

Engaging the Powers

What they're really up to...

The Stiglitz Papers

Globalization and its Discontents (2002) and Globalisation Revisited (2017)

Penguin

PAPER 1

An Overall View

In 2002, Joseph Stiglitz, previously chief economist of the World Bank, wrote *Globalization and its Discontents*, an account of the effects, positive for some but negative for many, of the development of trading and the movement of capital freely across the globe. Previously, trading was conducted on a nation-to-nation basis and capital was pinned down by regulation within national borders.

Stiglitz was an insider who really knew 'what was going on', but who decided to write about it for the edification of the general public; in a word, he was a whistleblower - on a very big scale. His concern, as his title indicates was with those parts of the world who were doing least well under the new global economic order:

The unhappiness was greatest in Sub-Saharan Africa, often rightly called a forgotten region, (with a population) close to seven times that of the United States today; its rich human and natural resources have been stolen from it for centuries, leaving it today with a per capita income of 2.5% of that of the US. (p. xii)

Then in 2017 Stiglitz published *Globalization and its Discontents Revisited*. In the Introduction he says:

Now, globalization's opponents in the emerging markets and developing countries are joined by those in the middle and lower classes of the advanced industrial countries...The fact is that large segments of the population in advanced countries have not been doing well. The New Discontents have taken power in the United States in the form of the Trump presidency, partly because the United States does things bigger than others - including having more inequality than elsewhere in the advanced world. But much of what I want to say for the United States applies in a somewhat diminished form in the rest of the advanced world, apart from a few countries, particularly in Scandinavia. (pp.xii/xiii)

Stiglitz continues:

The data describing what has been happening in the United States are sobering; for nearly a third of a century the incomes of most Americans has been essentially stagnant. A middle-class life - a decent job with decent wages and a modicum of security... has been moving increasingly out of reach for a large proportion of the country. The numbers in poverty have been increasing, as the middle is being eviscerated. The one group doing well has been the top - especially the top 1% and even more, the top 0.1%, the richest several hundred thousand Americans. (p.xiii)

The position is much the same for the middle and lower classes throughout Europe.

There are others that also seem not to have done well - including those at the bottom of the global income distribution (poor farmers in Africa and India, for example). As I explained in GAID

(Globalization and its Discontents, original version), they have been among the victims of the 'unfair' rules of globalization.(p.xiv)

The global picture then is this: in most countries around the world there is growing inequality - those that followed the American economic model have typically done worse than countries following other models...The economic model that's been sold as the best possible - the 'liberalized' and 'globalized' free market economy - has not been delivering for large fraction the population, even more so in the country that seemed to be the most liberalized, the most globalized and the most market-oriented: the United States.

Stiglitz now identifies three basic questions, the discussion of which form the platform for the whole of his text.

This raises three basic questions: To what extent are these results the consequence of globalization? To what extent are they inevitable? And, if due to globalization, to what extent do they occur because the rules of the game for globalization are poorly designed, and to what extent do they come about because individual countries have done a poor job at managing the effects of globalization?

These questions generate discussion throughout the present text, but, surprisingly, Stiglitz immediately comes up with some answers to his questions:

GAID - both the original book and this new volume - give clear answers: Globalization has played a central role, even if there were other important factors at play, like changes in technology and the structure of economies. These adverse outcomes are not inevitable - they are a result of policies. Globalization has been mismanaged. The rules governing globalization are partly to blame - they are for instance, unfair to developing countries and have given free rein to destabilising capital flows. But even with these rules, the advanced countries could have prevented what emerged, with so many in the developing world, and now in the advanced countries as well, counted among the losers from globalization... (pp.xiv/xv)

Globalization, if well managed, could have benefited. But it was typically not managed well, and globalization has resulted in some - even possibly a majority - of citizens being worse off. (p.xv)

The mismanagement of trade globalization

How we have managed one of the most important aspects of globalization - the freer movement of goods and services across borders, sometimes called 'trade globalization' - illustrates the mismanagement of globalization more generally. (p.xvi)

Global trade has increased enormously, some 50% faster than global growth since 1980...This increase in trade results partly from the lowering of transportation costs, but even more important have been changes in the rules of the game, the reduction in tariffs (the taxes imposed on imports) and other man-made barriers to trade. These reductions typically occur through trade agreements in which there is a mutual reduction in trade barriers.

Trump's claim that in negotiating these agreements US trade negotiators got snookered is simply false. American negotiators got most of what they wanted...The problem was with what they wanted: American corporations wanted access to cheap labor, without environmental and labor protections. The corporations also liked the fact that threats to move their factories abroad weakened workers' bargaining power. This enriched their coffers, as wages were driven down...(pp.xvi/xvii)

Thus, the real problem with trade globalization was simple: even if globalization was good for the country as a whole, as its boosters claimed - in the sense that overall national income went up - it was not good for everyone in the country. The trade agreements were unfair, but they were unfair in favour of America and other advanced countries - the developing countries were justified in their complaints. But the agreements were also unfair in favour of corporations, and against workers whether in the advanced countries or the poorer ones. So the workers in America were right to complain. (p.xvii)

Within each country, there were winners and losers. Those at the top got more than 100% of the gains, meaning that the rest - and unskilled workers in particular - were worse off...

'Could everyone have been a winner?', Stiglitz asks.

If the advocates of globalisation were correct about the magnitude of the gains, then in principle, it would have been possible to take some of the gains away from the winners, having them share their gains with the losers, and everyone could have been better off. (p.xviii)

But to put it bluntly, the winners as a group were selfish; politics in the era of globalisation's rapid advance concentrated globalisation's gains even more in the hands of the winners, especially in the US, where money had so much influence to determine political outcomes. There were successive tax cuts (for instance in 1997, 2001 and 2003) under both major political parties - aimed at the top, the groups that were benefiting most from globalization.

Had the advocates of globalization in the United States and other advanced countries been more enlightened and less shortsighted, they would have recognised the threat to working men and women posed by globalization and they would have done something about it - just as they would have recognised the threat to economic stability posed by unbridled financial market deregulation. They should have known that in a democracy, policies that, year after year, leave significant groups of the population worse off are not likely to be politically sustainable.

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