10.4: Globalization and Neoliberalism

One reason that poverty has remained a key characteristic of the global economy is a suite of policy initiatives based on the economic philosophy of neoliberalism that have arguably failed the world’s poorest and most vulnerable. Since the 1970s, according to Stewart Firth (2005), the priority of the state has been to create and implement policies that promote a neoliberal economic agenda. That is, the opening up and deregulation of markets and the privatisation of essential services. In his book Globalization and its Discontents (2002), former World Bank chief economist and Nobel laureate Joseph Stiglitz provides a number of examples that highlight how the free market neoliberal agenda has driven the agenda of international institutions such as the International Monetary Fund and the World Trade Organization since the 1970s. This has seen trade deals and reforms that minimise the role of government, the removal of trade barriers – even ones that protect workers’ rights – and a reliance on the flawed belief that economic growth and increases in wealth will eventually trickle down to all segments of society. These organisations have fundamentally altered the traditional role of the state, whose priority has been more with the promotion and protection of an open, market-orientated system. States focused on the market often fail to meet the needs of the majority of the population and address poverty. Hence, the philosophy of globalisation, if viewed through the lens of neoliberal policies, has resulted in the welfare of citizens being diminished at many levels.

The global financial crisis of 2008 highlights a bigger challenge for globalisation in addressing the poverty issue. This event began in one nation and quickly reverberated across the world. Due to the interconnected nature of the global economy, what started out as a collapse of the American subprime mortgage market ended up having implications for markets outside the United States. Efforts to reduce poverty were impacted as recession and wealth contraction led to less money being available. Nations prioritised spending at home and foreign direct investment fell as corporations delayed or cancelled projects. These events had negative outcomes with regard to poverty levels in developed nations, but even more so for citizens in developing countries. While significant economic events like this are not common, the risk always remains that in an interconnected global economy the poorest will suffer the most when economic shocks occur.