

## Engaging the Powers

# *What they're really up to...*

## The Stiglitz Papers

### *Globalization Revisited (2017)*

*Penguin*

PAPER 4

## The Future of Globalization

'What is the future of globalization? The questions to be asked are:

**What will be the rules that govern globalization? - Will it be the kind of unfettered trade toward which we seemed to be moving over there past quarter century, or a more regulated system? - Who will make the regulations, and on whose behalf? (p.75)**

Stiglitz states his case - in terms of dominant features of the globalization we have actually experienced and which he hopes we have learned to avoid.

**To me, it is clear; now we need to learn how to temper globalisation...I think we can temper globalization, but it won't be done if we begin with a Panglossian view that markets, always and everywhere, are efficient, and even less if we think that the distribution of income that emerges out of the market processes is necessarily socially acceptable. And it won't happen if we have the kind of globalization we have had - not really based on free-market principles, but rather managed for the well-being of large corporations and the finance industry of the advanced countries. (p.76)**

## The underlying problem: global governance

**At the global level, the reason globalization has not worked out well...has to do with governance, how the rules of the game are set and enforced. (The game we have is not) a world marked by fairness or social justice. The poor countries and the poor within each country have only limited powers to affect globalisation...Thus, in spite of our interdependence, there is no global government to ensure fair and efficient outcomes. Sometimes, we work together as a global community, as when we dealt with the hole in the ozone layer. Often we don't. We have system of global governance without global government. (p.77)**

Stiglitz elaborates:

**A central message of GAID (Globalization and its Discontents - 2002) is that the ways the rules are set has enormous distributive consequences, both between and within countries. Globalization has in part been a vehicle for the rich to get richer at the expense of the poor. Finance ministers and central bank governors make the key decisions concerning the global financial architecture; and when they do, they are typically thinking more of multinational enterprises, the firms in the financial sector, the banks and the hedge funds, than they are of the workers and the citizens that are affected by the policies...And, of course, making matters worse is the fact that developed countries have disproportionate influence in the bodies in which the rules are made, such as the IMF.**

**It is not economics that is stopping us from achieving win-win globalisation, from rewriting the rules of the global economy - we largely know what to do - but politics, and the shortsightedness on the part of the national politicians, and the corporate and financial elites with whom they work. This is perhaps not a surprise: the big critique of our corporate and financial sector is that in every sphere they are short-**

sighted, unable to make the long-term investments that would enhance long-term growth; and with politicians on two- or four-year election cycles, we can't expect much long-term thinking from them.

## Principles of a reformed globalization

Stiglitz offers ten principles as a guide to a reformed globalization. Here are a few excerpts:

(i) We now recognise the importance of what are called global public goods - goods from which everyone in the world benefits or suffers - as in the case of climate change or global pandemics. The carbon dioxide molecules don't know about passwords and visas...the global climate represents the quintessential global public good...Only through collective global action - working together cooperatively - can climate change be addressed...(p.80)

(ii) We've argued that globalisation will only work if we move away from the law of the jungle to a rule of international law. But it has to be a 'rule of law' that is not written by and for corporations. One of the reasons for the failure of globalisation is how decisions have been made - who was in the room and who was not. When politicians and governments are not held accountable for the consequences of their actions, they obviously will not have the incentive to do the 'right' thing. And they can't be held accountable in the absence of transparency.

(iii) *Government and civil society will both have to be part of the system regulating and tempering globalization.* There has been excessive faith in markets and the private sector. The private sector, on its own, created many of the central problems facing national economies and global society: inequality, environmental degradation and instability. The private sector on its own won't solve these problems.

(iv) *Any change in the rules of the game involves winners and losers...*The antipathy being expressed towards globalization has more to do with the failure to take into account its distributional consequences than with anything else - and especially so when the losers from globalization are those in the middle and bottom, and the winners are those at the top...We should be particularly skeptical of reforms in which the winners are corporations - many such reforms are negative sum, with the losses of ordinary citizens even outweighing the gains of the corporations...If, as the advocates of globalisation claim, there are net benefits from globalisation, then the winners can be taxed to help the losers. If the winners can't or won't compensate the losers, it should be questioned whether the change is desirable. (pp.81/82)

(v) *The economic consequences of reforms must be evaluated using models that reflect economic realities* - that is, that do not assume that the market is competitive, efficient and stable...Models that attempt to estimate the costs and benefits of any reform that assume these imperfections away are likely to give very misleading results.

(vi) The champions of unfettered globalisation partially based their analysis on models with perfect information and perfectly working financial markets - a total fiction. (Truth be told: deregulation and especially financial market deregulation, was not really based on economic models; it was motivated by greed, pure and simple. The bankers realised that deregulation would allow them to increase their profits. Deregulation was just another instance of special-interest legislation). (pp.82/83)

## What is to be done?

Anyone serious about advancing globalization - and the benefits which it might bring, if well managed - must see globalisation policy within a broader economic framework. What is needed is stronger government actions: macro economic policies that push the economy toward full employment; adjustment policies to help workers, firms, and communities adapt to the new circumstances; social protection policies to protect them against losses to the standards of living that they may face in the process of adjustment; and policies that reduce inequalities in market incomes and incomes after tax and transfer. (p.84)

The rest of Stiglitz's enquiry consists of looking closer at the items in the above panoramamic view. A couple of these are included in this paper. Bear in mind that his analysis relates specifically to the US though aspects apply elsewhere as, for instance, in the UK.

## Reducing inequalities in market income

The big drivers of the anger towards globalisation are inequality, the lack of jobs, and stagnant and declining wages. Many are finding it hard to get jobs, or at least jobs anywhere near what they had come to expect...(p.84)

Why has there been such an increase in inequality? Stiglitz asks.

Because the US has the largest level of inequality among advanced countries, it provides the best case to see what happened. Until the mid-70s workers' productivity and compensation (wages) moved together, while after that, productivity growth continued albeit at a slower rate, while compensation virtually came to a standstill. It wasn't that overnight, the technology of the economy changed. But what happened, rather quickly, is that the rules of the game and how they were implemented changed, and especially after the ascendancy of Margaret Thatcher in Great Britain and Ronald Reagan in the United States. They began a process of rewriting the rules of the economy in ways which favoured those at the top and hurt the rest. Regulations, such as those on the financial sector, were swept away and taxes at the top and corporations (sic) were reduced with pervasive effects. Unions were weakened and monetary policy focused more on inflation and less on ensuring full employment... (pp.84/85)

While before, those in charge of corporations had a duty to look at the long-run interests of all stakeholders - the community in which the corporation operated, the workers and the shareholders - now their duty was interpreted more narrowly to look after just shareholders, and that in turn was interpreted to mean shareholders *now*, not over the long run.(p.85)

To rectify this position, the rules need to be rewritten once again...

...this time curbing market power and abuses of corporate governance, making the financial sector perform the functions it's supposed to perform, and strengthening the unions' and workers's bargaining rights. (p.86)

('Market power' is the ability large, near-monopolistic corporations have to distort prices in their own favour. More equitably, the laws of supply and demand would be allowed to operate.)

## Helping restructure the economy

We have to accept that in the future the share of workers working in manufacturing will be lower than it is today...Instead, the United States and other advanced countries need a structural transformation - the new economy will have to be based on services, and it will be increasingly knowledge-based...(p.88)

Two of the service sectors that should be a source of growth in jobs in that transition from manufacturing to the service economy are education and health - sectors in which the government understandably plays a large role. The demand for these services is not based on ordinary market forces - it is based on how we as a society value the services they provide, how much we care about those who care for our children, our sick and our elderly. If we value these services highly, if we value how our children get educated or how our elderly get taken care of, we can tax and pay highly for those services - wages in these sectors would rise and with it the respect given to our teachers, nurses and care providers. (p.89)

While government (admittedly somewhat inadvertently) played the central role in the transformation from agriculture to manufacturing, this time, when the need is so much greater, the government has been AWOL; conservatives have demanded cutbacks in government spending in education and health and castigated job retraining programs. The market transformation has devastated large parts of the United States, but without resources from the federal government, these localities can't restructure themselves and so they become wastelands.

Hamish Preston  
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