



Globalization: Its Saboteurs and Its Chicken Littles

By Michael Edesess

February 28, 2012

The word "globalization" provokes both excitement and fear. The excitement has sold millions of Tom Friedman books and turned a drab annual business conference, the World Economic Forum, into one of the hottest events of the year. It is front-and-center in recent tensions between the U.S. and China, and makes the European Union's economic crisis a concern for the whole world.

Should we fear or embrace globalization?

Many in the popular media – most famously Friedman in his book *The World is Flat* – argue that globalization is changing the world so rapidly that you must accept it or get out of the way. But two scholars from Columbia University present a more sober analysis. Joseph Stiglitz, Columbia's Nobel-Prize-winning economist, argues that the problems with globalization owe largely to misguided efforts of international regulators, while Columbia business school professor Bruce Greenwald has called fears about globalization vastly overblown.

Greenwald's 2009 book, "[globalization: n. the irrational fear that someone in China will take your job](#)," which he co-authored with Judd Kahn, an investment manager, shares a common message with Stiglitz's 2002 tome, "[Globalization and Its Discontents](#)" – we have nothing to fear from globalization but the globalizers themselves.

Stiglitz warns that globalization can have dangerous effects when international capital flows are unfettered. The resulting crises, he argues, are actually made worse by the global agencies set up to ameliorate them. He believes that global institutions, specifically the International Monetary Fund (IMF) – with ideological as well as financial support from the U.S. Treasury Department – tamper with globalization's crises in damaging ways.

Greenwald and Kahn, on the other hand, say that – because most economic growth stems from local factors – many concerns about globalization are unwarranted. At the same time, they argue, its potential benefits are overstated as well.

Stiglitz and Greenwald are long-time comrades-in-arms who have collaborated on influential research, and Greenwald figures prominently in the acknowledgements section of Stiglitz's book. On the front cover of his book with Kahn, Greenwald touts an endorsement by Stiglitz.

Hence, we might expect the two to produce books about globalization that sound similar notes; each economist, however, has chosen to focus on a very different aspect of the phenomenon. Each approach warrants further exploration.



Globalization and its saboteurs

Stiglitz's book might better have been titled, "Globalization and Its Saboteurs," because that is what it is really about.

Stiglitz does not believe globalization is inherently a bad thing. "Opposition to globalization," he says, "is not to globalization per se – to the new sources of funds for growth or to the new export markets – but to the particular set of doctrines, the Washington Consensus policies, that the international financial institutions have imposed." These Washington Consensus policies that are often imposed on developing countries include, most prominently, fiscal austerity, privatization, and market liberalization.

"The Washington Consensus policies," according to Stiglitz, "are based on a simplistic model of the market economy, the competitive equilibrium model, in which Adam Smith's invisible hand works, and works perfectly." This is what Stiglitz refers to as "market fundamentalism," a term that has since been widely adopted, especially after the global financial crisis of 2007-2009 (GFC).

Stiglitz is not shy about pointing the finger of blame. He points directly, forcefully, and repeatedly, at the IMF and its supporters in the U.S. Treasury Department. The IMF's job is to lend to national economies that have trouble when hit by financial crises. Like any lender, when the IMF lends, it imposes conditions on the borrower. Now, it's important to realize just how influential the IMF is in the realm of international lending. Because other major lenders tend to look to the IMF's approval – or lack thereof – when considering their loans to a country, the country often has almost no bargaining power and little choice but to agree to IMF demands for fiscal austerity, which can increase poverty, hunger and unrest.

Stiglitz identifies by name some alleged culprits in the IMF and the Treasury; often, they are the same names that have recently been criticized for supporting policies that fostered the GFC, such as Robert Rubin and Lawrence Summers.

Shock therapy vs. gradualism

Stiglitz's indictment of these players was very convincing. In fact, given that he wrote in 2002, we would do well to take more than passing note of the similarities of his criticisms to those that have followed the GFC and, more recently, the eurozone's troubles.

Virtually exactly the same argument is taking place. The debate is between two schools of thought in macroeconomics. One school adheres to the theories of John Maynard Keynes, who believed injection of government funds was needed in economic crises to supplement weakened aggregate demand. The opposing school, adhering to an evolved – and many would say, revisionist – version of the theories of Adam Smith, believes the only



intervention needed is by forces outside national governments, to prevail on those governments to confine themselves to merely preserving market freedoms.

In his 2002 book, Stiglitz threw in his lot with other Keynesians when it came to the two most recent global financial crises of the day: (1) the Asian financial crisis – sometimes called “the Asian flu” – that hit countries like Thailand and Indonesia in 1997 and (2) the post-Communist economic downturns in the 1990s, in Russia and other former Soviet bloc nations.

The argument in these cases, as Stiglitz articulates it, arose between “shock therapists” and “gradualists.”

Shock therapists believed that certain central features of market economies needed to be put in place immediately and abruptly, no matter whether other trappings that should accompany them are yet in place. The shock therapists, according to Stiglitz, believed that in post-Communist Russia it was urgent to create private property rights, in any way possible; “once private property rights were established, all else would follow naturally – including the institutions and the kinds of legal structures that make market economies work.” They believed that “privatization, no matter how implemented, would lead to a political demand for the institutions that govern private property.”

Gradualists, on the other hand, believed it was necessary, as part of the process, to also put the other institutions in place, gradually but simultaneously, in a carefully sequenced manner. In the ex-Communist countries, shock therapists placed privatization above all other considerations, ignoring – according to Stiglitz – the fact that competition is needed at the same time for an efficient market economy to emerge.

Hence, privatization without anti-trust laws would merely allow the former state owners to be replaced by, or to mutate into, monopolists in the private sector – but now they would have an incentive to strip assets and move the proceeds out of the country (easy because of the IMF’s preference for eliminating cross-border capital controls). That, Stiglitz said, is what happened in Russia.

Significantly, the gradualists – Stiglitz foremost among them – also believed that gradualism must be sensitive to local conditions in each country. Stiglitz notes that China’s transition from Communism succeeded better than Russia’s partly because “township and village public enterprises were central in the early years of transition. IMF ideology said that because these were *public* enterprises, they could not have succeeded. But the IMF was wrong.”

It is indeed convincing that the market fundamentalists’ insistence that government can only do wrong by meddling was misguided – especially since, as Stiglitz does not hesitate to point out, the IMF itself was a global government entity meddling on the grandest scale.



Stiglitz emphasizes that the process of gradualism, which is the way he believes the IMF should resolve global economic crises, must involve those who are most knowledgeable about local conditions in a country. “One attribute of the success cases,” he says, “is that they are ‘homegrown,’ designed by people within each country, sensitive to the needs and concerns of their country.”

All economics is local

This focus on local self-determination is where we find the juncture between Stiglitz’s outlook and that of his academic comrade-in-arms, Greenwald.

Former Speaker of the U.S. House of Representatives Tip O’Neill is perhaps most famous for his proclamation, “All politics is local.” ([According to O’Neill himself](#), the phrase originated with his father.) If the Greenwald and Kahn book has a tweetable summary, it is, “All economics is local.”

Greenwald and Kahn believe it is irrational to fear that someone in China will take your job. Their argument, which is well developed – and nearly as convincing, if not as consuming in its passion, as Stiglitz’s – is that job creation in the future will arise from local factors, not global ones.

Their well-constructed argument is persuasive. First, they say that in the future services will be much more important in economies than manufacturing. Manufacturing, they say, will go the way that agriculture has in economies that were once agriculture-based (which is to say, virtually all of them), releasing many workers all over the world. As most people are aware, employment in all developed economies as recently as 100 years ago was comprised largely of agricultural jobs. That economic sector is now minuscule by comparison; the percentage of jobs in the sector declined in the U.S. [from 41% of the workforce in 1900 to 1.9% in 2000](#).

Manufacturing, say Greenwald and Kahn, will go the way of agriculture for much the same reasons: “improvements in productivity and changes in demand are doing to manufacturing and routine services what they did to agriculture in the nineteenth century — making them cheaper and therefore less central to the economy. ... The future of manufacturing will look like the past of agriculture and the extractive industries, and it will become an increasingly marginal part of the overall economy, even though there will be no shortage of manufactured goods.”

Services will thus become more dominant in the economy, thanks to the commodification of manufacturing and also because of demographic trends. “Older and richer people spend relatively more of their incomes on housing, education, medical care, and other services. As the population ages and becomes wealthier, these are almost certainly going to continue increasing their share of overall household consumption. Thus, trends in demand in favor of services will reinforce underlying trends in increased productivity and lower



costs in manufacturing.” Services, say Greenwald and Kahn, with only a few exceptions, like telephone call-ins and routine computer programming, are more likely to be provided by local workers.

Second, Greenwald and Kahn say that increases in productivity depend on local, not global factors. The “mystery ingredient” in enhanced productivity, they say, is “the steady accumulation of small operational improvements, taking place in a largely decentralized fashion within individual establishments throughout the economy. It works through the steady diffusion of seasoned technologies and their increasingly effective application, not from the sudden availability and widespread adoption of new technologies.”

“The most important force driving this incremental growth in productivity,” they add, “is the sustained attention of managers and workers, their continual quest for improvements in operations. By its very nature, this ingredient of productivity growth depends on local circumstances; it is found on the shop floor, in the back office, and at the loading dock. What happens globally is largely irrelevant.”

This is a relatively prosaic message; it’s no wonder it takes a back seat in book sales to such sensationally popular works as Thomas Friedman’s [“The World is Flat,”](#) which gives the impression of vast and sweeping changes diffusing globally at the speed of light. True, many changes are occurring very rapidly, but, say Greenwald and Kahn, “Local economies are not passive victims of global forces; their futures are effectively in their own hands.”

Doubts on capital market liberalization

Greenwald and Kahn agree with Stiglitz that capital market liberalization is not necessarily a good thing. Stiglitz says several times – in clear opposition to the IMF’s approach – that capital controls may be needed to prevent flows of “hot money” across borders. Those countries that did impose capital controls, says Stiglitz, fared much better during and after the 1997 Asian financial crisis. Greenwald and Kahn, for their part, cite evidence that the nationalization of banking in the U.S. – changes in regulation that allowed branch banking by national banks – was not beneficial for local economies in poor states like South Carolina, Alabama, and Mississippi, apparently because “the deposits [the banks] took there were more likely to be reinvested elsewhere than in local economic activities.”

Are the private international bankers behind everything?

A frequent implication in Stiglitz’s book (which does not appear in Greenwald’s and Kahn’s) is that market-fundamentalist ideology and IMF policies are really, at heart, geared toward the interests of international financiers in the private sector.

Abundant circumstantial evidence exists for this deeply troubling allegation. International financial policy often seems guided foremost by the need to repay lenders. Too often, it



does not recognize that in a loan agreement, both lender and borrower assume a risk; both should bear the burden if the downside becomes reality.

But as Stiglitz says, “The IMF worried that a default, by breaking the sanctity of contracts, would undermine capitalism.”

Is this formulation a real concern? Or is it only that private international financiers identify themselves with capitalism itself, and thus believe that anything that undermines their self-interest undermines capitalism?

I will explore this question in more depth in my next article.

Michael Edesess is an accomplished mathematician and economist with experience in the investment, energy, environment and sustainable development fields. He is a Visiting Fellow at the Hong Kong Advanced Institute for Cross-Disciplinary Studies, as well as a partner and chief investment officer of Denver-based [Fair Advisors](#). In 2007, he authored a book about the investment services industry titled [The Big Investment Lie](#), published by Berrett-Koehler.

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>