

Globalization, freedom, and inequality



What is Globalization?

- Growth of networks of interdependence that transcend national and regional boundaries
- Economic networks
 - Trade
 - Capital flows
 - Labor migration
- Communication and transportation networks
 - Networks linking soldiers, criminals, terrorists
 - Advocacy networks
 - Religious organizations
 - Social networks

Globalization is about mobility and speed

- Technologies of mobility
- Ideas of mobility
- Capitalism
 - Requires efficiency for economic competition
 - Efficiency requires mobility
 - Efficiency requires speed
 - Speed and efficiency require new technology

Mobility and speed stretch beyond political boundaries

- Large movements of capital, goods, and people across national borders
- Capital moved just as freely then as it does now (or did before the financial crisis)
- Trade as % of GDP was as high as it is now
- People may have moved More Freely than now

The underlying causes of the current phase of globalization.....

Neo liberalism + fall of communism + rise of Asian Tigers and China



Factor mobility—growing global commodification of land, labor, and capital



Rising competition



Be efficient or die!



Develop technologies of efficiency + pressure governments to lower wages, taxes, regulation

New Technologies of efficiency....


Convergence of policies around the world
“Washington Consensus”



More efficiency



More productivity, more specialization, more trade



global economic growth

- But global income inequality..
- 

Convergence of cultures—global liberal culture

- Homogenizing effects of mass consumerism

Global (liberal) culture? Is it a problem?



4 Effects

- Changing nature of trade—growth of **services** worldwide
- Growth of global **finance** and change in its nature
- Flow of capital to “**emerging markets**”
- Shifting world **power**

Changing Nature of Trade



What services are still yoked to one place?

- Haircuts?
- Medical care?
- Education?
- Entertainment?
- Voting?



International Finance has changed dramatically

- FDI was as large in 1914 as it is today
- Now it is just one piece of finance
- Then...Most lending for raw materials extraction
- Now.....supports the gamut of production and service activities across the world

The globalization of Finance

- Explosion of cross-border lending
- High tech and global
- **growth of securitization, non-banks, and alternative markets** as well as mutual funds phenomenal –
- A firm that wants to borrow money has broad range of choices
- Investors can buy re-packaged pieces of risk
 - spread their holdings across different countries,
 - different industries,
 - different time periods.
- .

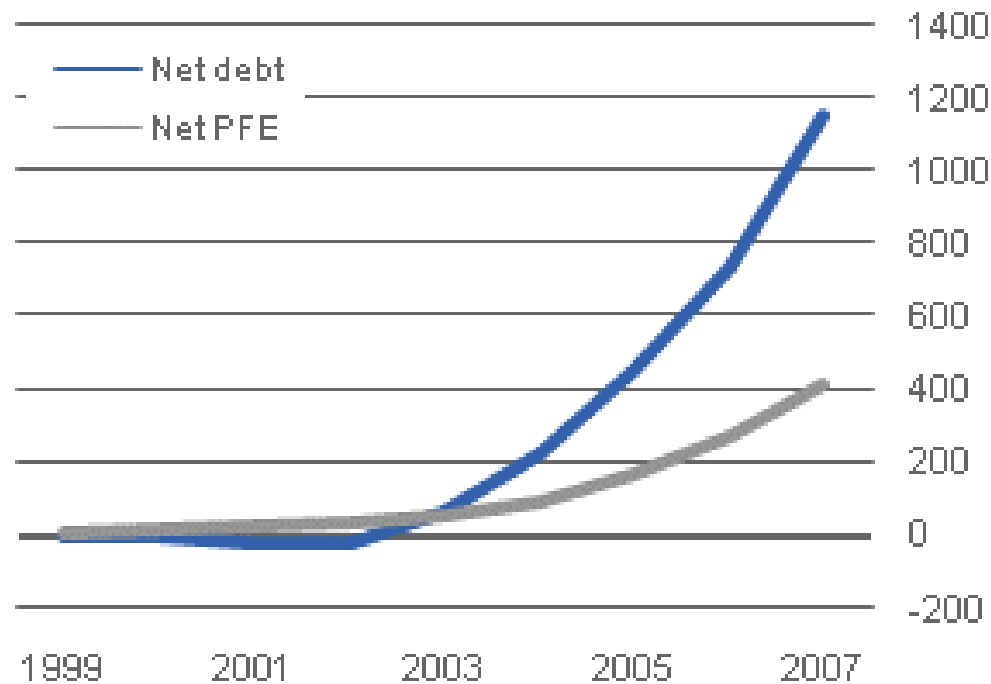
Why?

- New technologies:
 - 24 hour global trading system
 - Hampers regulation
- Efficiency gains (Washington Consensus)
 - Allow the pooling of risks
 - Promotes growth in developing countries
- High costs of closure
- Global Finance disciplines governments
 - Unsound policies spark capital flight

Capital flows to emerging markets

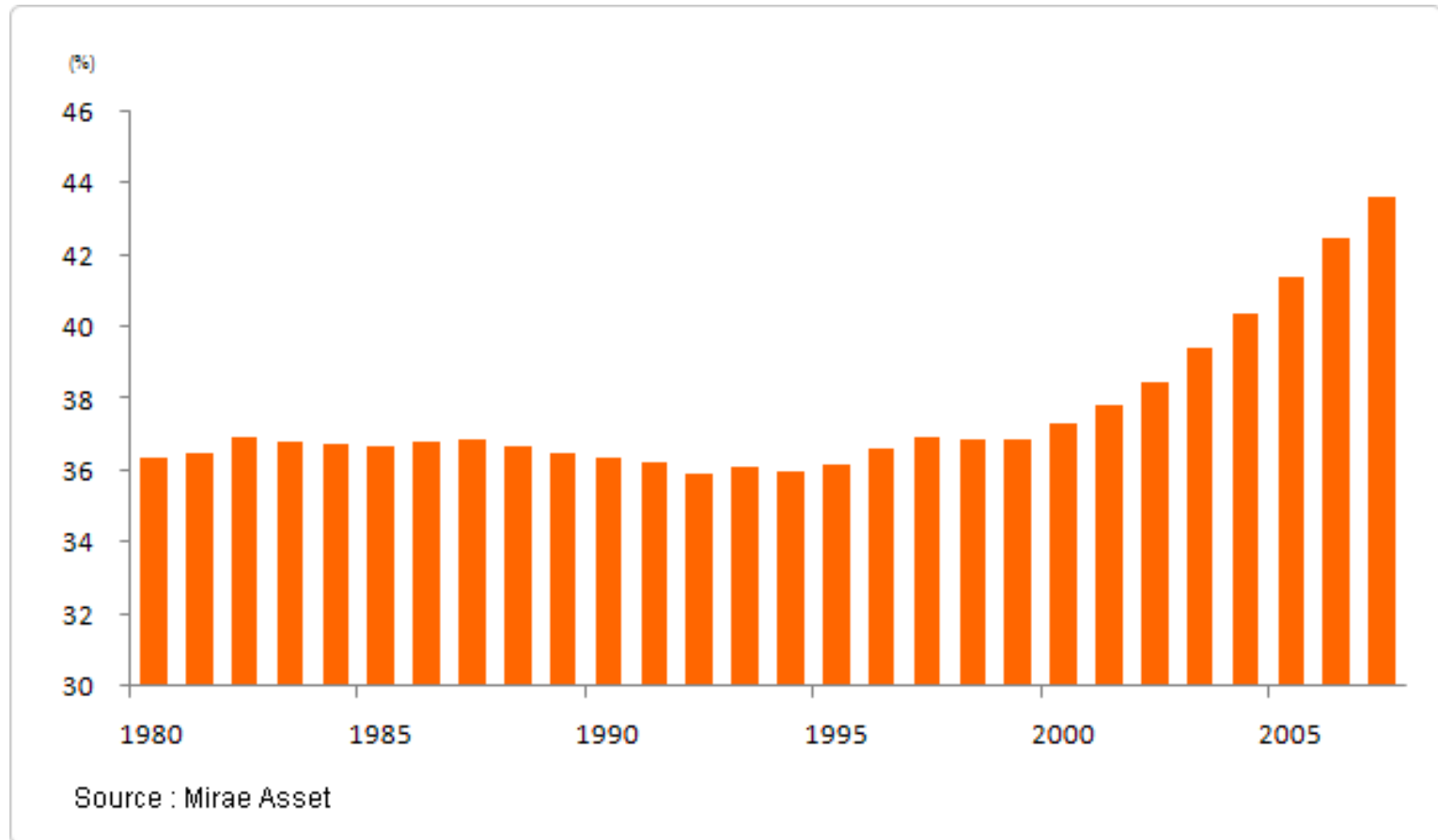
Net private capital flows to emerging markets exploded over the last decade

Net cum flows since 1999, USD bn



Source: World Bank

And shifting the balance of world Power: BRIC growth



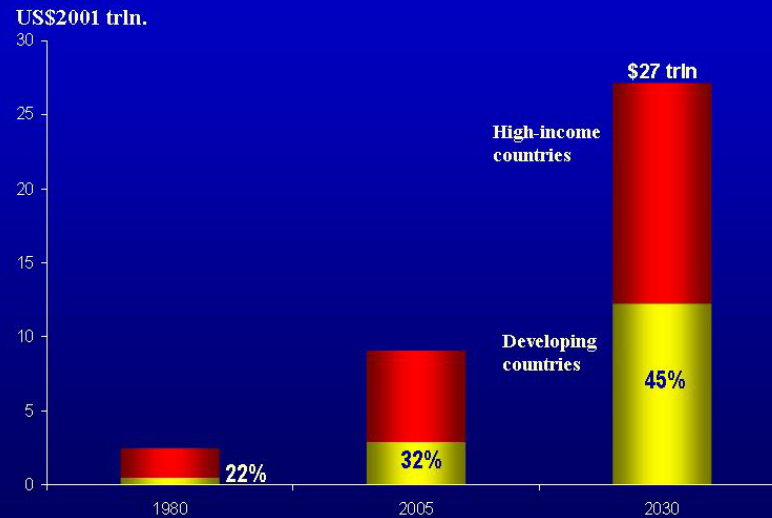
The Good

- Expanded Trade leads to....
- Global economic Growth
- And Reduction in global poverty

trade increases

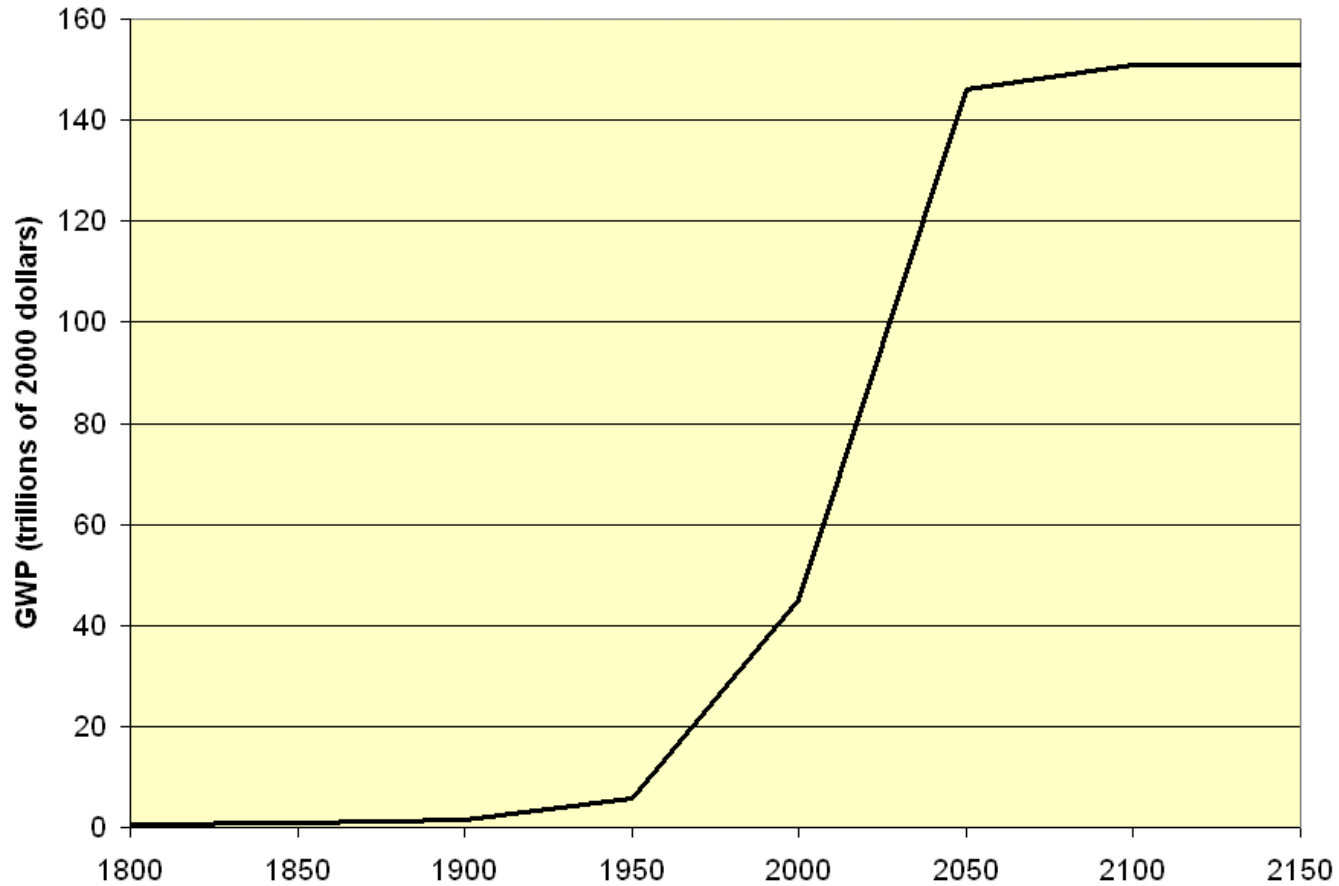
Globalization increases developing countries share in world trade

Exports from developing and developed countries, 2005-2030

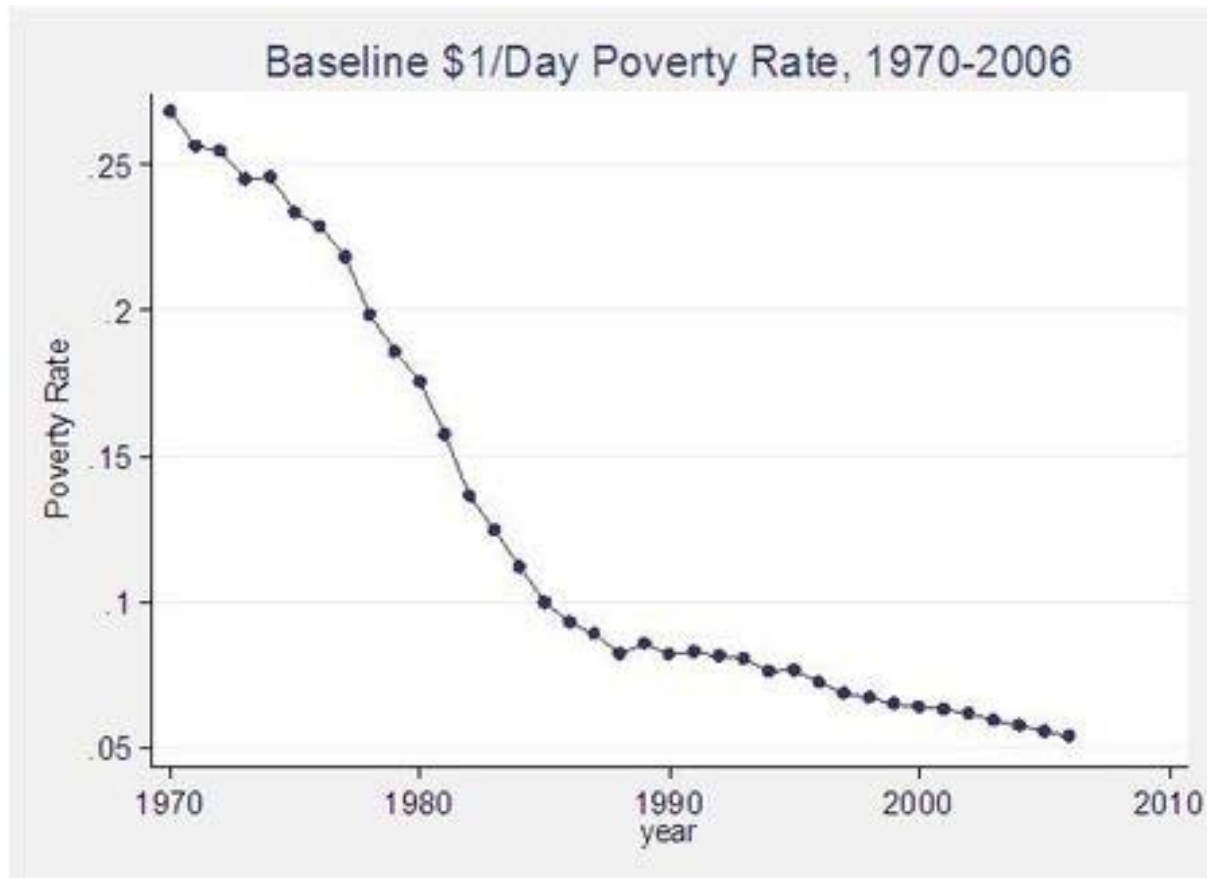


Source: World Bank simulations with Linkage model.

And trade leads to global growth



Growth reduces poverty.....



But does Globalization have a Dark side?

- Spread of global “bads”
- Global inequality?
- Consumers benefit but producers are hurt

Spread of Global “bads”

- More access to goods and services.....but greater illegal trade in arms, people, drugs, money.
- More goods transported across the globe.....but they can bring in toxic toys, invasive species, contaminated food
- Ease of internet access expands free speech but can put porn in children's hands, facilitate reckless investments, intellectual theft
- Movement of people expands freedom but can spread deadly diseases.

And a problem in one place can lead to global problems....

1997 total fossil CO₂ production by country

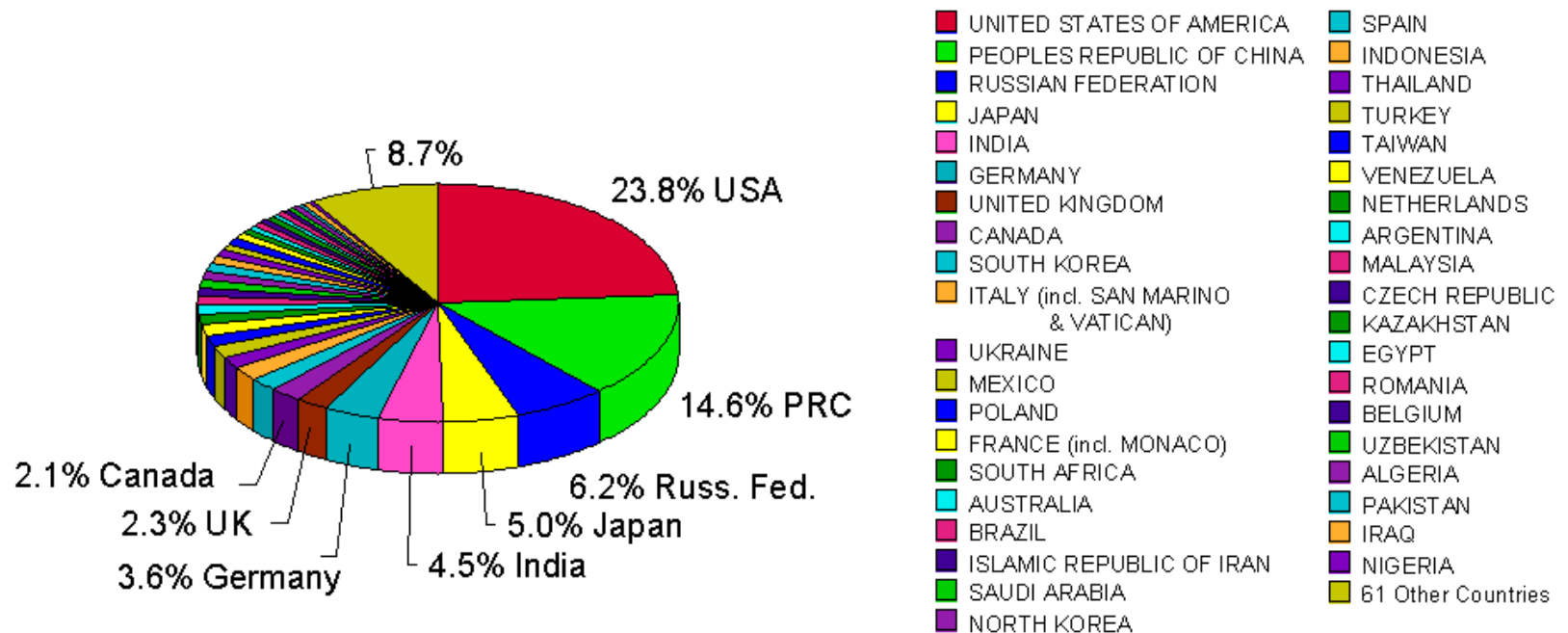


Figure by M. Horning based on Data from Gregg Marland and Tom Boden (Oak Ridge National Laboratory) and Bob Andres (University of North Dakota), available from the Carbon Dioxide Information Analysis Center (<http://cdiac.esd.ornl.gov>)

For this reason, the Globalization of finance is scary

- Financial markets are subject to volatility
- And crises are increasingly damaging
- Even if there are no changes in underlying economic conditions!
- Creditors have all the power
- And sometimes that power is psychological

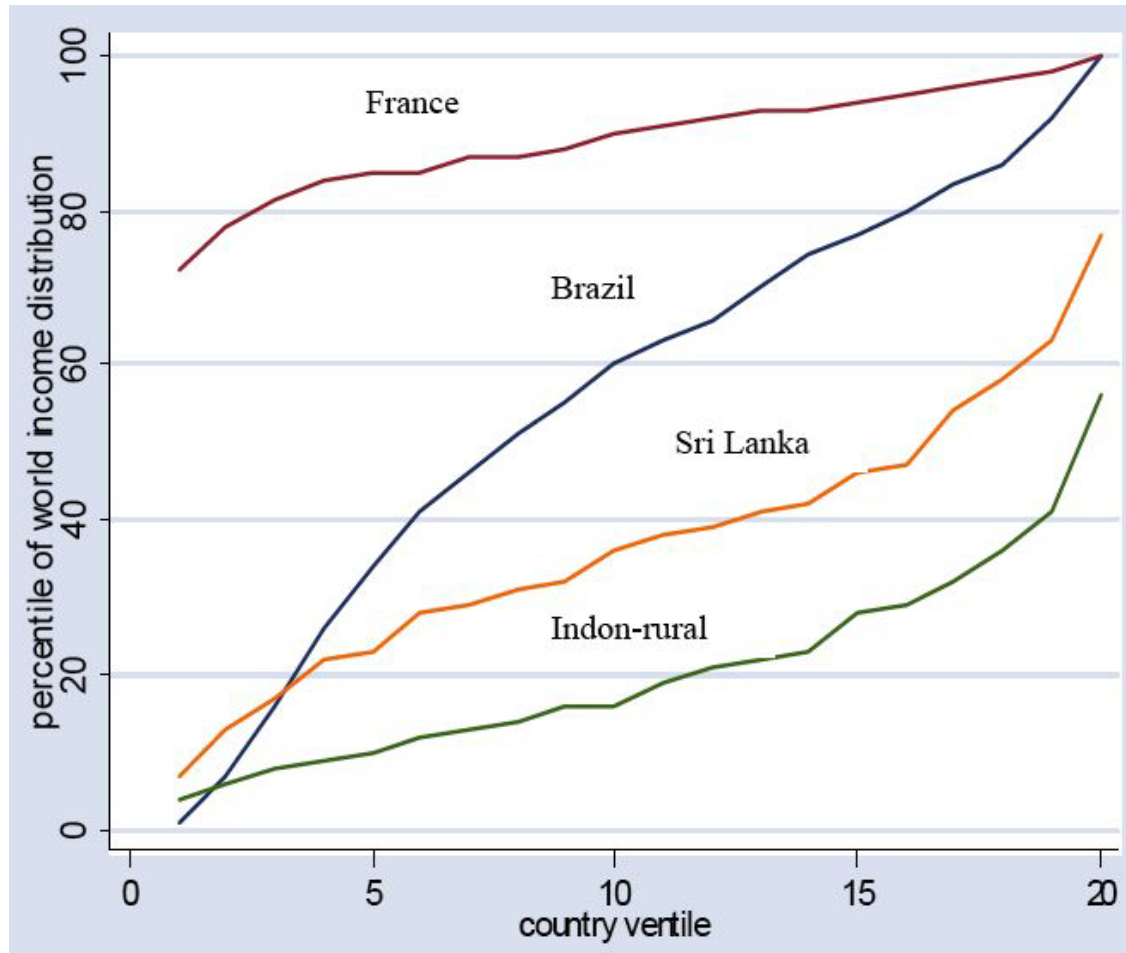
And After the Asian Financial Crisis.....

- IMF suggested an international bankruptcy procedure
 - US vetoed this
- OECD proposed agreement to restrict bank secrecy
 - US vetoed this
- Consensus developed on need for a governing architecture for global financial system
- 85% of votes needed for new loans
 - U.S. vetoed both..... (has almost 17% share

Result: Rise of State Capitalism

- Vast foreign exchange reserves: Sovereign Wealth Funds
- Hoarding money and not counting on international institutions
- Supporting one's own exports through these funds
- Use funds to invest in debt and equity

Rising inequality (graph from 2006)



Liberal View of Globalization and inequality

- Tariff reductions → trade → rising wages for low-skilled workers in the South + wage reduction for skilled workers in the North → reduction in global inequality
- Not verified in empirical studies

Globalization and inequality in the U.S.



What is the impact of Globalization on the United States?

- The Liberal is concerned with global growth
- The Econ. Nationalist is concerned with American power (relative power)
- The socialist/ social democrat/ Marxist is concerned with income distribution in the U.S.
- How does globalization impact growth, power, and income distribution In the U.S.?

American workers are the most productive in the world....

Output Per Hour: Manufacturing Percent change, 2006-2007

Country or area	Output per Hour
United States	4.1
Canada	2.1
Australia	3.1
Japan	2.8
Korea, Republic of	8.7
Taiwan	8.7
Belgium	2.1
Denmark	0.7
France	2.6
Germany	5.0
Italy	-0.5
Netherlands	2.8
Norway	-0.2
Spain	3.8
Sweden	0.9
United Kingdom	2.5

Did Globalization make Americans better off?

- Women's earning power increased
- Minorities saw incomes rise and poverty rates drop
- 1965-75 African American earnings rose...
- Came to a halt
- And no substantial increase since....

All groups saw their incomes rise since 1947

MEDIAN FAMILY INCOME

INCOME IN CONSTANT 2006 DOLLARS



But there has been a Decline in real wages

Real Wages Struggle

Average weekly earnings of U.S. workers in 2008 dollars, since 1964



Source: Federal Bureau of Labor Statistics, FactSet

Rising inequality in the U.S.

- Since 2001...
 - Decline in household income
 - Stagnating wages
 - Any rise in wages results from putting in more hours
 - Rising poverty in single-parent families

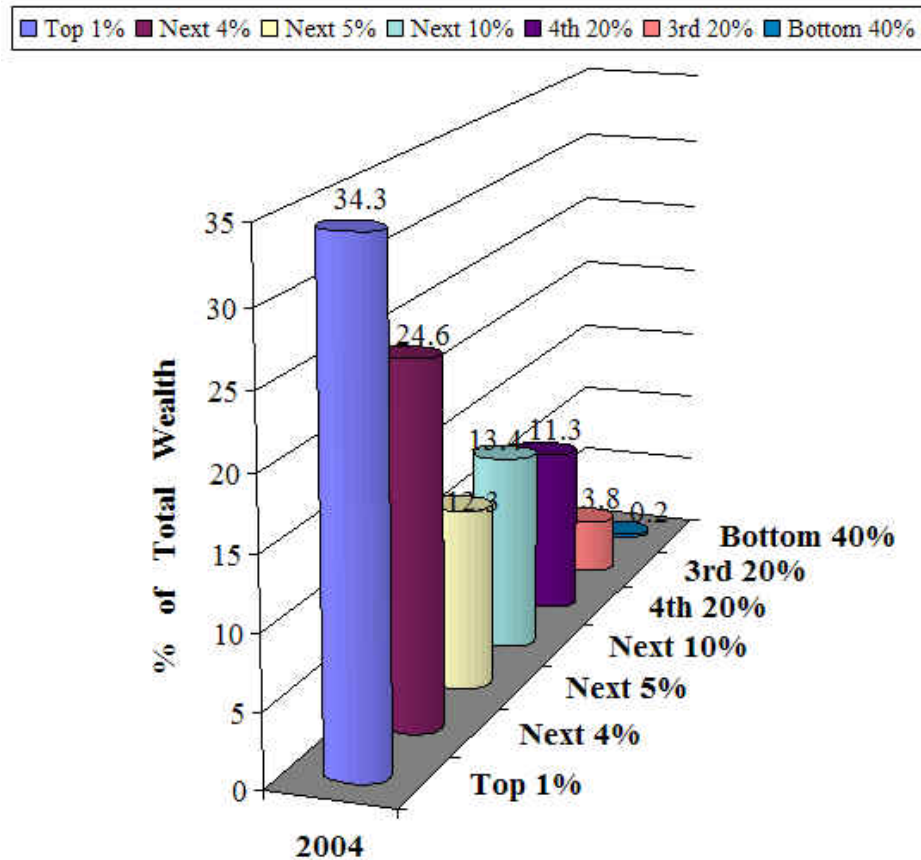
Income Distribution has favored people at the top

- Like a rowboat chasing a speedboat
- Rise in average incomes skewed by inequality



Distribution of wealth in the U.S.

Distribution of Wealth, U.S. Households, 2004



The Escalators



Why is inequality rising in the United States?

The Labor Market is International, Not National

- Why is inequality rising in the U.S?
 - Wages are pushed down by globalization, meaning...
 - Freedom of goods, people, and money to move beyond national borders leads to.....
 - Outsourcing production to low-wage regions and...
 - Importing goods from low wage regions, which...
 - Reduces demand for American labor, which in turn.....
 - Weakens trade unions
 - The weaker the wage earners, the more power for those at the top to increase their own incomes

An International Labor Market means functional, not national competitiveness

- If foreign companies are doing well in the U.S., American workers are better off than with American corporations
- What are the causes of competitiveness then?
- The function you serve in the global, not the national economy

This leads to a Class economy, not a national economy

- American industries no longer compete against other “national” industries
- The stateless corporation?



Three Categories of work.....

- 1)work that delivers high level management services,
-
- 2)work that delivers routine production services
-
- 3)work that delivers routine personal services.

The Symbolic Analyst



High level symbolic analysts account for 10 per cent of U.S. jobs

- Services are in global demand
- So their standard of living has risen
- They are part of a global, not a national labor market
- Services are scarce
- More productivity redounds to their benefit
- The job is to CUT COSTS, increase profits, push up share price...

Aren't Americans competing with others for these Jobs?

- Friedman's argument: Yes
- But wait.....
- Jobs for symbolic analysts in the U.S. have increased!

The Routine Production Worker



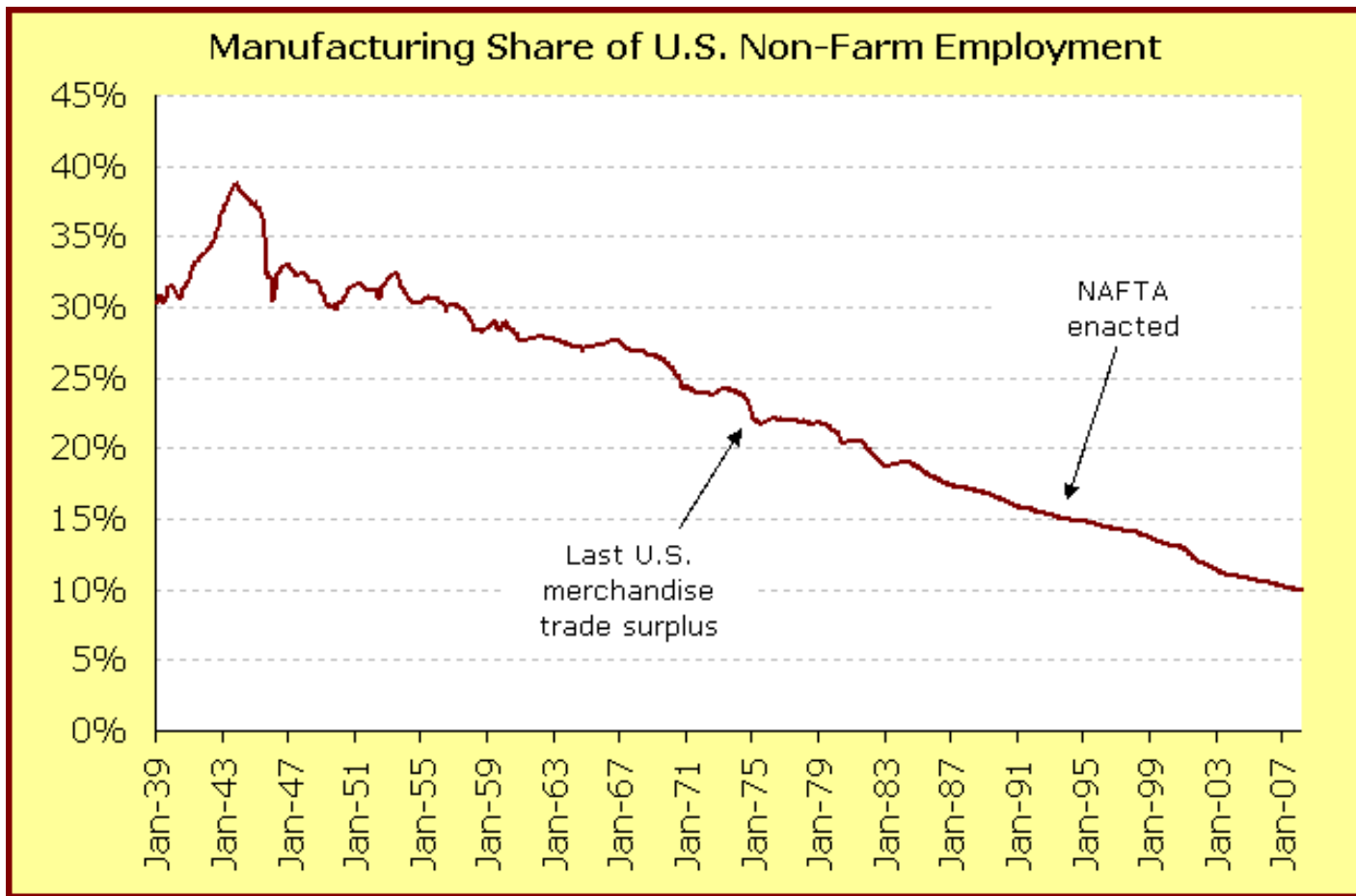
These jobs were once well-paid.....



But now no longer competitive...



Jobs in manufacturing in the US have declined

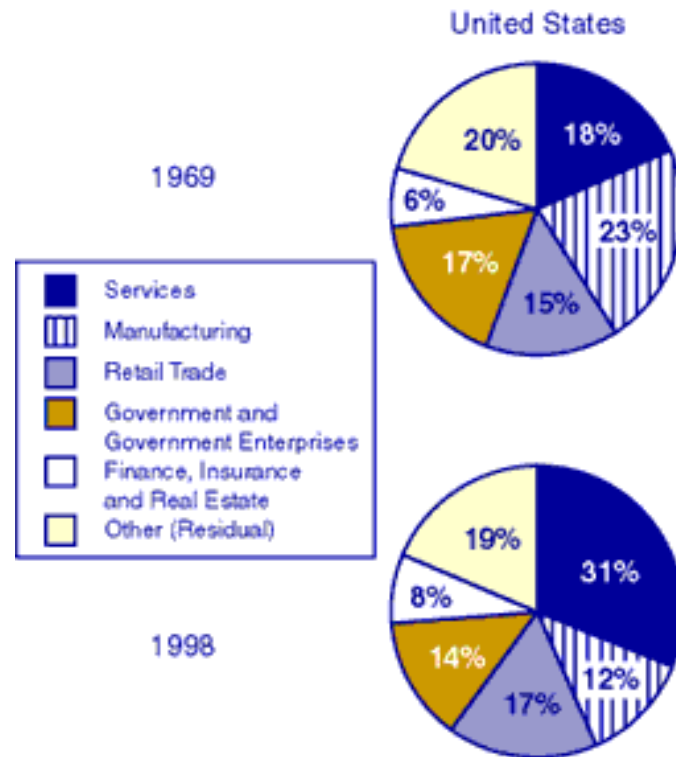


While service jobs grew.....



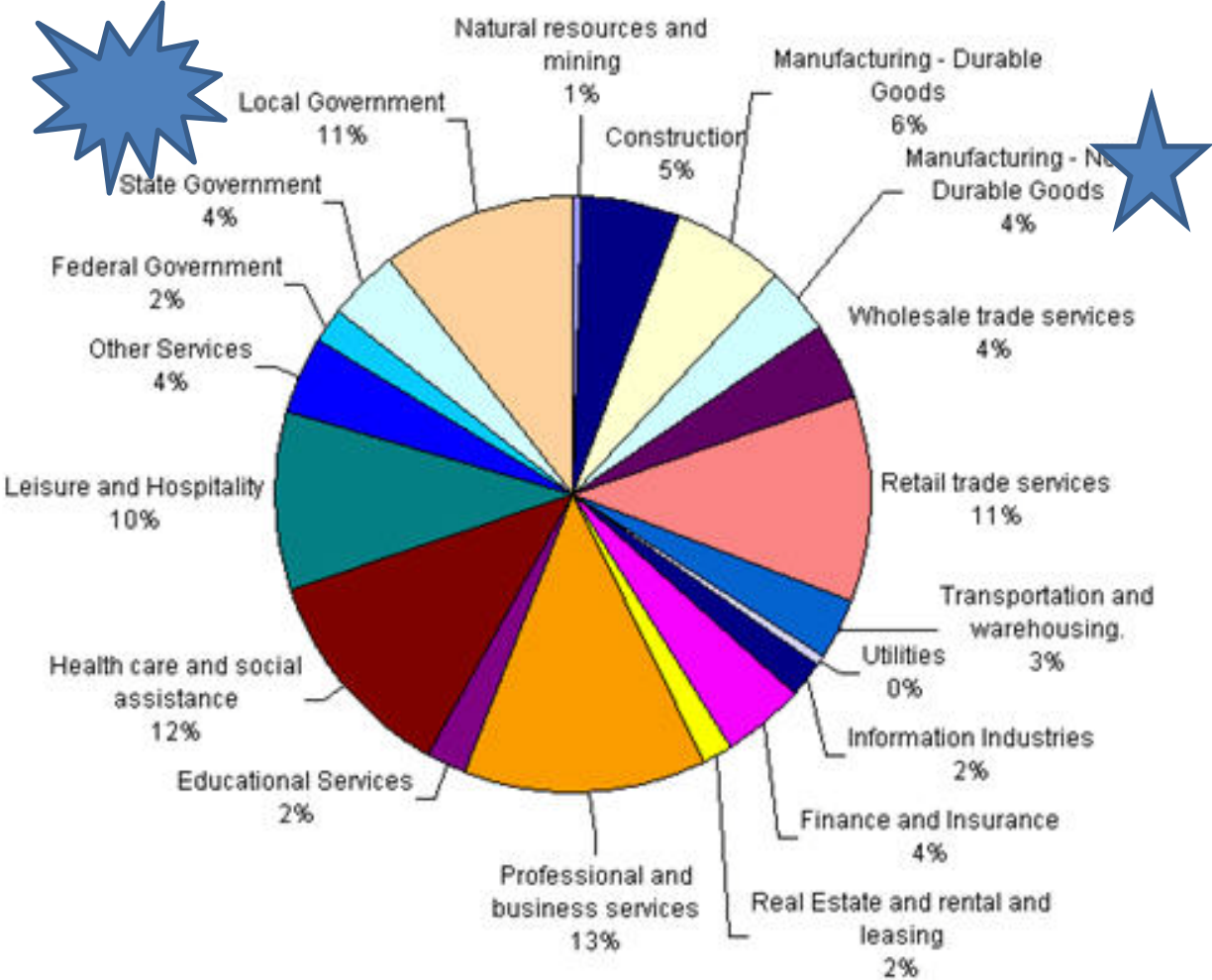
Major Sectors, Indianapolis & U.S., 1969 & 1998

services industries has paralleled the nation's.



Routine Personal Services

US Labor Market by Industry Oct 2008

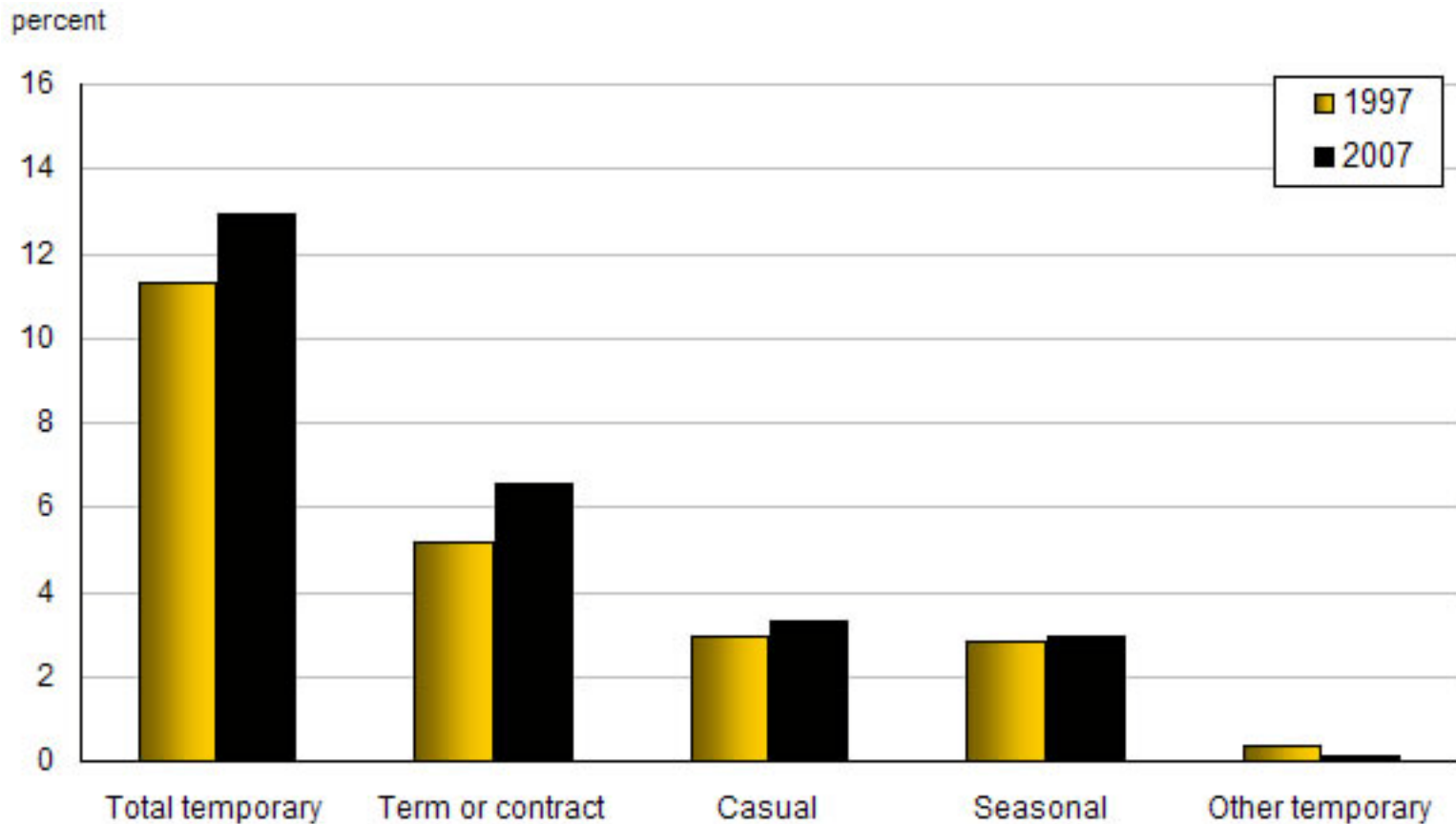


Sheltered from the direct effects of global competition.....

- But not the indirect effects.....



Rise of Temporary workers and “portfolio employment”

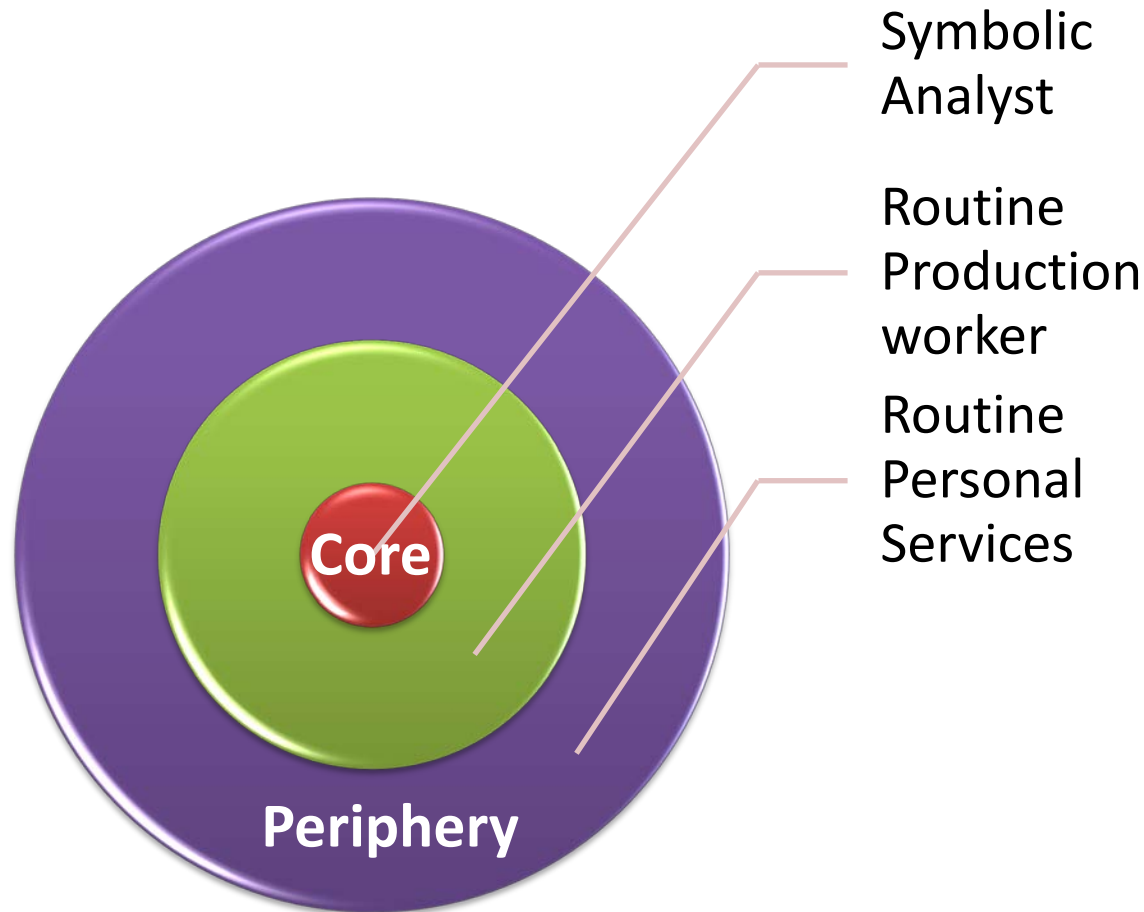


Growth of a low wage work force

- Between 1975 and 1990, the percentage of low wage employees in the total work force grew by 142 per cent, from 17 per cent to 40 per cent



A New Core and Periphery in the US?



A Distributive Justice perspective....

- It is the nature of capitalism to push labor costs (wages) down as far as possible
- But this contradicts the necessity for capitalism to sell goods and services
- Low wages constrict consumption and eventually.....
- Produce crisis

For the Economic Nationalist.....

- Decline of National loyalty for the most competitive group.....
- A loss of manufacturing jobs.....
- Loss of National Wealth
- Loss of National Power

For the Communitarian....Breakdown in Community and Class Interdependence

- Workers are coming to have different competitive positions in the global economy
- Less basis for community....

