of trade openness rise minimally from 10.4% to 12.2.%, hardly the success story of global forces at work in today's world. To make matters more complex, Japan was more trade dependent in 1980 than in 1998: 15.3% in 1980 and 10.1% in 1998. If globalization is such a universal force, why is Japan, one of the world's leading trade nations, seemingly moving backwards?

In many ways the Canada-US model is the ideal scenario of the positive results that automatically flow from deep integration of two of the world's leading economies. Canada has been a leader in embracing global free trade through the Canada-US Free Trade Agreement, signed in 1988 and 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. Canada's trade picture is anything but dismal measured by conventional measures. Canada's direct investment abroad has grown massively in the 90s, compared to the share of foreign direct investment in Canada. But here too the value of the Canadian dollar, rather than trade competitiveness, seems to be the determining factor. Americans are bullish in acquiring leading Canadian firms and industries in the high technology, energy, financial and retail sectors. US ownership of leading firms and industries is on the rise and Canada's core competitiveness has been eroded directly and indirectly.

What this picture shows is that Canada has accepted the general framework of the Washington Consensus but has benefitted only marginally from its programmatic intent. Economically the Canadian recovery, post-94, has been driven by the US business cycle, rising commodity prices for Canada's energy products and a devalued dollar. Given the strength of the conjuncture, the most important consequences of the last five years is that Canada's fiscal deficit has been reduced to zero, at the same time as its social deficit in terms of homelessness, child poverty, inequality requires a large aggressive program of public spending to correct the intrusiveness of markets. Today Canada has a 80 billion-plus surplus to spend over the next five years but the question is whether Canada's political elites have the political will to do make the transition from a deficit mentality to undertake new program initiatives and provide the quantity of public goods needed to repair the damage done to the common sense of purpose with shared values.

The promises of the Washington Consensus were implicitly, a higher standard of living, stronger industries and better export performance through dynamic gains of trade. But, the theory has proven deficient in terms of actual outcomes – living standards in Canada have declined sharply, as trade liberalization has gained momentum. Canada's real GDP in 1980 was almost 90% of GDP in the US, by 1999 it had dropped by twenty points to 70%. This measure is an impressive one 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 trade theory predicted.

Significantly, Canada had achieved its best ranking in real GDP product per capita among OECD countries by 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 the fact that Canada made its greatest strides when the economy was less open than it is today 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 capital 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

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	65.1	18.5	11.3
South Asia	495.1	522	44	40
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	1.6	5.1
TOTAL	1276.4	1198.9	29	24
Source: World Bank. Global Economic Prospects and the Developing Countries 2000. (2000).				

growth rate was 27.0, this compares with the US, its best trading partner, with a 39.7% cumulative growth rate and a 2.25 compound annual growth rate. (See accompanying tables)

This evidence raises again troubling questions about the adequacy of free trade theory and 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 had predicted. Certainly there is no template operating at the international level. New Zealand’s Labour government carried out one of the most radical reforms of state-market relations and despite being the flag carrier of neo-liberalism has one of the lowest compound annual growth rates of the last fifteen years of 1.1%. Sweden, which came in just ahead of it and has maintained most of its social market welfare state programmes but with a full commitment to an export led economy, did not do much better at 1.3%. These numbers raise many troubling questions about the framework of the Washington Consensus that its vigorous supporters cannot answer with credible data.

Even advanced countries, like Canada, following its ‘sound principles’ have barely been able to grow faster. This despite all of Canada’s advantages in being close to the American market and having optimal access to it. Canada is a member of the G-7 but its share of world output fell to 11^{th,} in 1999, calculated on purchasing power parity basis. The US is number one followed by China, Japan, Germany, India, France and the United Kingdom. In position eight is Italy, followed by Brazil whose economy is one of the most closed in the world, edging out Russia who is in 10th place. So the illusion that trade is the key to prosperity is evident everywhere but in the numbers. The fact that Canada, which has one of the world’s most open economies, finds it place in the world order declining shows how difficult it is to find a positive correlation between trade and many of the measures of economic well-being. If Canada’s record under free trade is troubled, the record for other trading countries is equally mixed.

The Relative and Often Fleeting Gains From Free Trade

The problem in a nutshell is that the triumph of free trade theory as distinct from its effects can only deliver quite modest relative gains from new market access guaranteed by the WTO’s reforms. Further many of the benefits have more to do with the staggering advantages of a devalued currency rather than any operative theory of competitive advantage. It would appear that as Canada’s merchandise exports to the US have become more concentrated than ever in a single market, the share of GDP earned from value added exports has not even marginally improved but deteriorated as the accompanying table demonstrates. Any first year economics student should be able to grasp the difference between value added exports that have real transformative punch, for both employers and wage earners, and volume-based exports that increase export sales and profit lines but represent static comparative advantage. Trade theorists have not yet learned this primary lesson but the civil society counter-movements, who gained prominence in opposing the MAI and recently protested in Prague against the high adjustment costs of a global trading system, have put neo-liberal policies on the defensive even if their grasp of macro-economic theory is rudimentary.

Developing countries have long understood the trap of simply relying on exporting more of their resources without experiencing significant flow-through effects for the entire economy. Developed countries are also, slowly, coming to a similar realization. Statistics Canada and Toronto Dominion Bank Research Group have recently produced a graph that shows the growing gap between total exports and Canada's value added exports. Since 1990, the gap has grown from 5% to over 10%, which reflects the fact Canada is importing a high proportion of value added goods. Twenty years ago, the Economic Council of Canada had also warned about the asymmetries of trade liberalization and their advice went unheeded. Not unexpectedly economists and policy makers have again been proven wrong in their assertion that 'everyone is a winner under free trade.' Canada's technology gap has worsened under the framework of the Washington Consensus, where markets have been given their due. So even in a country with all the advantages of Canada – a skilled workforce, sophisticated capital market, access to some of the best technology in the world, a modern government and an infrastructure that most developing countries would die for – the hopes and promises of less state and more market have had a chilling effect on public confidence in the efficacy global institutions.

It is troubling that a model of perfect competition, which underlies the powerful economic model of free trade, should have such imperfect results. It is equally problematic that there has been so little trade diversification in Canada's export performance -- a problem that continues to plague many Southern countries who have been unable to diversify their trade and develop a refurbished dynamic comparative advantage. Canada's trade with Mexico, for instance, grew at an annual compound rate of just under 9% between 1991 and 1999 and in dollar terms rising from 500 million to 1.3 billion. But even such dramatic progress has had almost no impact on Mexico's place on Canada's trade horizon. It accounted for 4% of Canada's total exports in 1990 and the figure had not changed by 1999. The danger of regional trade agreements is that they do not encourage exporters to seek out new markets for many structural reasons. While one would hardly describe Canada as isolationist in its involvement with the hemisphere, its hemispheric trade declined from 1.2% to .9% between 1990 and 1999. Again the numbers are not definitive but they raise troubling questions about the absence of any close connection between goals and outcomes. The European Union is one of the most important markets in the world today but Canada's performance in it has stumbled and then tumbled. It used to send 8% of its total exports to the EU but by 1990 the number had been halved.

Canada: A Striking Example of the Glass Half Full But With an Economy Running on Half Empty

All of these different kinds of trade failures and under-performance indicators have raised the basic question of governance – the new norms and practices that need to get on the front burner. Governance starts with a set of normative propositions about the larger policy environment and the institutions that shape key social relations for both public and private sectors. The new agenda asks not what corporations want, but what do citizens demand and expect from a new international order. The discredited Washington Consensus did not use this kind of discourse but spoke in quite different terms of building a level playing field for commercial purposes. A new benchmark is emerging, though incomplete and not fully articulated. The general public wants to see the social bond strengthened not weakened. National sovereignty is threatened when markets become too intrusive and over-reach their natural boundaries. National sovereignty is at risk when public authority can no longer legislate adequately to protect public safety and other related concerns. Every society requires a large and vibrant public with its different component parts including public goods, services, spaces, places and culture. Popular sovereignty strongly rooted in the public sphere is very much a normative issue that covers many adjacent matters from the front to the back yard, including personal security, equity, transparency and accountability. Both popular sovereignty and national sovereignty are critical benchmarks in pursuit of this primary goal. Up until now, the economic theory behind the Washington Consensus has prevailed and global free trade has had no rivals or contenders. It is not the need for trade that is being questioned. No country wants to cut itself off from its neighbours and the potential benefits from the world economy. But there is a new consensus forming about the danger of accepting trade theory as the normative standard of governance. What is feeding this scepticism and the public's disconnect?

The Triumph of Markets or the Crisis of Markets? The Public Domain as a Benchmark of Governance

On the face of it, free trade is a compelling theory, even for its critics, and promises much in terms of economic benefits. Its most important claim is that countries which open their borders, regardless of the cost and consequences, will derive a high standard of living, have cheaper goods, stronger industries and more jobs. In theory all of this is due to the efficiency gains from better economic performance of industry and economy. Countries will move up-market and produce more sophisticated products that require skilled labour, which in turn commands higher wages. Consumers will benefit because goods will be cheaper and hence disposable income will go further and effective demand will strengthen. The reality for many countries has not been these dynamic gains from trade but the asymmetrical benefits from participating in the world economy. Frequently, the costs of import penetration outweigh the benefits from the increase in exports; more jobs are lost than gained and factory closings multiply outweighing new factory openings. For many countries, investment and technology flows from the modernization of the economy and industry do not occur or occur too weakly. Instead of a dynamic comparative advantage, global free trade frequently results in the reinforcement of the existing trade specialization in primary products or low value-added exports. So, 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. In many developing and even first world economies, the stress on competitiveness and market access has resulted in the deepening of the existing division of labour, which often is low value-added of a 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 of a sophisticated sort.

In Latin America, Asia and Africa, the ideas of competitiveness, mixed with the zero inflation targets of the Washington Consensus have proven to be a failure. Latin American countries have seen per capita incomes drop, unemployment soar and productivity falter but their public finances shine. It is difficult to believe, but true, that many countries in Latin America have a surplus in their primary account but they have not succeeded in attracting sufficient volumes of capital inflows because they cannot pay the high risk premiums that bankers demand. Brazil is a classic case in point. Inflation has fallen to a fifty year low and its deficit has reached the European standard of three percent but it still is dependent on foreign borrowing to such a degree that it is only a matter of time before the economy will be subject to a new external shock from financial markets. It is hard to see how Brazil will turn the corner unless it can introduce some form of capital control and have a higher rate of domestic savings. None of the foregoing is possible unless per capita incomes rise dramatically, yet so far trade effects and the low growth rates that have held Brazil back have not been kind to Brazilian families. So even when many countries seem to be moving forward, thanks to the dynamics of international trade competitiveness, they are facing indebtedness, low growth and the mounting costs of social exclusion.

Interest rates have to come down if the countries in the developing world are to break this cycle of integration and exclusion. Up until now, high interest rates continue to keep growth rates low and public authority has not been able to bring interest rates down to the levels needed to rekindle investor and consumer confidence. The disappointing GDP figures for Latin America demonstrate just how inadequate the existing framework is. ECLAC's recent report underlines that GDP growth needs to be about twice the existing levels for countries such as Brazil, Mexico and Argentina. This is why the forces of trade-led globalization are viewed with increasing suspicion by many Southern countries.

The False Promises of Trade for Developing Countries: What the Latest Empirical Results Demonstrate

Increasingly, there is a new consensus among many experts that the spread effects of globalization are uneven and contradictory. The evidence is that the gains from free trade are problematic, not only for the losers, who fail to participate in the global economy but also for those who have done so vigorously. In a primary sense, the benefits from participation international trade are highly uneven at the best of times. Rich countries share of international trade rose, between 1987 and 1998, from 27% to 39%. For developing countries, dependency on imports and exports rose to only 17% but the real story is that the poorest, least developed countries are barely integrated into the world economy and their share of world trade in 1997 was .4%, less than half it was in 1980. It is difficult to support the idea that all developing countries are becoming better integrated in the world economy or developing the institutions and policies which would enhance their access to world markets. The evidence does not support this contention and raises difficult theoretical and policy issues about the negative effects of globalization.

Global free trade has strong exclusionary features, particularly for many developing countries, that have nothing to do with some incipient attraction to retreat back into 1930s kind of protectionism. There is no evidence that Southern nations are attracted to such a limited goal or idea. Only doctrinaire neo-classical economists continue to think in such binary terms. The more fundamental problem is that, in the model of global free trade, there is little connection between the goals of openness and the outcomes of a high standard of living for many because the framework of rules for the existing trade regime, with respect to commercial policy, is not designed for smaller economies that have poor or marginalized populations.

Recently the World Bank and other institutions have had to face the fact that there is a highly contentious relationship between trade, poverty and inequality that is not the one portrayed in the textbooks of Anglo-American economic orthodoxy. Often times the evidence is hard to assess but what is clear is that the rate of poverty reduction over the last decade was unsatisfactory, slow and inadequate. At a time when the industrial world has enjoyed the longest boom of growth and prosperity from trade and investment flows, the number of people living on US$1 a day fell marginally from 1.3 billion in 1990 to 1.2 billion in 1998. This slight reduction was offset by another 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.

It would seem that the countries that did the best in poverty reduction, such as East Asia, were those who had strong national economies, well developed institutions, a large role for the state, and were significant exporters. Outside of South-East Asia, for instance in Latin America, Sub-Saharan Africa, the Middle East and North Africa, where state structures and policies are weak and underdeveloped, poverty rates were unacceptably high. Particularly unacceptable is the fact that in European and central Asian countries, especially those making the transition from socialism to market economy, poverty rates exploded rising from 7 million to 24 million between 1990 and 1998 during a period when state institutions experienced severe crisis.

Economists now understand that poverty is, indeed, significantly affected by economic growth, particularly when countries export a larger share of output of goods and services. The average growth in income of the poor may actually increase because there is a growth in inequality. It appears perverse, but true, that there is a tradeoff between poverty reduction and increases in inequality. Why isn't there a positive link between overall growth and incomes of the poor is the obvious question to ask? A recent study by Frankel and Rhoemer estimate that increasing the ratio of trade to GDP by one percentage point raises per capita income by between one half and two percent. Although other studies reach similar conclusions, these kinds of studies need to be treated sceptically because unless increased growth is tied to redistributive programmes and institutions that effect redistribution, the trickle-down effects of trade are unlikely to have any appreciable positive affect on the most vulnerable sections of the population. This is one of the new insights of World Bank researchers, although it is hardly original given the vast literature on trade and inequality from Third World Researchers. It demonstrates that even in the information age of the worldwide web and email, the spread effects of ideas still move at the speed of a snail when it comes to institutional reform and new thinking about the contradictory consequences of trade on development and income.

In theory, trade lets economies make better use of their resources and supposedly enables local firms to function more efficiently. But contrary to the high road claim of free trade theory, the practical real costs of trade opening are not what they appear and often worsen local conditions, with few income and other benefits materializing for local consumers and producers. For instance, the unemployment caused by trade opening measures, as promoted by the World Bank and others, is thought to be 'manageable' so long as there are long-run gains in national income achieved by encouraging the shift in labour and capital to the newly competitive export industries. Frequently though, reforms advocated by the Washington Consensus create macro economic instability, such as volatile real exchange rates and bigger fiscal deficits that aggravate unemployment and income inequality. So instead of firms investing in the highly competitive export sector, trade liberalization for developing countries fosters uncertainty and often export uncompetitiveness in the high tech or higher valued added sectors. There is enough evidence that small and medium sized businesses do not reorganize to take advantage of new market prospects because they do not have access to capital, new credit lines and leading edge technology. The failure rate of these innovative small to medium size firms is a cause for alarm because it is from their ranks that Indian or Brazilian multinationals are expected to emerge.

Falling Per Capita Incomes and the Washington Consensus: Is There a Causal Connection or Is It Mere Coincidence?

Per capita incomes are not only influenced by trade liberalization but also technological change, investment patterns, changes in relative productivity and particularly, changes in institutional conditions, such as the importance of trade unions in setting the terms and conditions of the contract between workers and employers. The belief in global free trade, which informs so much thinking of the Washington Consensus, is particularly deficient in understanding the link between trade openness, institution building and changes in inequality. First, what should be the best case is actually one of the most troubling. As the US has gradually become more integrated into the world economy, the wages of high school educated men fell 20% between the mid-70s and 1990s. It can be argued that trade openness does contribute significantly to inequality and given this American example, it is not surprising that US protectionist sentiments remain very strong and actively present in the American Congress. Trade liberalization may be only one factor that has lead to unprecedented wage polarization in the US but the perception is that it is the one that makes the critical difference to all the others.

The intellectual ideas behind the Washington Consensus have become discredited because markets continue to be poor allocators of resources, from the standpoint of developing countries and have a persistent history of underperforming. For instance, during a 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 in 1960. Today this gap has widened to thirty times, for the principle reason that rich countries, on average, grow faster than poor ones. In theoretical terms, global free trade and greater openness have failed developing countries when they participate in the world economy. The evidence is that the per capita incomes in the poorest twenty countries has hardly changed at all.

It would be a mistake to attribute the worsening of income distribution only to trade liberalization and the other imperatives of the Washington Consensus. The point is, simply, that the Southern nations have not benefitted from the 90s investment and trade boom in a way that translates into significant on-the-ground gains for their populations. In a recent examination of the impact of globalization, the World

Bank acknowledged that trade opening can lead to increased macro economic instability for many Southern countries. As Dany Rodrik argues, the primary reason is due to the fact that increasing 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 when tariff rates tumble, government revenue fall even more precipitously. Finding their revenues constrained developing countries have to curtail expenditures on so-called non-essential trade programmes, such as social and other poverty alleviating policies. Frequently they need to levy new taxes on staples and other goods consumed heavily by the poor. So the worry that there is a tight fit between structural adjustment, stabilization, liberalization and poverty has an historical basis in fact more than is commonly recognized. For policy purposes, as well as in theoretical terms, this association is not immutable but significant. Recent evidence suggests that there is a need to rethink the complex relationship between economic development, trade liberalization and worsening poverty so that falling revenues no longer squeeze social expenditures and hurt the poor.

Poverty and Trade: Persuasive New Empirical Evidence

The WTO has recently jumped on board the 'Joe Stiglitz rethink of the trade-poverty consensus'. In a major reassessment of trade income disparity and poverty, he has had the intellectual courage to admit that global free trade has not conquered extreme poverty and that the living standards in developing countries are not catching up with those in developed countries. The critical test is convergence and with regards to poverty and inequality, the gap between rich and poor is deepening. The poorest countries have become poorer still with negative per capita income growth. It is forecast that if there is no fundamental change in the world trading order, income disparity in the world will double in a century and a half at the current trend (p.3). There is no tendency of catch-up in convergence, since incomes are converging downward not upward.

Under the current rules and practices, the North will be better off and the middle and extreme poor will slip further backwards. This is a bicycle theory of economic progress in reverse: the more a country peddles, the farther behind in the pack it finds itself. It is significant that the same study found that when countries developed stronger bilateral trade links with their major trading partners, the rate of income convergence increased with bilateral trade volume. There are some important exceptions as already pointed out with respect to Canada and the US. Yet, for many Southern countries, if these findings have some validity, this raises the interesting prospect that the gains from trade are greater with a major trading partner rather than a random group of countries in the world economy. This conclusion flatly contradicts the ideal scenario underlying the fundamental premises of the Washington Consensus. The idea that the spread effects from globalized trade between regional partners will be greater than the efficiency gains from global free trade borders on economic heresy but in a world where few of the old theorems apply with any degree of predictability, it is important to recognize that the gains from participating in the global economy can occur in ways that were not thought optimal.

Finally, what the Washington Consensus reformers initially misjudged and only tardily admitted is that trade reform can both create and destroy markets. For both developing and developed countries, the Washington Consensus trade reforms have had, far too often, too many negative effects on factors of production, particularly the wages of the unskilled, with few compensating benefits. Since the poor are mostly an unskilled, trade reforms disadvantage them, compared to the demands on semi-skilled labour. The logic of trade effects has many direct consequences for families occupying the next strata of the workforce. Families of semi-skilled workers will be disadvantaged by the increased demand for skilled production goods and services in the export industry. So the wages of unskilled workers will fall and even the wages of semi-skilled workers may worsen. What is the least likely scenario, is that in the sectors which are expanding, wages will rarely be significantly above the wage rates of the semi-skilled.

There is now a lot of evidence that in countries which have a surplus of labour and no enforceable minimum wage, trade liberalization destabilizes the existing wage structure, most often downwards. The chain of reaction is pronounced. Wages on the formal side of the economy rise only with difficulty because there is no enforced minimum. On the other hand, wages in the informal sector are often below poverty levels to begin with and fail to rise above very low subsistence or poverty levels. A recent study from CUTS (1999) examined the impact of trade liberalization on the Indian manufacturing sector. Contrary to the fundamentals of the Washington Consensus, it found that formal manufacturing sector employment in India grew faster after trade liberalization in the mid 90s (employment doubled from

3.8% to 9.4%) but wages fell. Equally disturbing is the fact that employment in India's 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.

It is evidence such as this that underlies the well-founded fears that trade liberalization affects the ability of governments to operate effective employment stabilization policies and that the real world is full of unpredictable shocks, mounting risks and increased vulnerability. In the post-Seattle policy world where growing resistance by civil society actors is now a fact to be reckoned with, the difficult but relevant question is, can the world's trade system be uncoupled from the programmatic reforms of the Washington Consensus?

The Over-Reach of the Washington Consensus: A Retrospective View

The Washington Consensus is not simply an economic framework to promote market growth, it is also a chain of reasoning and a deeply held set of psychological beliefs. First, the Washington Consensus was never designed to address the poverty trap that now exists in many Southern countries. In a general sense, the poor are directly affected by the instability of the price mechanism for basics. The real income of the household is highly sensitive to price changes for many staples. They have very little discretionary income, either in terms of what they earn or how the spend. The reason why trade is seen as the harbinger of ill is that trade precipitates the shocks which increases their economic vulnerability. If the key to sustained poverty alleviation is economic growth, the difficulty is that growth does not benefit everyone in an economy.

Many trade reforms affect government revenue 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 non-market activity to the competitive side of the economy. Here too, strengthening domestic performance may be more beneficial to low and middle income groups rather than channeling resources to the export sector. New economic activities are often riskier than old ones and 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.

Secondly, 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 and these are real and impact directly negatively on incomes and the standard of living of those at the bottom of the wage pyramid. The more pressing issue is that the asymmetrical gains from trade between the North and the 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.

There is nothing new in these numbers but they do underscore the reality that Southern countries, who are not presently winning the trade race, need to grow as fast as the leader if they expect to catch up to it. In fact, what is now happening is that income divergence is the norm rather than the exception and while there is some evidence that countries which liberalize have faster growth rates, significant increases in the volume of trade translate only with great difficulty into a higher standard of living for the majority.

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' and '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, or 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 their nominal deficits drastically but many debt obligations were not reflected in official statistics. International finance is not fooled by this sleight of hand accounting ruse. Heavy debt loads continue to 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. So, while the fundamentals appear to be in Brazil’s favour, the reality is that it is 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 any extended period of time even when they are achieved. The volatility of the global economy makes this option 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. The current thinking is that Brazil has to create a shield against its continuing external vulnerability and this includes tighter controls on capital, more export incentives and an effort to increase domestic reserves with higher savings. All of these defensive kinds of developmental strategies require ‘a more state and more tax strategy’, not less as advocated by the Washington Consensus ideal policy prescription.

So even when public authority has succeeded in cutting deficits and reducing debt, 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 public goods and services should be delivered by public authority and what should be delivered privately. We are not speaking here only about the public sector. Conceptually, policy-making is impoverished because few public authorities believe any longer in the ‘big state hypothesis’ that governments can and should do everything. The more pressing issue is that public authority lacks the confidence and does not have the mind-set to address larger issues. It has become locked into a middle-management mentality and with no larger vision with a capacity for leadership.

On the other hand, 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.

In a triumphant world market, private goods come from expansion of investment rights, at all levels and particularly from trade agreements, such as Chapter 11 of NAFTA and the guarantees to investors, as in the WTO trade rules on TRIPs and TRIMs. Nonetheless, it is infinitely more urgent not to lose sight of the larger strategic issues and explain the process and decisions that enable society to establish goods and assets owned in common and not traded on the open market. It is here that the older notion of the public domain is crucial.

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

States and civil society require large sanctuaries outside the reach of the price system, in the words of Jacques Attali. Thus, 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. 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 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, at a time when markets are thought to be omniscient. Without any 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. On face value, this seems like such an improbable proposition, as no state has been dismantled and all levels of public spending has increased in almost all jurisdictions from a decade ago.

The public domain has great utility for a renewed purpose of governance because it enables governments, particularly societies, to construct forms of association and institutional practices that confer recognition and respect on individuals and groups as valued members of society. 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. Constitutions are an embarrassment of political, social and economic rights provisions but, in reality, are frequently mute and ineffective guarantors of collective needs. Yet, they do provide the larger legal framework for citizenship, as well as the collective entitlements of society. In Charles Taylor's fulsome term, the politics of mutual recognition, an essential element of democratic governance, requires giving people a claim to carve out from the resources shared in common access to them.

The public sphere has always been essential to a functioning democratic society. But the democratic deficit has grown in recent times, not only because the market has failed to deliver the pay-off it promises, a higher standard of living, but, more particularly, for democracy to be a high standard. If it is, citizens need the resources to be independent and autonomous, as well as have the support from others so that they can value the public as much as the private.

We know that in a perfect world the public and the private are supposed to be self-reinforcing but this has not been the case for a very long time. India had its golden era, where the public and private coincided, in the post-independence period. Canada too, benefited from a strong public service ethic, a state enterprise culture and redistribution as major fact of life in the post-war Keynesian compromise. From the vantage point of today, this highwater mark has all but receded from sight and under the powerful credo of the Washington Consensus the private was given a carte blanche to trump what should properly be public. The rollback of the public is both psychological for the elites and political for social movements in its many dimensions. This is the often overlooked dimension beginning with the defeat of the MAI through to the post-Seattle impacts on managing of trade reform.

The consequences for global governance have been nothing less than marked. The imbalance between public and private has increased the system friction in the world trading system. According to a new analysis by the United Nations Conference on Trade and Develoment (UNCTAD), developing nations accounted for 47% of all anti-dumping actions compared with 31% in the five years before the WTO's creation. No one should be surprised that as public authority has lost confidence in its own capacity to be effective social regulator, many developing countries have redirected their energies to repairing part of their national sovereignty by using trade dispute anti-dumping rules so they can protect their own industries against cut-throat competitors. This amounts to countries are using the WTO trade disputes system against the dangerously inadequate rules of global trade and lends a very different meaning to trade sovereignty in an era where global governance is at a premium. The European Union led the rankings with forty-nine new anti-dumping regulations, followed by India, Argentina, Australia, then Brazil and the United States tied at seventeen a piece. This kind of 'legitimate system engendered trade protection' by Southern countries, in particular, reflects the need to reassert the public by legislating their own national rules about customs and other technical matters because under the WTO practises members are able to lay down procedures for conducting investigations and calculating duties against predatory price competition. None of this is particularly new and innovative other than developing countries are emulating the example of US trade law that has provided effective providential support for its industries in the trade and investment arena.

The public sphere nationally and internationally has always been a contested site for both citizens and elites alike. The world of the public has always been pervaded by hierarchies of status that gave rights to some, while excluding others. In theory, all were to have universal civil, political, social and economic rights as the seed-bed of citizenship. Frequently in the past however, it was the spread of the market and the arrival of international commerce that tied communities, regions and countries together and freed many from the strictures of feudal hierarchies, absolute religions and monarchist states. The market has always been part of the emergent public sphere in which people could act on their own interests but since the publication of Karl Polanyi's *Great Transformation* the consensus amongst political economists is that the market has always needed regulation as much as people needed collective goods that the market could not be expected to reasonably deliver.

If the Washington Consensus has taught a basic lesson, it was that the common good had to be subordinated to the private good. In the post-Washington, post-Seattle, post-MAI world, societies everywhere are seeking to strike a new balance between public and private and are struggling to reassert the common good as a benchmark of governance. So far success has been partial and uneven because the liberal idea of the public in a post-Keynesian world has strongly influenced political elites with its message that equates the public interest with the rent-seeking activities of powerful interests, most often corporations. In its extreme form, the TINA syndrome – there is no alternative – is being challenged by the archetypical idea of TIPA – there is plenty of alternatives of impatient and aggressive international social movements as evidenced by the recent World Social Forum in Alegre Brazil.

What has been forgotten is that the public has always been a site of policy contest. This is why the notion of the public domain is highly relevant. It is both a strategic concept, a benchmark and a goal. The public domain is an area of social life with its own rules, norms and practices that cuts across the primacy of state authority and market power. It furnishes civil society with much needed resources to function effectively by creating sanctuaries, where the price mechanism does not operate. 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 and as such supplies civil society actors with a powerful lever against a purely economic discourse.

In the past the public domain in its Keynesian incarnation included many 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. These policy spaces in many Southern countries were carved out from adjacent private and market domains at different times and in all democratic societies the public domain contributed to the mutual obligation of common purpose, the provision of collective goods and other non-income objectives.

The Global Public Domain: An Elusive or Incipient Standard?

Today in terms of global governance the basic problem is that there is no provision for elementary social justice, the provision of social goods globally and other non-market objectives. At a time when the disjuncture between the economic side of globalization and its social impacts has reached its outer limits, the need to limit market intrusiveness in all its many forms is high on the agenda of global civil society.[2]

[2] 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 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 and not 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.

After two decades of the Washington Consensus, there is a growing awareness that if there are "dumb" ways to respond to global pressures then there must be a "smart" response that reinforces 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.

Past trade rounds have been narrowly focussed on enhancing investment and property rights, promoting trade and services and broadening market access. If the trend line of recent times has centered all of its energies on the regulation of professional and communication services, the frontier area of change is to address 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 area of the technical barriers of trade agreement, which Ostry describes as a mind-boggling WTO instrument. It allows the countries of the world to deal with 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 a viable global rules and principles to limit the intrusiveness of markets is all to evident.

While social regulation has expanded and gathered momentum, particularly in the European Union, the glass is more than half-empty in rest of the world economy. One of the reasons is that with the multitude of changes in the world, there is not an adequate framework to address the developing countries' priorities nor the social needs of the first world. The WTO's Millennial Round continues to be cast in very traditional ways defined by largely the exclusive focus on non-tariff barriers, changing patterns of production, putative unwarranted state policies and practices and other impediments to the free movement of goods and services. No one can dispute that competition policy, anti-dumping duties and trade facilitation are important but at the present time the crisis is much deeper than that. Promoting more trade liberalization for the developing world is only likely to enhance the uneven spread effects and the flow of asymmetrical benefits to First World players for the reasons Stiglitz gives: “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” (53).

Economists and trade experts have shown remarkable little sympathy or inclination to address the social deficit arising from a narrowly cast set of trade rules. Only recently have advocates of global free trade acknowledged that societal losses from open market and regional trade pacts often exceed the gains. Losers in the global trade wars are never compensated and most losers are the poor and the marginal. So a different framework for the world trade regime is needed that will require 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 moved from the edge of the envelop to occupy front and centre stage not only among political and economic elites but, most importantly, in the public’s mind.

No one can say whether the WTO will address the social dimension of international trade and investment in the next trade round but it is one of the most important conditions for reaping the benefits of expanded trade. Since the mid-80s, the debate over trade vs social rights has expanded and gathered momentum and while the proponents for different kinds of rules in trade investment agreements have limited their proposals for reform to a few core principles in the areas of labour, health and environmental standards, the time is ripe to look at the larger agenda. Traditional trade rules of the WTO are supposed to be only about commerce, trade and other strictly economic matters. Little progress has made in addressing the social deficit of markets and this is because the world trade organization has constructed real and imaginary fire-walls between the social and the purely commercial.

In the global economy not everything is for sale but everything is potentially commercialisable and a future commodity to be exported for one country or another. So no-go preserves are needed to ensure a more balanced approach to trade – those areas of national and international life that need to be preserved as part of the global public domain. High on the agenda are those public spaces, places, goods and services that an interdependent world has need of. While this list is meant to be illustrative and not inclusive, the next round of WTO negotiations has to protect the global public space from powerful market actors. What appears today to be 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 what kind of 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 and if water is included in the service agreement of the WTO, then it will be put 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 many 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 question that needs to be addressed is what kind of bar-raising standards are needed; rather than those compatible with building a level playing field for commercial purposes.
- 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 programmes from for-profit corporations.

- Culture – Already there have been seven complaints concerning culture, in the first five years of the WTO's brief existence. From a trade perspective the question is, is culture simply an entertainment industry with its many-sided services to be bought and sold, or is 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 and TRIPS, 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 largely US dominance has become one of the flashpoints 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 because many drugs that the poor of the world require cost mere pennies to produce but sell at often fifty- to sixty-times the cost of production. Here too, intellectual and patent protection are at the core because it is no longer clear that what is so essential should be patented for profit. For people desperate to gain access to life-saving medicine, social need must be a determining factor. The commercial criteria gives primary access to the wealthy parts of the world who are able to afford them. New rules and new conventions are required that will guarantee generic drugs for all who are in need of them.
- 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 sensitise 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.

Intellectual legal jurisprudence has wrestled with the social effects of trade but so far the results are meagre but not for the want of trying by scholarly communities and experts. The deeper issue is that the trade discourse has surrounded itself with firewalls that separate the real world from the trade world. Challenging this kind of intellectual orthodoxy is part of the public's expectations today. All of the above issues raise basic concerns about public health, safety, welfare and well-being. The most difficult issue is that trade rules cannot be seen as universally applicable to all aspects of activity. 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 in the forthcoming Millennial trade round. So far the WTO trade disputes panel have handled approximately fifty cases in the first five years and in a study recently completed by myself revealed how disappointing the results are of the new trade organization. Almost all panel and appeal court decisions have denied that markets have immediate and far-reaching social effects. One dramatic departure was the recent Asbestos decision to ban the import of asbestos and it is the first time in fifty years that article XX of the GATT was used to protect public safety. The Canadian government, a major world producer of asbestos and a party to this decision, is appealing it despite the fact that the Asbestos decision is a benchmark of high standard.

Any attempt to get broaden trade and investment rights and create a second Washington

Consensus set if ideals and policy agenda to match will come under intense fire from social movements. If there is a middle ground between the free trade gospellers and their minimum agenda and the Seattle battlers and their maximum demands, the world trade system needs to find the political will to shift gears and address the many social dimensions of international markets. So far the WTO has only called for stronger enforcement of the existing multilateral trade rules in order to make them more stringent and demanding of public authority. By contrast it has shown remarkable indifference to lay down rules and practices to provide for global public goods and services. Public opinion will be increasingly sceptical and hostile to a world trading order that is only constructed for efficiency gains. The intended wake-up call of this message has not reached the top policy levels of the WTO that the next round of trade negotiations cannot be framed by a call for liberalizing financial services, even with adequate transition time. Recent research demonstrates that trade is not a panacea for the complex issues of world-wide poverty and global financial instability and indebtedness. The WTO has possibly sown the seeds of its own credibility and possibly its organizational demise as a responsible and accountable trade authority because in previous rounds of trade liberalization it refuses to recognize that the world's trade guardian has given too much power to sovereign private actors and is badly lacking any developed notion of first principles. No wonder that the triumph of markets has twisted and turned into the global crisis of markets.

Since the Washington Consensus was reached in the early 1980s, trade policy has demonstrated that it is a poor guide to explain the gains that flow from increasing economic interdependency. Market signals are increasingly difficult to read with any degree of accuracy and predictability because goals and outcomes are less linked today than in the past particularly with respect to orthodox notions of trade. First, one can vouch-safe that the gains are not automatically flowing equally to the developed and developing countries. Even if goods can be produced in sites around the world, the place of manufacture is not all that arbitrary. In a global age, the distribution of man-made resources matters more than ever and differences in social capital are crucial and change the rules and outcomes of the world trading system. Second, each new round of trade liberalization has exacerbated and accelerated the asymmetrical gains of trade openness. This is indeed disturbing because it explains the deepening fault line between North and South over time. Thirdly, 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 order – one far more dangerous than non-tariff barriers, the pressure points of the system friction resulting from the success of poorly thought out reforms to the world trading system.

Finally, there is a growing recognition that the special problems created by economic integration require a different kind of global governance than that of the Washington Consensus. Support for market-oriented global arrangements peaked in the early 90s, as Internet empowered civil society actors challenged the power of the so-called 'stateless' corporation. 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.

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 and civil society is increasingly doubtful that the existing global order can survive without major social reform. The basic problem is that there is no explicitly ethical commitment to building a socially inclusive global economy. Despite all the soul-searching, collective action is at a standstill and global public goods, ranging from the environment to sustainable human rights, labour and health standards, are in short supply. 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. The concept, idea and goal of the public domain is surely a very large part of the new policy agenda. It ought to be if it already is not and the public disconnect needs to find a way to reconnect to first principles. Time seems to be on the side of civil society and the angels of hope or is it?

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