Globalization And Its Discontents

Joseph Stiglitz

Globalization

- Globalization has many definitions, but generally it refers to various global interconnections
- The interconnections exist across a variety of human activities
  - Economic
  - Social
  - Political
  - Cultural
  - Biological

Globalization

- Globalization has many inherent contradictions including
  - It integrates and disintegrates
  - It fosters cooperation and conflict
  - It engenders order and disorder
  - It is divisive and unifying

- Some view it as a net positive, others as a net negative

- So far, globalization has had both positive and negative effects on global peace

Economic Globalization

- Increasing economic interconnectivity
  - International division of labor
  - Rapidly expanding volume of capital flows
  - Capital remains concentrated among the wealthiest nations
  - Power in the hands of stock, bond and currency traders moving funds around the world
  - Multinational corporations looking for most efficient, low-cost producers
  - Beginning to replace governments as primary source of capital for both companies and countries

citigroup

Economic Globalization

- Mixed evidence as to the effect of economic globalization
  - Unsure whether it exacerbates or reduces economic inequality
  - Economic interdependence is related to more peaceful relations, but those left behind tend to be resentful

Politics and Globalization

- Nation states are less able to control social and economic events within their territory

- Global/regional decision-making bodies (UN, EU, etc.) are rising in importance but…
  - They are not yet fully democratic/ accountable

- "CNN" effect pressures governments to intervene on human rights violations

- International non-state actors have gained power

Technology and Globalization

- Increases access to information, but…
  - Access is unevenly distributed
  - Has made it easier to seek out like-minded voices and avoid opposing views

- Makes surveillance and certain types of control easier



Cultural Globalization

- Increases exposure to foreign ideas and practices, but…
  - Cultural exports are disproportionately from western countries, particularly the U.S.
  - In some cases, has resulted in “commoditization” of cultures

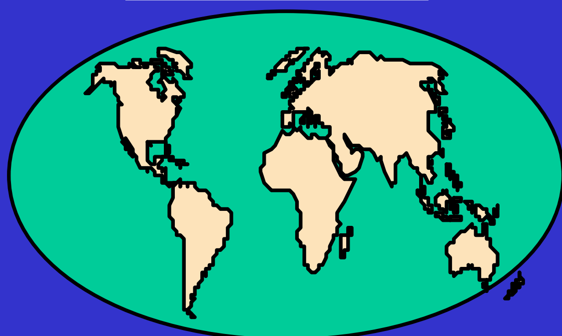
- Some ethnic and religious groups feel culturally threatened by globalization
  - Has resulted in a sharp increase in reactionary “nationalist” and “fanatical” groups
  - Has “killed” some cultures

“Drivers” of Globalization - Technological Change

- **Globalization of markets and production**
  - **result of lowering of trade barriers**
  - **enabled by technological change**
- **Telecommunications and microprocessors**
- **The internet and the world-wide web**
- **Transportation technology**

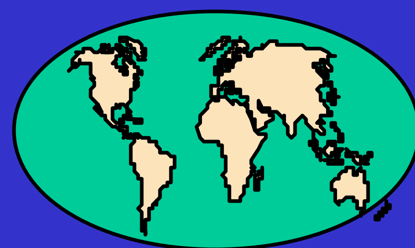
The Shrinking Globe

1500 -1840



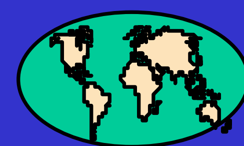
Best average speed of horse-drawn coaches and sailing ships, 10 mph.

1850 - 1930



Steam locomotives average 65 mph. Steamships average 36 mph.

1950s



Propeller aircraft 300 - 400 mph.

1960s

Jet passenger aircraft, 500 - 700 mph.

Drivers” of Globalization:
Declining Trade and Investment Barriers

Average Tariff Rates on Manufactured Products

(% value)

	1913	1950	1990	2002
France	21	18	5.9	4.0
Germany	20	26	5.9	4.0
Italy	18	25	5.9	4.0
Japan	30	–	5.3	3.8
Holland	5	11	5.9	4.0
Sweden	20	9	4.4	4.0
Britain	–	23	5.9	4.0
USA	21	18	5.9	4.0

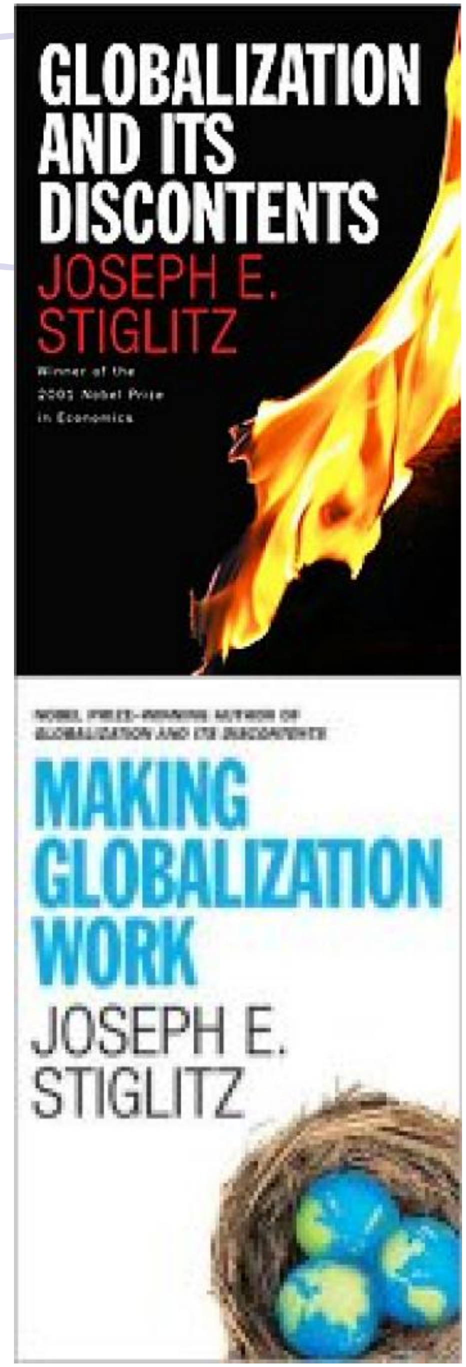
About Joseph E. Stiglitz

- One of the most celebrated dissenters of globalization.
- Chief Economist of the World Bank till Jan 2000.
- Nobel Prize in Economics in 2001.
- Chairman of Clinton’s Council of Economic Advisors.
- Currently teaching at the Columbia University.

Stiglitz says:
The average European cow gets a subsidy of £1.20 a day, more than what is earned by half the people in the developing world. For much of that world, globalization seems like a pact with the devil.

Books by Stiglitz

- Making Globalization Work
- The Roaring Nineties
- Globalization And Its Discontents
- Fair Trade for all
- Stability for Growth
- And many more.



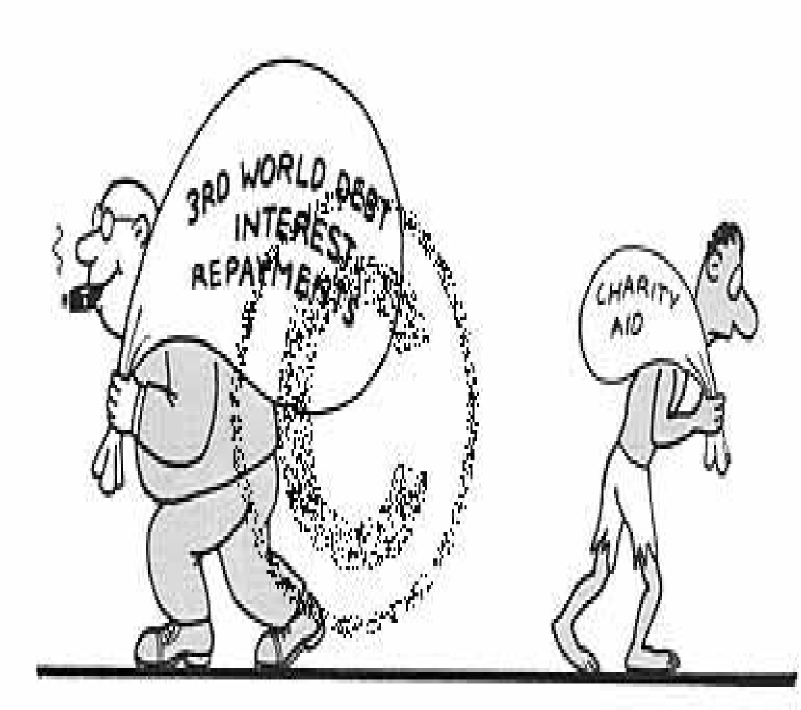
Stiglitz's transition

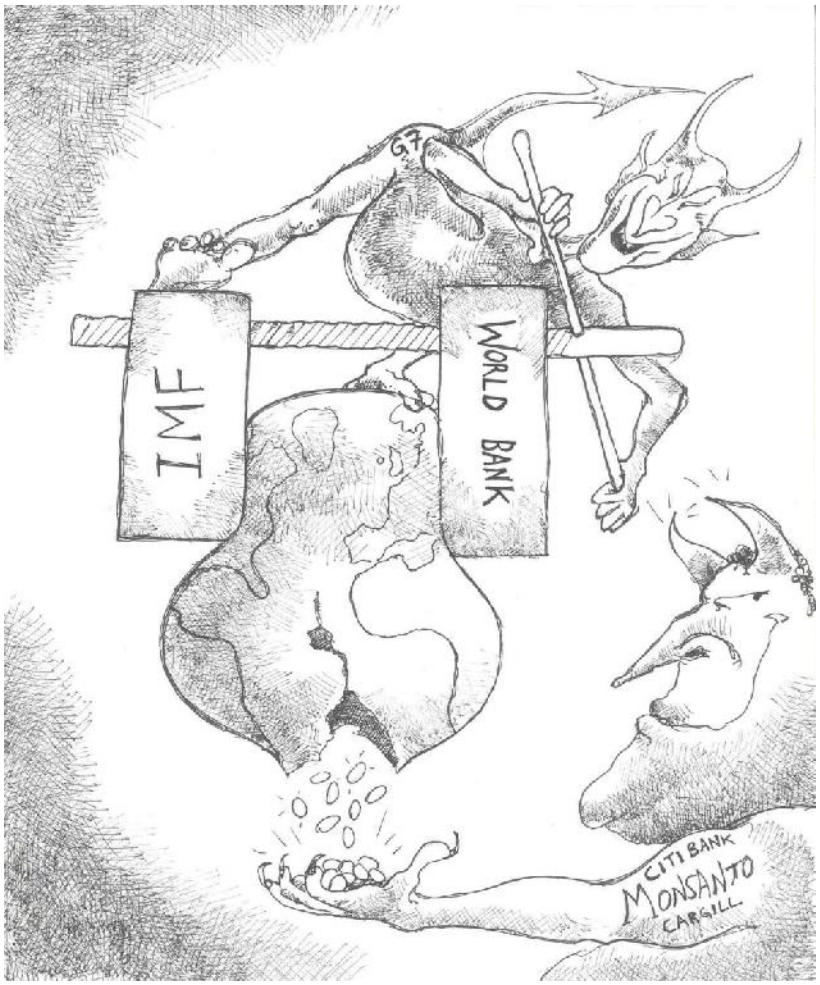
I was in the White House as Russia began its transition from communism and I worked at the Bank during the financial crisis that began in East Asia in 1997 and eventually enveloped the world. I had always been interested in economic development and what I saw radically changed my views of both globalization and development. I have written this book because while I was at the World Bank, I saw firsthand the devastating effect that globalization can have on developing countries, and especially the poor within those countries.

Stiglitz’s transition

I believe that globalization— the removal of barriers to free trade and the closer integration of national economies—can be a force for good and that it has the potential to enrich everyone in the world, particularly the poor. But I also believe that if this is to be the case, the way globalization has been managed, including the international trade agreements that have played such a large role in removing those barriers and the policies that have been imposed on developing countries in the process of globalization, need to be radically rethought.

Globalization and Its Discontents





What is the phenomenon of Globalization?

- Closer integration of countries & peoples of the world that has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flow of goods, services, knowledge and people across borders
- Creation of new institutions working across borders
- Three main institutions govern globalization: IMF, World Bank and WTO

The Promise of Global Institutions

Globalization has helped:

- Countries grow faster by opening up to international trade
- Reduce the sense of isolation
- Millions by bringing them foreign aid benefits

Then, why has globalization become so controversial?

The Promise of Global Institutions (Cont.)

- Growing divide between haves and have-nots has left increasing numbers in the Third World in dire poverty
- Neither has globalization succeeded in ensuring stability
- Western countries have pushed poorer countries to eliminate trade barriers
- Environment has been destroyed

The Promise of Global Institutions (Cont.)

- IMF was founded on the belief that there was a need for collective action at the global level for economic stability
- IMF is a public institution established with money provided by taxpayers around the world
- Major developed countries run the show, with only the USA having effective veto

The Promise of Global Institutions (Cont.)

- Around early 1980s, the activities of the IMF and World Bank became intertwined
- The Bank went beyond lending for projects to providing broad-based support, in the form of *structural adjustment loans*, approved by IMF
- However, there was division of labour: IMF restricted itself to matters of macroeconomics in dealing with a country; World Bank was in charge of structural issues

The Promise of Global Institutions (Cont.)

- These institutions could have provided alternative perspectives on challenges to development and transition *but* were driven by the will of G-7
- The IMF has ***failed*** in its mission of promoting global instability; has also been unsuccessful in guiding transition of countries from communism to a market economy
- Jobs have been systematically destroyed before countries' industrial & agricultural sectors were able to grow strong and create new jobs
- Maintaining tight monetary policies has led to interest rates that would make job creation impossible
- Those who lost jobs were forced into poverty

The Promise of Global Institutions (Cont.)

- Structural adjustment programmes did not bring sustained growth even to those who adhered to strictures (eg. Bolivia)

- Underlying problem of the institutions is: *problem of governance*- *who decides what they do*

The Promise of Global Institutions (Cont.)

Reasons for this problem:

- Choice heads symbolize the institutions’ problem
- Heads chosen behind closed doors, and it has never been viewed as a prerequisite that the head should have experience in the developing world
- Trade barriers raising prices consumers pay/subsidies imposed on taxpayers is a matter of less concern than profits of producers
- Heads see the world through the eyes of the financial community
- Current system is one of taxation without representation

The Promise of Global Institutions (Cont.)

- Globalization is neither good or bad. It has the *power* to do enormous good
- Process of ‘globalization’ analogous to the earlier processes in which national economies were formed
- Unfortunately, no world government, accountable to all the people of the world
- Current system is that of *global governance without global government*

Broken Promises

- Ethiopia – Started doing really well on all macroeconomic indicators like growth, inflation, employment, etc
- But then, IMF withdraws suspends the assistance to Ethiopia
- IMF insisted opening up of Banking and financial systems. Ethiopia was not in favor of it seeing the experience of Kenya (14 banking failures) who followed IMF guidelines
- Reasons :
  - Flexible expenditure policy of Ethiopia
  - An early repayment of loan
  - This seemed to be a form of colonialism to Ethiopia but standrard operating procedures for IMF

LPG – Liberalization, Privatization, Globalization (Freedom to choose?)

- LPG surely has the power to do a lot of good. But at what cost?
- Pursuing LPG at an alarming rate defeats the very purpose of developing the countries.
- Many LPG policies become being an end in themselves instead of being the means to an end.

Privatization (Freedom to choose?)

- Govt. spends energy doing things which they are not supposed to be doing.
- Govts. have no business to be in business. (Exceptions like steel industry in Korea, Taiwan do exist)
- Privatization → More efficient.
  - Costs – Trimming payrolls.
  - Replacing unproductive workers.
  - Social costs
  - Where does privatization leave countries which have no safety nets in place?

Liberalization (Freedom to choose?)

- Means removal of government interference in trade, capital markets, financial markets, etc.
- The thrust has been on trade liberalization with the main idea being to utilize comparative advantage.
- IMF argues that with liberalization, new and efficient jobs would be created as they replace the old unproductive ones. But, this is not instantaneous.
- Assistance based on the rate at which liberalization is pursued.

Freedom to choose? (Contd.)

- U.S – the prosecutor, the judge and the jury.
- Studies on various countries prove that steps laid out by IMF also did not guarantee progress. (Failures – Bolivia, Argentina, East Asia. Success - Chile)
- Premature liberalization results in increased instability. The costs of such instability is, disproportionately, borne by the poor

Sequencing and Pacing LPG

- Need of safety nets.
- Adequate regulatory framework.
- Uniform policies of IMF does not suit all.(e.g African country). Thus, customise the policy framework for each country.
- Proper sequencing helps in adapting and responding to the challenges of globalization.
- Balancing of the trade agenda in favor of developing countries.

"If globalization continues to be conducted in the way it has been in the past, globalization will not only succeed in not promoting development but will continue to create poverty and instability. Without reforms, the backlash that has already started will mount and discontent with globalization would grow."

~ Joseph Stiglitz, Globalization and its discontents

Nobel Laureate in Economics 2001, former Chief Economist at the World Bank.

The Globalization Paradox

Dani Rodrik

Introduction

- Lessons are learnt crisis after crisis ; Asian crisis, the U.S.crisis , they are resulted from the free mobility of financial capital
- However, no economist is against globalization, but new institutions and compensation mechanism needed to be created in order to render globalization more effective, fair and sustainable.
- Globalization brings about prosperity to advanced countries down to poor workers in developing country
- Yet, Global market suffers from weak governance, e.g. there is no global authority, no global lender of last resort/regulator/safety net/democracy as a result is prone to instability and weak legitimacy.

Introduction

- The challenge is how do we compromise an imbalance between the nature scope of governments and the global nature of market, says, if national government has too much power, you have protectionism while giving markets too much freedom and you have unstable world economy with little social and political support.
- The Bretton Woods regime was a successful shallow multilateralism as it achieved this balance well after it was hit by the oil shock in 1970s and proven unsustainable.
- During 1980-1990s, Hyperglobalization was introduced (deeper integration and economic liberalization – the control on international capital markets were removed.. Putting pressure on developing nations.

Introduction

- The result of hyperglobalization was that it promoted instability, inequality and insecurity instead of lifting all boats.
- Some country like China, instead, chose to pursue a mixed strategy with heavy state intervention .
- 2 ideas are learned

1. Market and government are complements, not substitutes.
2. Capitalism does not come with a unique model.

Introduction

- The fundamental political dilemma of the world economy is introduced : we can NOT pursue democracy, national determination and economic globalization simultaneously.
- And the idea of Democratic Global Governance is just hallucination.
- Democracy and national determination should trump Hyperglobalization since by empowering national democracy will in fact place the world economy on a safer and healthier footing.
- We need to attain SMART globalization instead of MAXIMUM one.

Of markets and states, globalization in history's mirror

- During the British colonizing period, Mercantilist idea was predominant (high import tariff, reservation of raw material to domestic producer) yet they also believed in the capitalism and export, says, the state and commercial enterprise are to serve needs of each other (economics and politics are tool for each other)
- Adam Smith (Economic liberals), against the mercantilist idea, he thought the state-business collaboration is another name for corruption. He proposed that the market should be free of state control and roles of government are limited.
- He was wrong! **Market necessarily requires non-market institutions in order to function,** not necessarily in the state, e.g. the chartered trading company functioned like the state at that time (as those functions were needed to conduct trade, enforce contract)

Of markets and states, globalization in history's mirror

- Chartered trading company's role was to reduce transaction cost in international trade to enable some degree of economic globalization.
- To reduce/overcome transaction costs could be done through 3 forms :
  - trust-reciprocal approach (predominate in developing nations where formal legal structure is not strong) ,
  - belief system approach (work best in small community/market) or
  - third-party enforcement approach (countries that become rich under capitalism are those that use this approach to govern market) through institutions like marketplace, security, common language, currency, contract, property rights.

Of markets and states, globalization in history's mirror

- So, basically, the rule of the game are enforced by formal government apparatus, government consumes greater share of resources, its expenditure goes up, the bigger/ stronger the government in advanced countries.
- The correlation between government size and per capita income is tight.
- Moreover, the government had grown the largest in those economy that most exposed to international market since people demand compensation against that risk.
- Government so has to provide social insurance, public employment, assistance programs.
- " If you want market to expand, you need government to do the same"
- In conclusion, transaction cost and unequal benefit shared by all participants are inherent to international trade.

The rise and fall of the first globalization

- In 1914, the previous transaction costs : transportation cost, tariffs, currency-stability declined precipitously by communication technology, idea of Free trade, adoption of gold standard.
- Supported by the convergence in belief system (economic liberalization and gold standard) of economic decision makers
- World economy had outgrown classical liberal economic order , says, International economy requires better balance between demand of international economy and domestic social group

Why doesn’t everyone get the case for free trade?

- It is not totally true to associate free trade with economic and political progress, it depends on context. Apart from understanding economics of freetrade, implications for distributive justice and social norms are important too. Freetrade is supported or not depends on individual’s value, identities, patriotism.
- Trade benefits all sides in the long run (it has income redistribution effect) , it is not zero sum because it would economize the use of resources at home which we did not specialize, says, what creates comparative advantage is differences cross nations in comparative costs.
- Resources used in international exchange must be values at true social opportunity cost rather than at prevailing market price.

Bretton Woods, GATT and the WTO

- The creation of IMF and World bank wanted to allow enough international discipline and progress towards trade liberalization but also give space for domestic government to achieve their objective, says, we want moderate globalization, not a hyper one.
- Multilateralism was created, GATT, it was successful in eliminating import restrictions, world trade volume grew.
- WTO aimed for hyperglobalization (opposed to Bretton Woods, shallow integration); deeper integration of goods and capitals as multinational companies need more extensive global rule to expand and that global rule become domestic rule, in effect. E.g. China still used the shallow regime.
- Some argue income gap was result of technological advances not increased globalization, some argue the other way but evidence is not yet clear.

Financial Globalization Follies

- Since 1980s, IMF supported for freeing up capital market, it was an inevitable step on the path o development (global savings to be allocated more efficiently),yet had no legal authority over capital flows was there.
- Capital will flow out automatically as a punishment if that financial market does not do their job right, Asian crisis was an exception (political cronyism with business and corruption). Question was raised again after U.S. crisis in 2008.
- The uncontrolled capital flow undermined not only financial stability but macroeconomic equilibrium; employment and price stability, monetary and fiscal policy (exposed to greater risk)
- Alternative of capital control is floating currency but it is fluctuated and is source of bubbles, irrationality, chaos.
- Global finance requires institutions like global regulations, standards, supervision, lender-of-last-resort

The foxes and hedgehogs of finance

- The hedgehogs are those who think freeing upmarket is ALWAYS a right solution (max efficiency, the freer the better) WHILE the foxes also focus on details and real world implication.
- Their differences are how they respond to market failure, hedgehog would make market work better by itself (liberalizing everything, govt intervention are worse, bureaucrats do not have information to do the right thing), the foxes fix the incentive to rein in risky behaviour ("Principle of policy targeting", use regulations
  - e.g. Tobin Tax to limit excessive risk in international financial market/set up domestic-international compensation mechanism)

Poor countries in a rich world

- Globalization promises to give everyone access to market and ahs potential to remove all deficiency that sustain poverty.
- Why that is not true? Some blames for too much globalization, some blames it is too less. We need the middle one like Bretton Woods where all transaction costs are not removed.
- The division between the core (industrializing) and peripheral (raw material producing) countries, from colonization, are strengthened due to the international division of labor (comparative advantage)

Poor countries in a rich world

- Having comparative advantage in primary commodity did not encourage skill accumulation, they deindustrialized! And wealth only falls on small group of elite in these countries.
- Japan is an exception because govt and private combined their efforts leading to the right kind of globalization. E.g. govt-supported industry policies, interventionist policy –govt created investment climate
- China – gradually open economy, low IP law to imitate foreign technology, state-owned national champion, special economic zone, when china was domestically strong enough, it then joined WTO in 2001, until nowadays , it still controls its exchange rate to shield themselves from globalization
- All advanced countries nowadays had its origins in proactive government intervention.

Trade Fundamentalism in the tropics

- In labor intensive country with domestic investment limited by small scale of savings, govt need to play an active role to stimulate the creation of new industries with incentive, e.g. tax holidays, adequate infrastructure to create job employment and export, yet high import tariffs would be recommended to protect infant industries, says, industrial policy had to be part of development strategy.
- However, by 1980s, idea changed and viewed govt as obstacle. 'Washington Consensus's then suggested deregulation, liberalization, privatization after that the idea of free trade as engine of growth has become sacred, anyone who question needed to have his motives questions.
- Yet in the end the consensus doomed to failure as proven in Latin America.

Trade Fundamentalism in the tropics

- The institution changes were needed and took a century to success like in advanced country - “governance reform”, however, every countries have different problem and urgency, so one model could not fit all.
- Developing country might not need as much capital flow as it does in advanced country due to low profitability, problem could be aggravated into worsen its competitiveness in global market.
- Success of East Asian (rapid productivity growth) partly came from Import substitution policy which needs government interventions (import protection, credit subsidy, tax incentive, public investment)
- Globalization on its own does not generate development and economic growth, it only allows nations to leverage better those that they already possess.

The political trilemma of the world economy

- The deep integration requires domestic economic adjustments which might now fit with politics or what domestic constituencies want.
- The clash between politics (national democracy) and hyperglobalization are inevitable, e.g. Argentine leader chose to cut back pensions (austerity policy) in order to repay foreign debt.
- Globalization doesn’t permit nations to deviate from the rules (the labor, health and safety standard, corporate tax competition, regulatory takings, industrial policies in developing nations) , it is your economy grows and your politics shrink.
- The trilemma: we have 3 options to manage tensions between national democracy and global markets
- 1. restrict democracy, accept hyperglobalization
- 2. restrict globalization, preserve democracy
- 3. globalize democracy at the cost of national sovereignty (global governance)

Is global governance feasible? Desirable?

- When financial crisis happens, idea of global central bank, international financial regulator occurs. Having this supranational organization can relieve the competition that created “the race to the bottom” Proposing delegates from different nations (while the nature of delegate is to respond to their constituents) with accountability mechanism sounds nice only in theory.
- The best example is EU which has deep integration, hyperglobalization, however, there is problem of having different goal for different nations according to their nation’s interests, also when crisis occurred, there is no coordination among EU govt.
- Some challenges to concern are global standard (it is costly e.g. child labor), market-based solution (provide information e.g. rating agency) and limitation of global governance due to diversity plus citizen needs sense of global citizen more than national citizen

Designing Capitalism 3.0

- Globalization is the worldwide extension of capitalism. The future of capitalism therefore is the future of globalization.
- First wave of globalization: govt has very limited role (enforce law, keep peace, collect tax)
- Capitalism 2.0: govt plays more role (welfare assistance, Antitrust policy) with new balance with market (mixed economy), shallow international econ integration(Bretton Woods), this was period of cohesion, stability, prosperity in advanced nations until mid 1970s.
- Capitalism 3.0: financial globalization and deep trade integration and that globalization should be used for achieving internal goals. Yet we need global coordination on issues like climate change, because the globe has the climate as public goods.

A sane globalization

- Some evidence suggested that benefit of free trade was much more little than we thought because what that makes us better off is the ability to consume goods at lower cost an sell our goods at better price abroad.
- A safeguard exercised as an opt-out option should be available at WTO, for example, for nations that are not ready to impose zero import tariffs , yet they have to pay compensation, meet some criteria and provide the sound reasons plus this would encourage democracy at home in discussing for this issue in making sure all group of people are taken into account. The authoritarian nation would be required more scrutiny and compenstions.
- Reempowering national democracy is a precondition for an open world economy, not an obstacle to it.
- National diversity should be maintained; different standards are fine (e.g. just play by one’s rule if want to export to that country) – keep the rule simple, transparent and commonsense.
- The free flow of labor should be encouraged , e.g. temporary work visa scheme