



WORKING PAPER SERIES
THE MULTILATERAL DEVELOPMENT BANKS
AND THE GLOBAL FINANCIAL CRISIS

WORKING PAPER 8
THE MULTILATERAL DEVELOPMENT BANKS IN THE GLOBAL
POLITICAL ECONOMY

Paul Cammack

May 2015

The Multilateral Development Banks and the Global Political Economy

Paper contributed to the 'New Actors and Networks' stream, New Directions in International Political Economy (University of Warwick, 13-15 May 2015)

Abstract

The argument of this paper is simple, but potentially far-reaching. It assumes that we are still a long way from seeing the realization of capitalism on a global scale as Marx and Engels envisaged it, but that a decisive qualitative change has been under way since the last quarter of the twentieth century, with the 'completion of the world market' in terms of exchange, and a decisive speeding up of the process of the transformation of the social relations of production across the world, against a background in which the real subsumption of labour to capital is still the exception rather than the rule. This latter process of transformation is particularly in evidence in Asia, Africa and Latin America. Against this background, I argue that the African, Asian and Inter-American Development Banks are uniformly devoted to promoting the transformation of the social relations of production in the regions which they cover, in ways that respond to a logic of global competitiveness, but vary in content in accordance with the current level and character of capitalist development and integration into the world market in each case. The argument is potentially far-reaching in its implications for theory because it implies that what we have experienced to date constitutes only the pre-history of capitalism on a global scale (with the consequence that pretty much all theory and analysis around it needs recalibrating), *and* that the convergent policy proposals of the MDBs in relation to Africa, Asia and Latin America give a first intimation of the character of a regulatory framework for capitalism on a global scale. I make this argument with particular reference to global value chains, labour markets, and social protection, and from the perspective of the critique of political economy pioneered by Marx and Engels from the 1840s on. In doing so I advance and illustrate a new *materialist* framework for the analysis of global capitalism. While sympathetic to though critical of the tradition of political economy (whether classical, international or global), the argument is hostile to post-1970 IR-derived 'IPE', and would rather see it abandoned than resuscitated.

I – Introduction

You would not think, to read the latest *Economic Outlook* from the Asian Development Bank, that there had been a 'global financial crisis' in recent years. Come to that, you would not think, either, that faith in capitalism had been severely shaken in the wake of the excesses of neoliberal reform. The reason is simple. Outside the bubble of the North Atlantic area and its academic alter ego in IPE, there wasn't, and it hasn't. The ADB records growth of over 6 per cent per year for developing Asia in the last three years (down from an average of over 7 per cent per year 2006-2011), and

predicts that this will continue (at 6.3 per cent) this year and next. Although China has generally led the way, South Asia averaged over 6 per cent 2012-2014 and will probably outpace China in the next couple of years; and apart from a drop to 1.2 per cent in 2009, Southeast Asia has hovered between 5 and 6 per cent, while out-pacing China in inward foreign direct investment. And while developing Asia has been by far the biggest contributor to global growth over the last few years, the picture from Africa and Latin America is not so different. Growth in Africa dipped to 3.1 per cent in 2009

but has otherwise averaged over 5 per cent for the last decade, despite the poor performance of South Africa. Latin America, where growth was negative (-1.6 per cent) in 2009 and the performance has been the worst of the three regions, still out-performed the US between 2010 and 2014, and massively out-performed Europe, averaging over 3.5 per cent per year, though on a falling trend. The cases are different, as we shall see. But, taken together, they require a recalibration both of some fundamental assumptions that pervade IPE and our understanding of the post-war period in the Atlantic area, and of the development of global capitalism as a whole.

The response of the multilateral development banks in Africa, Asia and Latin America to the ‘global financial crisis’ has been to promote all the more intensively the agenda of structural reform and social transformation put together primarily by the World Bank and the OECD through the 1990s and the first decade of the present century. To this extent, they have carried on as if the crisis never happened. But in addition, they have responded to the new shape of the global economy by arguing strongly for inter-regional and South-South trade and investment, and promoting broadly market-conforming strategies of industrial development focused on competitive advantage and selective insertion into global value chains. In particular, they have addressed, because material developments in the global economy have prompted them to do so, the means by which labour markets and social protection might be made compatible with (and constitutive of) competition on a genuinely global scale. The regionally and temporally specific circumstances of post-war welfare regimes and their demise in Western Europe in particular, which constituted a prelude to capitalism on a global scale and were premised on the only *partial character* of competitiveness across the world market as a whole, and loom so large in the

spatially and temporally foreshortened perceptions of IPE, are definitively behind us. The global regimes of the future are being hammered out in the OECD-World Bank-MDG complex: once again, whoever you are, *de te fabula narratur*.

II – Regional perspectives: productivity, innovation and competitiveness

The perspective of the ADB, developed primarily in its successive annual *Outlooks* and interim *Updates*, is better seen as in the tradition of classical political economy than in terms of its neoclassical or neoliberal successors. Its latest edition celebrates resilient growth in the region underpinned by ‘conscientious reform’, and urges governments in developing Asia to continue on the agenda of structural reform (ADB, 2015: 3) – by which it means, *inter alia*, a backdrop of sound and efficient financial systems and prudent fiscal frameworks, and diversified industrial bases and export markets brought about by the removal of structural bottlenecks (impediments to the movement of goods and labour), and the consolidation of an improved business climate. The particular focus of the current *Outlook* is financial reform, as part of a larger package in which the emphasis is on long-term finance for productivity-led growth:

Reform offers, however, no single path to productivity growth. Rather, reform needs to create a mix of virtues, including better infrastructure and human capital, more open trade, an efficient and well-developed financial system, and economic institutions that promote competition and encourage entrepreneurship and innovation. Only an appropriate set of targeted and interlocking reforms can achieve structural change, improve resource allocation, and increase technology transfer. Reform priorities will have to vary depending on income group targeted and how technologically advanced the economy is (*ibid*: 61; cf Box 2.2.2, p. 62).

The case of the ADB is pretty straightforward. It champions the capitalist development of the

region without qualification, and it has built on and supported material processes of regionalisation (physical infrastructure in energy, transport and communications, and regional production chains), and developed a comprehensive regional project informed by an ideology of competitiveness aimed at transforming states and instituting a global capitalist world order. At the heart of the project is labour productivity as the key to competitiveness in the global economy, as stated most forcefully in a special chapter on competitiveness in Asia in the 2003 *Outlook*: whereas ‘in common parlance, competitiveness is used to cover almost any aspect of market performance and its overuse may detract from its importance,” it remarked, ‘the key variable for the economic analysis of competitiveness is the growth of labour productivity since this, ultimately, is the main determinant in raising living standards. This is what competitiveness is about’ (ADB, 2003a: 206). It does not doubt the capacity of Asia to take the lead in global economic development, but consistently insists on the need for unremitting structural reform for this prospect to be realized, as the 2015 *Outlook* again confirms.

The African Development Bank strikes the same note in its account of ‘Africa’s vision’, in which:

sound policies and better infrastructure will drive Africa’s transformation by improving the conditions for private sector development and by boosting investment, entrepreneurship and micro, small and medium enterprises. In this context, transformation means diversifying the sources of economic growth and opportunity in a way that promotes higher productivity resulting in sustained and inclusive economic growth. It also means supporting the development of industries that increase the impact of the existing sources of comparative advantage and enhance Africa’s global competitive position (AfDB, 2013: 5-6).

However, Africa is not Asia, being overall the least developed of the three regions under consideration. In pursuit of its agenda, the 2014 African Development Report focuses on regional integration through infrastructural development: ‘The continent’s underdeveloped infrastructure is largely to blame for its low levels of competitiveness and productivity, low share of exports in world exports, and low levels of intra-regional trade’ (AfDB, 2014a: xvii). It then moves through labour mobility and financial integration to conclude with a proposal for the development of *regional* value chains:

The nature of global production has changed and firms and countries are no longer seeking their comparative advantages in whole product lines but in niches that supply only portions of the global demand for goods and services. Africa is, however, not yet at the stage to fully benefit from global value chains, indeed given its dependence on raw material production, issues of value addition still loom large. The challenges include the small size of national and regional markets, limited pool of capital and management skills, and inadequate infrastructure for telecommunication, transportation, storage, and energy supply. However, linking to Africa’s regional value chains is becoming a more realistic proposition (ibid: xx; see also Table 6.1, p. 98).

Whereas Africa is climbing the value chain from the bottom, in circumstances where labour and product markets and systems of social protection are highly uneven and largely rudimentary, the leading Latin American economies (Argentina, Brazil and Mexico) have an early history of incorporation into the global economy on the basis of commodity exports, and a century-long history of industrialization focused primarily on high-cost production for the domestic market and its subsequent crisis. In the early years of the present century a set of key IDB strategy documents addressed the ‘puzzle’ of relatively slow growth despite pro-market reforms aimed at the improvement of

the human capital of the poor and increased employment and income-generating opportunities, focusing in particular on the failure to improve productivity. In pursuit of this goal the IDB emphasized:

the importance of increasing the region's participation in world markets through regional integration, since a dynamic export sector that takes full benefit of the region's comparative advantage is a key element to improve the possibilities of economic growth; the need to promote social development and enhance human and social capital, since they provide the foundations to improve labour productivity and to provide a favourable environment for productive activities; the need to include actions to improve productivity and the income of the poorest and excluded populations, since actions that directly benefit marginalized populations and those to promote sustainable economic development are complementary in most cases; and the need to ensure environmental sustainability, since it is key for the consolidation of the comparative advantages of the region, the promotion of long term productivity, and to ensure sustainable economic growth (IDB, 2003: ii).

The same focus remains in place today, under the name of 'productive development,' or 'new industrial policies .. aimed at improving the competitiveness of domestic producers in the new, more integrated and open world economy' (Melo & Rodriguez-Clare, 2006: 12). But it was thrown off course, ironically, not by the crisis but by rampant Chinese demand for raw materials in combination with abundant access to capital at low interest rates, which gave rise to what the IDB described in 2008 in a document portentously entitled *All That Glitters May Not Be Gold*, as 'five years of exceptionally good times' (IDB, 2008). The principal concerns at the time were that strong growth and rising income were combined with increased inequality and low levels of productivity. As noted, as the point needs to be reinforced, this syndrome arose from a reversion to commodity exports to meet rising Asian demand, in circumstances where Asian

competition made it difficult to compete in the world market for manufactured goods. So the IDB has consistently urged Latin American and Caribbean countries to keep their eyes on the need for structural reforms to raise productivity and enhance competitiveness, making this, in different ways, the focus of successive macroeconomic reports from 2009 onwards. Continuing doggedly to plough this furrow, the latest annual macroeconomic report warns at the outset that 'while the baseline forecast implies a per capita growth rate of about 2.2% for this decade, the region would have to significantly boost productivity to achieve per capita growth rates as high as other successful regions' (IDB, 2015: 1).

III – Regulating global capitalism

The wage and welfare regimes of 'golden age' Western Europe that still dominate the imaginary of 'IPE' as normal, aspirational or critical points of reference did not arise in the context of competitiveness across the world market as a whole, and were not consistent with it. Social protection in such regimes, in other words, was protection *from* the market, and intended to be so. In a hard fought period of class struggle that is by no means over in Western Europe, such regimes have been largely overturned. Behind the scenes, the OECD and World Bank in particular have led the way in promoting the reform of labour markets and of social 'protection' so that they conform to and reproduce the logic of competitiveness rather than shielding citizens from its effects (Cammack, 2012). The MDBs, following OECD-World Bank models, encourage their country partners to develop systems of social protection that promote availability for work, and capacity to work productively. They represent the leading edge of the creation and implementation of regimes of social protection conducive to competitiveness on a global scale, and they are explicitly conscious of the fact. As ever, the

ADB was first in the field, insisting as early as 2000 that workers ‘must have the opportunity and incentives to shift between jobs and sectors as the economy’s structure changes. If workers are unemployed or under-employed because they lack skills, because the minimum wage is too high, or because wage increases significantly outstrip productivity gains, this will limit the potential for rapid economic growth and poverty reduction’ (ADB, 2000: 210). It went on from there to advocate ‘fiscally prudent [social protection] programmes that effectively supplement private safety nets’ (ibid: 225). The subsequent social protection strategy, approved in 2001 and published in 2003, with its logic that: ‘Household informal safety nets are no longer adequate—modernization requires the provision of social protection systems for the workforce to ensure higher productivity gains, increased domestic demand, and economic growth’, remains in place (ADB, 2003b: 2).

The IDB asserts the same logic:

Despite their best intentions, social policies that are not aligned with productivity will set Latin America and the Caribbean on a path to lower welfare. Smarter social spending needs to be a key response to the challenging scenario of protracted low growth—by promoting better-functioning labour markets, encouraging human capital accumulation, helping workers to be more effective in their jobs, and ultimately .. closing productivity gaps with other regions (IDB, 2015: 52).

Its response is to promote ‘policy options that are compatible with promoting income stability while maintaining incentives for participation in the formal sector, to increase long-run productivity’ (ibid: 56), and to urge the need to *Exercise Caution with Respect to Creating Potentially Costly and Irreversible Commitments* (ibid: 58, emphasis in the original).

The AfDB, touching briefly on safety nets as part of a broader (undefined) social protection

agenda in its current strategy, argues similarly that providing basic services ‘will ease the burden of women and free their time for more productive activities’; targeting youth with information about jobs and market needs and access to technical and entrepreneurial skills will enable them to move out of ‘low-productivity and poor-quality jobs, mostly in the informal economy’; supporting fragile states will address issues of poor infrastructure that ‘depresses their productivity by 40%’; and in general that safety nets ‘cushion economic and social shocks, thus helping to include the excluded and vulnerable in the benefits of broad economic opportunities’ (AfDB, 2013: 11). Overall, then, the regimes of social protection upon which the three MDBs considered are converging are prototypes for a global social protection regime consistent with and supportive of the maximum availability of productive workers across the world market.

Rather than being seen as derivative of the ‘neoliberal’ retrenchment of welfare in the specific context of late twentieth century Europe, I argue, this should be seen as reflective of a broader logic of global competitiveness consistent with classical perspectives on labour utilization from Adam Smith onwards – the emphasis on the need to shift workers from the informal to the formal sector is a crucially significant case in point. In fact, if one identifies the division of labour, international trade and the accumulation of capital as staples of classical political economy, the policies of the MDGs fall directly into a classical framework. Nowhere is this more the case than with the division of labour, on an international scale. As the reference above to ‘regional value chains’ in the case of Africa illustrates, all three Banks place integration into global value chains at whatever level at the centre of their policy objectives, and have devoted recent volumes to its analysis and advocacy, the African Development Bank in

association with the OECD (ADB, 2014; AfDB, 2014b; Blyde, 2014). In promoting the division of labour on a global scale, the MDBs are simultaneously working together to organize labour markets on a global scale. And as the ADB is keen to point out, this is merely the latest stage in the uninterrupted division of labour sparked off by the industrial revolution:

In what Baldwin (2006) called the “first great unbundling,” steam power radically lowered transport and trade costs, creating the conditions needed to spatially separate production and consumption. Greatly augmented much later by containerization, this process dispersed production internationally but did not weaken its concentration within factories and industrial districts. Fragmented production, or the “second great unbundling,” started in the late 1980s with the advent of the information and communication technology (ICT) revolution, which saw telecommunication and transmission capacity become cheaper and more reliable, and computing power increase and diffuse very rapidly. The technological revolution radically lowered the coordination costs that had constrained the unbundling of factories spatially (ADB, 2014: 38).

IV – Critique

The developments briefly recapitulated here should be seen, then, as reflecting the response of the MDGs to the emergence and consolidation of a new stage in the development of the world market. This being so, the pertinent point of reference is not ‘IPE’ in any of its manifestations, but the classical Marxist critique of political economy. If there is one passage from the work of Marx and Engels that ‘everybody knows’, it is the section of the *Manifesto of the Communist Party* (1847-48) that leads up to the statement that the bourgeoisie, through its exploitation of the world market, ‘compels all nations, on pain of extinction, to adopt the bourgeois mode of production’ (Marx & Engels, 1973: 71). The

argument had been rehearsed a couple of years earlier in the *Critique of the German Ideology* (1845-46), with its insistence that large-scale industry and universal competition ‘produced world history for the first time, insofar as it made all civilised nations and every individual member of them dependent for the satisfaction of their wants on the whole world, thus destroying the former natural exclusiveness of separate nations’ (Marx & Engels, 1975: 73). It appeared again, in dramatic form, in the 1849 pamphlet, *Wage Labour and Capital*:

If we now picture to ourselves this feverish simultaneous agitation on the whole world market, it will be comprehensible how the growth, accumulation and concentration of capital results in an uninterrupted division of labour, and in the application of new and the perfecting of old machinery precipitately and on an ever more gigantic scale. ... The more productive capital grows, the more the division of labour and the application of machinery expands (Marx, 1950: 94, 96, emphasis in the original).

As suggested at the outset, the emergence of these processes on a genuinely global scale is only now becoming a material reality. Marx and Engels argued that ‘the mass of mere workers — mass labour-power cut off from capital or from even limited satisfaction [of their needs] and therefore also [facing] through competition the no longer merely temporary loss of work as a secure source of life —presupposes the world market’ (Marx & Engels, 1975: 49; (rather free) translation and emphasis mine). It is suggested, then, that the regulatory regimes being developed in the World Bank-OECD-MDG complex represent the first intimations of the future shape of a global regulatory framework for the world market through competition, and the prelude, therefore, to the creation of a proletariat on a global scale.

REFERENCES

- ADB (2000). *Asian Development Outlook 2000*. Manila: ADB.
- ADB (2003a). *Asian Development Outlook 2003*. Manila: ADB.
- ADB (2003b). *Social Protection: Our Framework, Policies and Strategies*. Manila: ADB.
- ADB (2014). *Asian Development Outlook 2014 Update: Asia in Global Value Chains*. Manila: ADB.
- ADB (2015). *Asian Development Outlook 2015: Financing Asia's Future Growth*. Manila: ADB.
- AfDB (2013). *At the Center of Africa's Transformation: Strategy for 2013-2022*. Tunis: AfDB.
- AfDB (2014a). *African Development Report 2014: Regional Integration for Inclusive Growth*. Abidjan: AfDB.
- AfDB (2014b). *African Economic Outlook 2014: Global Value Chains and Africa's Industrialisation*. Paris: OECD.
- Baldwin, Richard (2006). *Globalisation: the great unbundling(s)*. Prime Minister's Office, Economic Council of Finland, pp. 47.
- Blyde, Juan S. (ed) (2014). *Synchronized Factories: Latin America and the Caribbean in the Era of Global Value Chains*. Washington DC: ADB/Springer.
- Cammack, Paul (2012). Risk, social protection and the world market. *Journal of Contemporary Asia*, 42(3), 359-377.
- IDB (2003). *Sustainable Economic Growth: Strategy Document GN-2227-1*.
- IDB. (2008). *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic performance*. Washington: IDB.
- IDB (2015). *The Labrynth: How Can Latin America and the Caribbean Navigate the Global Economy*. Washington DC: IDB.
- Marx, Karl (1950). *Wage Labour and Capital*. In Karl Marx and Friedrich Engels, *Selected Works*, Volume 1 (pp. 74-97). London: Lawrence & Wishart.
- Marx, Karl, & Engels, Friedrich (1973). *Manifesto of the Communist Party*. In David Fernbach (Ed.), *Karl Marx: The Revolutions of 1848 (Political Writings, vol. 1, pp. 67-98)*. London: Penguin/New Left Review.
- Marx, Karl, & Engels, Friedrich (1975). *Critique of the German Ideology*. In *Collected Works*, vol. 5 (pp. 19-608). London: Lawrence & Wishart.
- Melo, Alberto, & Rodriguez-Clare, Andres (2006). *Productive Development Policies and Supporting Institutions in Latin America and the Caribbean*. Competitiveness Studies, Research Department, C-106.