

## Neoliberalism Has Not Helped World's South

di Antonio Guizzetti

For a brief period after World War II, Third World nations played an active role in shaping the world economic order and fostering development. For all its promises and a few success stories, neoliberalism has not done the same.

Whatever happened to the liberal world order? As nations from the Global North sought to unite against Russia's attack on Ukraine, reluctance to take a similarly hostile attitude toward Vladimir Putin's government characterized the response of much of the developing world. Although most of the governments of the Global South were willing to vote for a UN resolution condemning Russia's invasion, many responded tepidly to Western calls for world unity on sanctions. There is a simple, material explanation for this: economic life in the Global South is considerably more precarious than in the Global North, and therefore considerably more sensitive to fluctuations in the supply of Russian-produced commodities like oil and wheat. Together, Russia and Ukraine produce 15% of the world's grain, and the disruption to global supplies resulting from the ongoing war has been felt most severely in the Global South. Russia is the source of 100% of Somalia and Benin's imported wheat, 94% of Laos's, 82% of Egypt's, and 75% of Sudan's. On March 28, the Financial Times reported that the war in Ukraine threatens to do lasting damage to the economies of low- and middle-income countries pushing millions into poverty and dozens of countries into a debt crisis. Lacking the vast capital reserves, large populations of sufficiently wealthy consumers, and diversified economies common in Europe and North America, the developing economies of the southern hemisphere are uniquely vulnerable to swift changes in commodity prices like those caused by the war and sanctions regime. This lack of capital, affluent consumers, and economic diversity is the consequence of the very liberal order the sanctions are meant to defend. Understanding how this came to be so is critical to recognizing that many of the gravest threats to global peace and stability come not from outside global liberalism but from the very nature of the system itself.

The economic fragility so disruptive to life in the Global South relates to a phenomenon with a specific, technical name, specialization, which liberals have always regarded as a positive outcome of an open global economy. As the classical liberal economist Thomas Sowell put it in his 2004 polemic *Basic Economics*, open international trade allows further extension of the division of function that marks every modern economy and therefore lets specialists produce better products at lower costs, getting more output from scarce resources than alternative systems.

Absent an international framework of regulation to ensure otherwise, specialization always militates for capital to flow where the money market demands, for jobs to appear where they cost the least, and for commodities and manufactured goods to be produced at the lowest cost possible. The costs such changes impose on the societies involved an unfortunate but necessary toll paid to the highwayman of modernity. This is not to say that specialization is automatically a path to poverty. Liberal economists are right to point to cases where specialisation can, and has, led to spectacular economic growth as in the developmental states of South Korea, Taiwan, and Singapore. It is instead to point out that the rareness of such exceptions proves the rule: the pattern of specialization that arises in the absence of more democratic international economic decision-making leaves postcolonial economies in a precarious position by design. Some are able to leverage this to spectacular growth. Most are not, left instead perpetually in the ranks of developing nations, their vulnerability to the whims of politicians and consumers in the old imperial centres no longer a conspiracy to be denied but merely good economic sense to be celebrated. That freer and freer trade might consign much the world to such a permanent seat in the “waiting room of modernity” was something American policymakers and planners were once willing to admit.

In the summer of 1944 — as the final battles of World War II raged across Europe and the Pacific — the United States, Great Britain, and their allies met in Bretton Woods, New Hampshire, to lay down the foundation for the economic order following the war. Though the British and Americans played an unsurprisingly dominant role in the meeting, the historian Eric Helleiner has shown that the interests of developing states in the Global South were by no means ignored. The system that did eventually emerge out of Bretton Woods reflected, however misguidedly, the concerns of nations from the developing world. Seeking to avoid the impression that the United States was merely dictating what the post-war world should look like, US planners were careful to work to build consensus among the forty-four nations represented (more than half being from the Global South). Key here was a belief that unrestricted free trade was unlikely to produce widespread wealth and economic growth in non-industrialised economies. The reasoning was simple enough: without tariffs or other forms of trade protection for nascent industries, it was thought that the industrialized regions of the world would be able to flood Global South markets with goods at prices local manufacturers couldn’t compete with, stymying development. Absent such industrial growth, the Global South would remain stuck in an unpromising position: dependent for income on notoriously unstable global commodities markets. As it has been shown on the comparative studies of India and South Korea, in many cases the exact opposite took place. Nations from the Global South implemented a regime of tariffs that protected national capitalists

who took advantage of the absence of competition to form monopolies, living off the largess of the state and undermining development. This would, however, come later. The system that did eventually emerge out of Bretton Woods reflected, however misguidedly, the concerns of nations from the developing world. The International Bank for Recovery and Development (IRBD, now part of the World Bank) had its development goals built into its name, intended to organize financing for projects in the Global South. It was also expected that the new International Monetary Fund (IMF) would provide financing necessary for programs to stabilize commodity markets. Finally, a new International Trade Organization (ITO), designed in detail at a later conference in Havana, would supposedly ensure tariffs were coordinated with development goals, not just freer trade, in mind. In her recent study of Mexican influence on global economic order, Christy Thornton has notes that, Mexico and other poorer countries had succeeded in important ways at Bretton Woods in putting development issues front and center in the planned postwar order. This is a fleeting accomplishment. The emerging Cold War and changing political coalitions in the United States left the development side of Bretton Woods, such as it was, behind. Despite global interest, the ITO was killed by the failure of Congress to ratify the treaty, while US voting power in the IMF and IRBD ensured that monies there were used in a way that reflected growing American skepticism of development projects outside direct US control. The mood in the United States at the time was perhaps best expressed by the US National Association of Manufacturers' dismissal of the ITO as a scheme to make the world safe for socialist planning. This is not to say that the US had abandoned development projects per se, but that such projects needed to be justified by anti-communism and remain under tight US control. The best funded and executed example of this was, of course, the Marshall Plan, the Truman administration's program to rebuild the European continent. Successful by any measure, the Marshall Plan restored Western Europe to its prewar place in the global industrial and financial hierarchy. While the United States showed a flexibility with its European allies it rarely showed towards the Global South, the Marshall Plan was no free lunch; its requirements were designed to draw Europe further into US-dominated trade networks. Similar requirements usually accompanied American development efforts in the Global South. The most impressive on paper was the Alliance for Progress, a John F. Kennedy-era "nation-building" program in Latin America. Yet for all the funds that flowed from the United States southward, the Alliance required beneficiary countries to remain open to the global market in such a way that sustained industrial development was unlikely, an economy awash in American goods and American capital was unlikely to see additional local industrial activity. In the end, the Alliance did little more than line the pockets of local elites who benefited from the existing raw material export-oriented structure of most Latin

American economies. When figures arose who might have challenged that structure, the CIA was generally happy to provide support for reactionary forces seeking their removal, as they did, for example, with the 1964 military coup that removed Brazilian president João Goulart before his basic reforms program could be implemented. But even these development (or modernisation) programs eventually fell from favor in the United States, largely due to the spectacular failure of the United States' most ambitious modernisation project: South Vietnam. By the 1980s, therefore, the idea that there had ever been anything unfair about the structure of the global economy was something the US government was unwilling to accept. President Ronald Reagan expressed the new American view well while speaking in Cancun at the North-South Summit on the world economy in 1981. The road to prosperity and human fulfillment is lighted by economic freedom and individual incentive, he told the assembled delegates. This was proven by the United States' own experience, he claimed: We know it works. It's just as exciting, successful, and revolutionary as it was two hundred years ago.

That the United States had used tariffs in the nineteenth century to protect its developing industries from European competition was, of course, something Reagan didn't mention. This despite the fact that, in his youth, and well into the middle of the twentieth century, pro-secessionist slaveholders like John C. Calhoun were treated as celebrated American statesmen in most high school curriculums. Calhoun rose to national prominence in part by opposing the 1828 "Tariff of Abominations," designed to protect New England industry from cheaper English manufactured goods. Indeed, American politics in the first half of the nineteenth century was largely animated by a battle between those in the Whig and Republican parties who believed in tariffs and development programs and those, like Calhoun, who wanted to maintain a Southern economy premised upon the exploitation of black slave labor and the export of raw materials (cotton in this case). Northern victory in the Civil War was key to the subsequent industrialisation of the country with the North reorienting the Southern economy away from one premised on slave labor and foreign export to one based on low wages and supplying Northern industrial renters. This whole complicated history was, unsurprisingly, left aside by Reagan, always adept at using an invented past to drive policies in the present, who claimed that American history proved the contrary example: limited government intervention and openness to global markets was the path to growth. This was not an idle historical fantasy; it ultimately shaped the policy of US-dominated global financial institutions like the IMF and World Bank. Surging oil prices in the 1970s forced many states in the Global South to borrow heavily, only to confront unsustainable debts when commodity prices then sharply declined in the 1980s. Desperate for financial help, low- and middle-income countries across the South, particularly in Latin America, accepted Northern

mandated structural adjustment terms that forced them to cut government spending, preventing them from creating developmental states of their own. American policymakers were aware that these requirements would be difficult to implement, to say the least, but insisted that Reagan's liberal fantasy was the only true path to sustained economic growth.

Decades later, it is no surprise that much of the Global South has been slow to run to the rallying cry of unity against Russia in defense of the liberal world order.