"Globalization" and "Neoliberalism"

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From left and right alike we hear something called "globalization" condemned. The forces driving the world economy toward increased economic integration are sinister. On the left politicians like Democratic congressman David Bonior begin speeches by noting three things that come to the U.S. from Mexico--dirty trucks, drugs, and hepatitis. On the right politicians like ex-Republican Pat Buchanan blame a century-old conspiracy to deliver America into the hands of the international bankers--and somehow to Buchanan the bankers are always named Goldman, Sachs, or Rubin; never Morgan or Baker. In books with titles like *The Case Against Free Trade: GATT, NAFTA, and the Globalization of Corporate Power,* Ralph Nader and his coauthors tell us that increased international trade and investment are responsible for the ills of the American economy, from disappointing blue-collar wage growth to pesticide-laden fruit.
These cries of alarm from left and right about the destructive consequences of rapid international economic integration were a constant part of the background. Then in 1997 and 1998 came the calamitous flight of capital from the previously fast-growing economies of East Asia. The East Asian crisis left almost every observer believing that the global marketplace was baldy out of control. Something was amok, it seemed, when traders in lower Manhattan could cause widespread bankruptcies and unemployment in Bangkok.
The alarming crisis in Asia led to a swelling of the volume of a broad anti-trade chorus. This chorus, in turn, inspired a counter-chorus. Chin-stroking neoliberals apologized for the "excesses" of the market. They agreed that market forces are occasionally a little reckless in their roughhousing. But they stressed--like any owner of a Rotweiller--that if you only realized that you shouldn't make any sudden moves to disturb the animal, you wouldn't get bitten again.
Now I am a card-carrying neoliberal: a believer that a bet on increased international economic integration is our best hope for rapidly moving to a truly human world, an advocate of NAFTA and GATT, a former not-very-senior official in the Bentsen and Rubin Treasury Departments, and a believer that those fighting to hold back world economic integration are or are the dupes of foes of global prosperity and liberty.
But I also think that this bet on increased international economic integration is a *bet.* It is not a sure thing. And I think that it is less important to assure people that it is a good bet (although I think that it is) than to help people distinguish the light from the rhetorical heat. After all, there will be other bets and other policy choices to be made in the future. And to fail to understand what is going on now will diminish our chances of collectively choosing wisely tomorrow.
So I want to turn down the volume. I want to approach ideologies of every stripe (including my own) with skepticism. For despite the gallons of ink tha thave been spilled, our understanding of what "globalization" is and what it will do is still primitive. The people whom you can learn the most from aren't those who claim to have the answers, but those who are still working overtime to ask the useful questions.
The critics of free trade aren't necessarily wrong to be critical of the current state of the international economy. But they write tomes that seem to me at least to reveal confusion and fail to enlighten--instead they deepen the surrounding darkness. For example, *Rolling Stone* columnistWilliam Greider's *One World, Ready or Not* left me puzzled:.How could it be that when American-based corporations invested abroad, they harm American workers by stealing their jobs, while when German-based corporations invested in Alabama, they harm American workers by exploiting them to earn profits to be transferred back to Germany? What is sauce for the goose must be sauce for the gander.
There are, however, some excellent anti-globalization books.
The granddaddy of them all is Karl Polanyi's (1944) more than half a century-old *The Great Transformation,* published more than half a century ago. Polanyi--a journalist and refugee born in central Europe whose teaching career included stints at Oxford, Bennington, and Columbia--argued that the market economy erodes the web of relationships that holds human society together. The market for labor pressures people to move around the globe to where they can earn the most--creating strangers in strange lands. The market for consumer goods rewards people for being fortunate or for responding to the incentives--making status a product of market forces rather than the result of social norms or visions of distributive justice. Moreover, Polanyi argued, the market's undermining of social order threatens to destroy the very societal and institutional structures on which the market economy rests.
Now you can disagree with Polanyi, or with his values, but even a card-carrying neoliberal like me finds his arguments hard to dismiss completely. Consider hate crimes committed against Turkish workers and their families in Germany, or women working in New York's garment industry who cannot both provide for their extended families in China and raise their children--and so send their babies back to China to live with their grandmothers. Consider the

extent to which special-interest politics means that it is not the government that regulates the market but the market's oligarchs who regulate the governments.
More recent works have provided intriguing updates to Polanyi's argument. *The Work of Nations* by Robert B. Reich, who went onto become Clinton's Secretary of Labor, focuses on the dangers posed by globalization to America's sense of community and to the political order established by Roosevelt's New Deal. According to Reich, in the future America's blue-collar workers will be unable to share in the relative prosperity made possible by American inventions and America's resources: the need to keep the blue-collar assembly line near the research and design labs is rapidly vanishing. And the only way to reverse growing income inequality is to massively upgrade the educational level and skills of America just as universal high school in the early twentieth century gave America then the most literate and skilled labor force in the world.
Saskia Sassen's (1998) *Globalization and Its Discontents* speculates on how the "new mobility of people and money" is about to lead to increases in relative inequality within the narrow spaces of modern post-industrial cities. You can applaud migration from the world economy's periphery to the core. I certainly do, as do almost all economists. Few economic processes do more to enrich the world than to move unskilled workers from places were they earn $0.50 an hour to places where they earn $5.00 an hour. And those who move benefit, as their vote-with-their-feet shows. But market forces do not construct the social capital to make high-inequality post-industrial cities truly liveable.
In response to such critiques, the neoliberal political establishment--the Brookings Institution, the Progressive Policy Institute, and the Century Foundation--assures us that critics of increasing international economic integration are suffering from an irrational fear: *Globaphobia* is what they cal it. International economic integration--driven by rapidly falling transport and communications costs--is both inevitable and beneficial, argue authors Robert Litan (of Brookings), Robert Z. Lawrence (now a member of the Council of Economic Advisers), and Robert J. Shapiro (now Undersecretary for Economic Affairs at the U.S. Departmetn of Commerce). The only question is how quickly governments are going to learn to adjust to that integration, and learn how to benefit from it.
The benefits of this "globalization," according to the neoliberal argument, are threefold:

- Both the nations comprising the world economy's industrial core and those in the developing periphery benefit massively when the capital-rich core (where interest rates are low) loans to the capital-poor periphery (where interest rates are high).
- Consumers benefit when lower transport costs and reduced tariffs make goods produced far away more affordable. Producers of goods that are exported gain as well because they sell into a wider market. Producers of goods for home consumption do not gain, but there is nothing like competition from abroad to keep them on their toes, alert to ways in which they can improve efficiency and better satisfy their customers.
- The more internationalized the world economy, the more use producers in each country can make of commodities and production processes invented elsewhere. Faster diffusion of knowledge raises the level of productivity and technology worldwide.

Thus globalization leads to a richer world, and to a more vibrant and tolerant world as well. Governments should not fight globalization, neoliberals contend. Instead they should embrace it.
To a poor country hoping to develop an industrialized economy, neoliberals outline several incentives to embrace the global market.

- In the past it might have made sense to impose tariffs to protect so-called "infant industries" or cushion economic instability. But in the information age, an integrated global marketplace will accelerat the transfer of technology. And it is only by accelerating the transfer of technology that poor countries have a chance of growing rapidly.
- The industrial core has lots of money to lend to the developing periphery. Economies should embrace such inflows of capital, for they provide an opportunity to cut a decade or more off of the half-century process of industrialization.
- Removing trade barriers reduces the scope of the government. That reducation, in turn, reduces the inevitable corruption, stagnation, and bureaucratic obstacles to growth that have beset developing economies for two generations.

In a sense ithe neoliberal position is a counsel of despair. Once upon a time development advisors, politicians, economists, and others argued that social democracy was the proper road for developing economies. A strong, active government to build infrastructure and redistribute wealth to ensure that growth would benefit all--or so the argument went. Couple that with high investment (perhaps behind a wall of substantial tariffs) and the private sector would flourish.
But over the past two decades cynicism has set in. A consensus has formed that outside already-developed nations

(and indeed inside some of them) an activist developmental state has entailed too many coups, too much corruption, too many business leaders deciding that the road to profits is not capital investment but marrying the C.F.O. to the daughter of the vice-minister of finance.

Neoliberals hope that multinational corporations, financial analysts, bond-fund managers, and bond raters will in the end be able to apply some constructive pressure to improve the situation: better the discipline of the world market than no discipline on less-than-fully-democratic governments at all.

This neoliberal line may sound a little to pat. But it is virtually the only game in town. Critics try to poke holes in it, but the neoliberal stance has no serious challengers these days in policy-making. The "dependency" arguments--that developing economies should fear and tightly manage contact with the industrial core because it would take more than 100% of the gains from trade--have vanished. In 1960 left-wing intellectuals and politicians argued that the close economic links between Batista's Cuba and the United States was impoverishing Cuba. Today everyone--left, right, and center--agrees that it is the *lack* of close economic links with the U.S. that impoverishing Cuba.

Some others seek to point out the ways in which the idea of globalization has been overhyped. Their research is a useful reality check. Globalization has been overhyped. Globalization theories are always in danger of falling victim to grandiosity. Yet there remains a sense in which debunkers of globalization run the risk of missing the forest for the trees. They focus on the minutiae of the present, at the expense of the trends that would allow them to forecast the future.

Among the best debunkers of the globalizers' position is John Helliwell, a professor of economics at the University of British Columbia. In his book *How Much Do National Borders Matter?*, Helliwell systematically examines trade linkages among Canadian provinces. He finds that the linkages are many times more extensive than those between the provinces and American states that are just as close as the snowy owl flies: Toronto trades more than ten times as much with Vancouver as with Seattle. The same holds true between the industrial core and the developing periphery. National borders today are still tall barriers to movements of goods, capital, and most of all labor.

Helliwell is right. Globalization has been oversold and its impact overstated.

But what makes his and similar arguments of potentially limited value is that--while correct now--they may not be correct for long. An expert on mail delivery in 1900 might well have stated that the new technology of automobiles was of very limited value in delivering the mail over muddy rural roads. Such an expert would have been correct. But in terms of planning being correct about today is not necessarily being relevant for the planning for tomorrow. The arguments that globalization has been oversold looks good for the decade of the 1990s. It will probably not look good for the decade of the 1930s.

So if you find yourself unsatisfied by isolationist Cassandras and neoliberal Polyannas, and if careful statistic-wielding debunkers seem to speak to today and not to tomorrow, where should one turn? My primary allegiance is to a fourth group--reformers, call them, who see the economy as resting on sociological and political foundations and capable of being shaped to bring the story of globalization to a relatively happy ending. And among the reformers there are two currents of thought that seem to me to be well worth heeding.

The best example of the first current is found by exiting my Berkeley office, walking north ten feet, and knocking on the next office door. Barry J. Eichengreen, my Berkeley colleague, has written two recent books: *Globalizing Capital* and *Toward a New International Financial Architecture.* The first explains how we have arrived at the international monetary system that we have, with its floating exchange rates and large international flows of capital. It explains why we see rapid growth among those developing economies that convince Wall Street that they should be growing rapidly, and brutal financial crises when those claims are shown to be unfounded or even called into question.

The second book contains "practical" proposals for reform: recognize the compelling long-term benefits of open capital markets, worry less about guarding against "moral hazard" (economists' term for the skewing of expectations if a past bailout leads investors to expect that future crises will alwasy be met by bailouts), and establish a better safety net to catch nations falling into international financail disarray. There are imperfect institutions that already strive to provide that kind of security for world financial structures--chief among them the IMF. But in Eichengreen's view it has worried too much about opening capital markets and making sure that governments that preside over financial crises are punished and humiliated, and too little about making sure that national governments have the right incentives in advance to diminish the damage that a panic-stricken flight of international capital might do.

Eichengreen has more realistic expectations than do the globalizers, recognizing that the global market economy is "the worst way of allocating resources except for all other forms that have been tried." There are many problems that decentralized markets cannot solve, and that must be resolved by governments if they are to be resolved at all. (A broader perspective, with more points of view but tending toward the same lessons, can be found in *Capital Flows and Financial Crises,* edited by Miles Kahler.)

The second vein of reform-minded thinking about globalization is best exemplified by Dani Rodrik's *Has Globalization Gone too Far?* Rodrik, an economist at Harvard's Kennedy School of Government, is tries to create a

middle ground between leading cheers for the onrush of intenational economic integration and mindlessly condemning such integration in a fit of reactionary nostalgia for a past that never was.
Rodrik fears that developing economy governments taht do not carefully manage international economic integration will wind up without the ability to achieve anything like what was achieved in the post-World War II industrial core: the good society (not the great society) and the mixed economy.
The mixed economy taxes income from capital and transfers wealth from market winners to market losers. Globalization, however, raises the mobility of capital and makes it harder for governments to tax profits. Globalization increases competition in the labor market. Most economists (me included) have argued that this increase in labor market conditions has had little impact on the wages of American workers. But Rodrik points out that "...saying that the impact of globalization on advanced-country labor markets is quantitatively rather small... is no different [in standard analytical frameworks] from saying that gains from trade have... been small." He asks economists to put up or shut up: recognize either that the gains from trade or small, that trade has potentially large effects on wages, or that the standard analytical framework is wrong.
He also throws down the gauntlet. He claims that globalization cannot be a replacement for (failed) social democracy in the developing periphery. Instead, he believes that globalization must be assisted by (successful) social democracy if it is to produce a world with a human face.
I do not kinow if Rodrik is right in his analytical challenges to other economists or to neoliberalism. But I know that his challenges are very useful challenges, and that the debate he seeks to open would be a very useful debate.

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