FINANCIAL LIBERALISATION, DEREGULATED LABOUR MARKETS AND THE INSTABILITY OF THE NEOLIBERAL GLOBALISATION PROJECT

Hansjörg Herr
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Historically market mechanisms were never before so widespread and dominating all over the globe. It seems that capitalism for the first time in history became a world system including all developed and developing countries. At the same time the relative stable market constellation of the first decades after World War II has changed into a fragile market constellation with a more powerful role of asset markets, a more unequal income distribution and strong destabilising forces. The deregulation and globalisation, which gathered momentum in recent decades, led to a weakening of the institutions that had previously stabilised economic development. Unregulated market forces, which lead to unstable and partially self-reinforcing processes, have gained ground. The following mechanisms interact:

In the 1970s international financial markets became more liberalised as controls of international capital flows were dismantled. The Bretton woods system which delivered a stable monetary umbrella over the at that time market determined world was destroyed. Foreign exchange markets became a place of currency competition, quick and deep changes of expectations and speculation. Exchange rate movements between the world's leading currencies are volatile and create permanent shocks for assets, goods and labour markets. Huge capital flows led to current account imbalances unknown in the 1950s and 1960s. At the same time the world currency system after World War II developed from a hegemonic system with the US dollar at the top of the currency hierarchy to a multi-currency system. The US dollar still is number one in the world, however, has competitors like the euro. The logic of a multi-currency system leads towards an intensive currency competition and potentially to huge portfolio shifts and exchange rate instability within the developed world.

Along with the deregulation of international financial markets domestic financial markets were liberalised. Stock markets and real estate markets are now much more characterised by asset price inflations and asset price deflations. Asset bubbles and their implosion are additionally fuelled by international capital flows. Due to balance sheet effects asset price deflations can have and had very negative repercussions for financial systems. Japan after the bust of the asset price bubble at the end of the 1980s is a good example of the high costs of an asset price deflation. The US-subprime crisis which started in 2007 and excellateted in 2008 is the latest example of a desastours asset price deflation.

Also between the developed countries and many of the developing countries capital flows were deregulated. Boom-bust cycles with high periodical capital inflows in developing countries and sudden outflows dominate the scene. Due to in many cases high foreign debt in foreign currency depreciations led to twin crises with a simultaneous currency and domestic financial crises. The list of twin crises is long and is also a list of costly adjustments and high economic and social costs. The subprime seems to trigger high capital outflows from developing countries. South Africa, Turkey, Vietnam and some Central and Eastern European countries may suffer from twin-crises soon.

The creeping erosion of the nominal wage anchor in many Western countries as a result of the weakening of trade unions, changes in labour market institutions and the dominance of neoclassical thinking brought back deflation which was sought to be defeated after the 1930s. Japan in the 1990s started to suffer from deflation. The developing recession after the subprime crises may lead to deflationary tendencies in many countries.

The deregulation of labour markets and shocks from the world market led to low-wage sectors in nearly all countries in the world. Distribution within the working class became much more unequal. At the same time the financial system absorbed higher parts of income creation, reduced the wage quota and added substantially to the more unequal income distribution. Changes in the corporate government system, the switch to the share-holder-value system, led the income of management explode. In the 1950s and 1960s demand was driven by purchasing power of the workers, today demand is driven by the much more unstable demand of the rich and super-rich.

All of the above mentioned aspects of deregulation have instability potentials. It becomes clear that asset markets (stock markets, real estate markets, foreign exchange markets, , natural resource markets) have no stable price anchor. Asset prices are driven by unstable expectations and speculation. Taken together the deregulation of asset and labour markets created a rather bitter cocktail offered for future development.

The world needs a fundamental re-regulation to make globalisation a project with more winners than now. A key area for reform is the a (re-)regulation of international and national financial markets. Reforms include, for example, a prevention of asset price inflations, the control of financial innovation and financial products, the supervision of all financial institutions (including investment banks and hedge funds), the reduction of speculation in all asset markets, a reform of the corporate governance system, the dry up of offshore-centres, etc. International capital flows, exchange rate movements and current account imbalances must be controlled and stabilized as well. A new kind of Bretton-Woods system is desirable.

Also labour markets need (re-)regulation. In the neoliberal economic and political debate there is a great consensus that labour market flexibility is a good way to solve problems of unemployment and globalisation. The tragedy is that all of the created flexibility in labour markets added to instability, inequality and uncertainty. The role of nominal wages as a stable nominal anchor has to be strengthened again. Government policies are needed to support union policies especially in countries and industries unions are weak. Minimum wages are an important instrument to prevent deflationary development and limit wage spreads.