What they're really up to…

The Stiglitz Papers
Globalisation Revisited (2017)
Penguin

PAPER 2
The Failures of Globalization

Globalization is about the movement of trade, capital, people and ideas across national borders. Stiglitz first discusses trade.

> **Economists' belief in free trade has been so deep and so long-standing that any economist who expressed skepticism was at risk of losing his 'union card' - or, at least, his credibility as a serious economist. (p.8)**

The bedrock of the theoretical position was that a country was better off as a result of trade liberalisation - that is, overall national income was increased.

> **The problem is that the story was not understood by most politicians, and those that did understand it thought it was too complicated. So sometimes, with the help some economists, they told what they thought was a white lie - trade creates jobs.**

Not so, says Stiglitz; exports create jobs but imports, on the other hand, destroy them. How so?

> **Over the long term, trade is roughly balanced; that is, on average, exports expand with imports. (But) the goods that advanced countries export use less labor than the goods they import. The advanced countries import textiles and apparel which require a lot of labor, and export advanced products like aircraft (which use less labor).**

True, the exported jobs need labour, but the imported jobs dispense with the need for labour to produce the same goods in the 'home' country; they cause loss of jobs, and the job losses are greater than the job creations because the goods concerned are more labour-intensive.

Too complicated for politicians to understand, or perhaps, in the eyes of the politicians, too complicated for their constituents to understand?

Stiglitz goes on to explain that the function of job creation, in particular, offsetting the inherent imbalance between the effects of exports and imports on jobs, is the responsibility of central banks (the Bank of England in the UK) and fiscal policy (the setting of taxes and expenditure) which is the responsibility of government.

> **Hence, on net, trade by itself destroys jobs. But if monetary and fiscal policy do their jobs, that isn't a problem; (if they do their jobs) the economy expands, creating new jobs to offset the jobs that are lost.**
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> **Thus, the standard theory recognises that the opening up of trade to cheap imports would result in the loss of jobs in the import-competing sectors, but it assumed that new jobs would be created in the export sector and that the economy would be able to stay at full employment. But this didn't always happen. (p.9)**

Unrealistic models

> **Advocates of globalization ignored other problems…as well. Many of these 'mistakes' were the result the use of oversimplified models of the economy to guide policy. Oversimplified models, for instance, assumed markets worked so well that there was never a problem with unemployment - hence they ignored a critical source of opposition to globalisation. Oversimplified models led some economists to ignore too the many other ways in which markets differ markedly from the textbook stories, which assume perfect information and perfect competition. In these mythical worlds, markets worked so well that there is never any reason for government to intervene in the economy - there are, for instance, neither bubbles nor recessions. But it should be obvious that it is nonsensical to base any serious policy analysis on models making assumptions that depart so markedly from reality. (p.10)**

Stiglitz has just referred to perfect competition as one of the features of unrealistic models. Perfect competition means that prices are settled by means of price competition and by nothing else; two firms produce a given item to the same quality but one is able to market it at a lower price than the other; that firm will gain the market at the expense of the other. But, as Stiglitz observes, there are, in reality, many ways of subverting this ideal.

There are, however, some important instances where there are large market distortions…Most obviously, a government could provide subsidies to a firm. For instance:

> **There is a real societal cost when a firm imposes environmental damage, and not to charge the firm for the costs it imposes is *de facto* a subsidy. The 2015 Paris Agreement on climate change committed countries to reduce their carbon emissions. Many will implement their commitments by imposing charges for carbon emissions…Not charging for such a cost is as much a subsidy as having an arrangement by which firms could have free access to labor…Trade based on advantages from an absence of environmental regulations or charges for greenhouse gas emissions is 'unfair' - or at the very least distorted. (p.17)**

The distributive consequences of trade

> **Some of the discontent with globalization arises from the fact that it didn't deliver on the promise either of jobs or growth…But the real discontent arises for the fact that so many people were actually worse off…That the corporations got more than 100% of the gains - all the growth and then some of the existing economic pie that belonged to others…(p.18)**
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> **In fact, honest academics always pointed out that there would be winners and losers in globalization. When globalization worked well, the standard theory arguing for globalisation went, the winners gained enough so that they could compensate the losers and everyone would be better off. But the theory said that they *could* compensate the losers, not that they *would*. And typically they didn't. And because they didn't, many - even majority of citizens - may be worse off.**

Limitations attached to globalization such as those referred to above are never mentioned by the advocates of globalization, says Stiglitz.

> **Was it a matter of wilful deception, ignorance or because somehow many politicians, even Democrats, continued to believe in trickle-down economics? Ever since President Kennedy claimed that ' a rising tide lifts all boats', the idea of trickle-down economics has persisted without theory or evidence backing it. (p.19)**

Another problem is the weakening of workers' bargaining power. In part this was caused by anti-union legislation by both President Reagan and Margaret Thatcher.

> **But now corporations had another tool. They could threaten to move their factories elsewhere… Workers felt forced to accept lower wages and worse working conditions…And there was no one to speak up for what was happening to America's working people. That had…been the role of the Democratic Party. But as elections increased in cost (each party had to spend about a million dollars in the 2016 elections) the Democratic Party had to move increasingly close to the sources of money - the**

bankers and the new tech entrepreneurs…and increasingly distance themselves from their traditional base…

Of course, many politicians simply didn't care whether trickle-down economics worked or not; as long as enough of their constituents…were doing well, that was all that mattered. And the top 1% had been doing very well. (p.20)

Given this, our politicians didn't want to think about the consequences of their policies for ordinary Americans; they didn't want to hear the voices of those economists who warned of the large potential consequences for America's and Europe's middle class. They listened only to what they wanted to hear.

Tax avoidance

Globalization has made it possible for corporations to avoid the taxes they should pay - and corporations have induced competition among jurisdictions around the world to lower taxes in a destructive race to the bottom. Corporations enjoy the benefit of a trained labor force, good infrastructure and the rule of law that a country provides - but they want a free ride. They assume an air of corporate responsibility, even as they use all the ingenuity at their disposal to avoid paying taxes - but the first responsibility of any corporation should be to pay its fair share of taxes. (p.38)

Tax avoidance in many people's minds, are associated with off-shore locations like the Cayman Islands or the Channel Islands but some jurisdictions in the US (Nevada, Delaware) and the City of London have flourished on the basis of these nefarious activities.

None of this was inevitable. It would have been possible to negotiate as part of trade and investment agreements tax provisions ensuring that corporations paid their fair share of taxes overall…(but) as I have repeatedly noted, it has been a corporate-driven agenda; and corporations were interested in keeping opportunities for tax avoidance open…(p.39)

As part of this race to the bottom, firms threatened to leave the country unless taxes were lowered; there was no patriotism among the multinationals.(p.40)

The promise of globalisation has been corrupted. In the absence of cooperation among countries in taxation, the burden of taxation has been shifted to those that are immobile, who can't take advantage of globalisation to move to move to where they pay little or no taxation - and unskilled workers are the least mobile. Thus, they suffered thrice - from lower wages, from the shift of the relative burden of taxation on to them, and from the cutback to government services that result when corporations avoid paying their fair share of taxation. It is no wonder that many workers are less than enthusiastic about globalisation.

And later,

In short, the kind of globalization the we got - hurting workers and helping multi-national corporations - was the kind of globalization the corporations wanted. It was not an accident. This shouldn't come as a surprise, once one understands who was at the table as the rules of the game were being made, and who was not. (p.48)

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September 2018