4. Paradoxes of Globalization

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INTEGRATION AND INTERDEPENDENCE[1]

We read everywhere that international integration is proceeding rapidly as the result of the increased flow of trade, capital, money, direct investment, technology, people, information and ideas across national boundaries. International integration implies the adoption of policies by separate countries as if they were a single political unit. The degree of integration is often tested by whether interest rates or share prices or the prices of goods are the same in different national markets. Integration, however, can be a term loaded with positive value connotations. Although there may be some objections to the unwanted imposition of uniformity, and although the disintegration of a pernicious system may be desirable, it would generally be regarded as improper to advocate 'disintegration'.

But it is possible for integration to be defined either with or without such value premises. The value premise can be that all members of the integrated area should be treated as equals, either with respect to certain opportunities, such as access to the law, jobs, trade, credit, capital and migration, or with respect to certain achievements, such as a minimum standard of life, education and health services. In this sense of integration, equalizing common taxation and social services are implied. If we omit this particular value premise and confine integration to mean equal economic opportunities, however unequal the initial endowments of members of the integrated area, the world was more integrated at the end of the 19th century than it is today.[2]

Although tariff barriers in countries other than the United Kingdom were higher then (20 to 40 per cent compared with 5 per cent in 1990), non-tariff barriers were much lower; capital and money movements were freer under the gold standard (i.e. without the deterrent to trade of variable exchange rates); and movement of people was much freer; passports were rarely needed, visas were unknown, and citizenship was granted easily. Today, international migration is strictly controlled. Between 1881 and 1890 the average annual rate of immigration into the US was 9.2 per 1,000, reaching over 10 in the

first decade of this century. Between 1991 and 1997 the average annual rate of immigration was 3.8 per 1,000 of US population (US Bureau of the Census, 1999, p.2).

If we include the value premise of equal treatment, the world is, of course, even less integrated. International inequalities are today greater than ever before. Dani Rodrik uses the term 'international economic integration' instead of 'globalization' (Rodrik, 2000, pp. 177–8). He does this for two reasons. 'First, while not as trendy, my term has a distinct meaning that will be self-evident to economists. Globalization, by contrast, is a term that is used in different ways by different analysts. Second, the term "international economic integration" does not come with the same value judgments – positive or negative – that the term "globalization" seems to trigger in knee-jerk fashion' (ibid., pp. 177–8).

It will be seen that I disagree with both reasons. 'Integration' is also ambiguous and comes also with or without value judgments. Rodrik illustrates the unparalleled prosperity and integration of today's economy by a chart showing rapid growth of exports. But this, of course, does not show anything of the kind.

Functions of an Integrated International System

The four functions that would be coordinated in an integrated international system designed to promote development are today fragmented (Streeten, 1989a). These are:

1. the generation of current account surpluses by the center;
2. the financial institutions that convert these surpluses into loans or investments;
3. the production and sale of producer goods and up-to-date technology;
4. the military power to keep peace and enforce contracts.

Before 1914 these functions were exercised by the dominant power, Great Britain; between the wars there was no international order, Britain no longer being able and the US not yet willing to accept the functions; for a quarter of a century after World War II they were exercised and coordinated by the US. But today we live in a schizophrenic fragmented world, without coordination. The surpluses were generated in the 1970s by a few oil-rich Gulf sheikdoms, later by Germany and Japan, and today mainly by Japan. The financial institutions have mushroomed all over the world; not only in London and New York, but also in Tokyo, Hong Kong, Singapore, Frankfurt, Amsterdam, Zurich, the Cayman Islands, the Isle of Jersey, the British Virgin Islands, Cyprus, Antigua, Liechtenstein, Panama, the Netherlands Antilles, the

Bahamas, Bahrain, Luxembourg, etc. And the economically strong countries such as Germany and Japan were strong partly because they did not spend much money on the military.

Non-tariff barriers for trade imposed by the OECD countries and restrictions on international migration have prevented fuller global integration. The result is deflation, unemployment, and slow or negative growth in many countries of the South. But the present fragmentation provides us for the first time with the opportunity to coordinate these four functions and to build a world order on equality, not dominance and dependence. It is a challenge to our institutional imagination to design ways of implementing this new order.

It may be objected that there is no reason why different countries or agents, without coordination, should not exercise the four functions. But the historical evidence and theoretical considerations show that coordination is necessary if we are to avoid inflation and unemployment in the North, stagnation and underemployment in the South, and growing inequality and slow growth in the world as a whole. The global public goods of world prosperity, stability, growth and peace cannot be provided by uncoordinated laissez-faire. Without coordination the current account surpluses will be invested in the US and Europe instead of in the capital-hungry South, the financial institutions will be media of speculation instead of productive investment, and the industries, including the potential export industries in the North, will be partly underemployed.

Between 1870 and 1914 the world was integrated unwittingly. By imposing fewer objectives on government policy (such as those mentioned in the next paragraph), and by accepting what later, in retrospect, appeared to be irrational constraints, such as the gold standard, and consequentially fixed exchange rates, and lack of freedom to pursue expansionist monetary policies, and the constraint of balanced budgets, different countries were integrated into a single world economy. It was dominated by one power, Great Britain. Domestic policies were severely constrained by the need to adhere to the gold standard. Today the constraints on national policies consist of the activities of multinational companies and banks. Before 1914 the world had been more integrated than it is today. International integration, however, was no guarantee of peace. It did not prevent World War I.

Later, many objectives of government policy were added to the night watchman state's duty to maintain law and order: among them full employment, economic growth, price stability, wage maintenance, reduced inequality in income distribution, regional balance, protection of the natural environment, greater opportunities for women and minorities, etc. The rejection of constraints on policy such as fixed exchange rates, and limits on the discretion of monetary and fiscal policies, led to greater integration of

national economies by permitting policies for full employment and the welfare state; but at the same time they led to international disintegration. Such disintegration is, however, entirely consistent with a high degree of international interdependence. For interdependence exists when one country by unilateral action can inflict harm on other countries. Competitive protectionism, devaluation, deflation, or pollution of the air and sea beyond national boundaries are instances. A nuclear war would be the ultimate form of interdependence resulting from international disintegration. Today global market forces can lead to conflict between states, which contribute to international disintegration and weakened governance.

Interdependence is measured by the costs of severing the relationship. The higher the costs to one country, the greater is the degree of dependence of that country. If a small country benefits more from the international division of labor than a large country, its dependence is greater. If high costs from severing economic links were to be incurred by both partners to a transaction, there would be interdependence.

It is quite possible to have intensive and rapidly growing international relations, without a high degree of interdependence. This would be so if the relations could be abandoned at low costs. There could, for example, be a large and rapidly growing trade in slightly different models of automobiles, produced at similar costs, but there would be not much deprivation or loss if buyers had to substitute home-produced models for imported ones. The index of interdependence would be the consumers' and producers' surpluses, not the volume, value or rate of growth of international trade.

There is a different sense of 'interdependence', according to which 'dependence' means only 'influenced by', without great benefits from maintaining, or costs from severing, the relationship. In this attenuated sense there can be interdependence even though the costs of cutting off relations are low or even negative. But this is not a useful sense for our purposes.

Has International Interdependence Increased?

International interdependence is often said to be strong and to have increased. International trade is taken to be an indicator of interdependence and its high and, with some interruptions, rapidly growing values are accepted as evidence. Between 1820 and 1992 world population increased fivefold, income per head eightfold, world income fortyfold, and world trade five-hundred-and-fortyfold (Maddison, 1995). Sometimes international financial flows are taken as the measure of interdependence. But five important qualifications to the notion that globalization is unprecedented, large and increasing are necessary.[3]

First, if we consider the ratio of international trade to national income, the rapid growth of the postwar decades can be taken to be a return to pre-1914 values after the interruptions of two world wars, the Great Depression, and high levels of protection.[4] The share of world exports in world GDP rose from 6 per cent in 1950 to 16 per cent in 1992. For the industrial countries, the proportion increased from 12 per cent in 1973 to 17 per cent in 1992. For 16 major industrial countries the share of exports in GDP rose from 18.2 per cent in 1900 to 21.2 per cent in 1913 (Nayyar, 1995, pp. 3–4; Maizels, 1963; Maddison, 1989; Bairoch, 1993). This was largely the result of dramatic reductions in transport costs, as well as of the decline in trade barriers such as tariffs and import quotas and of the opening of new markets such as China and Mexico. The comparisons in the ratios are very similar for particular countries.[5]

The total ratios of trade to GDP are, however, misleading. Over the post-war decades the share of services, including government services, in GDP increased enormously. Many of these are, or were until recently, not tradable. If we were to take the ratio of international trade to the production of goods only, it would show a substantial increase not only compared with the interwar period, but also compared with the time before 1913.

The second qualification to the notion that unprecedented globalization is now taking place is that the developing countries, and the groups within these countries that have participated in the benefits from the growing trade (and also from foreign investment, which is highly concentrated on East Asia, Brazil, Mexico and now China) have been few, not more than a dozen, and no poor ones among them. Twelve countries in Asia and Latin America accounted for 75 per cent of total capital flows, while 140 of the 166 developing countries accounted for less than 5 per cent of inflows (López-Mejía, 1999). A large share of foreign investment is made by firms from a handful of countries, in a narrow range of industries (UN Conference on Trade and Development, 1996). The large, poor masses of the Indian subcontinent and of sub-Saharan Africa have (at least so far) not participated substantially in the benefits from the growth of international trade and investment. In fact, the bulk of the international flow of goods, services, direct investment and finance is between North America, Europe and Japan. The group of least developed countries accounted for only 0.1 per cent of total global investment inflows and for 0.7 per cent of inflows to all developing countries. Africa in particular has been almost completely bypassed.[6] More than 80 per cent of world population living in developing countries account for less than 20 per cent of world income (UNDP, 2000).

The third qualification is that direct foreign investment constitutes a smaller portion of total investment in most countries than before 1914. Domestic savings and domestic investment are more closely correlated than

they were then, implying that even investment capital is not very mobile. This is explained partly by the fact that government savings play a greater role today than they did in the past, and partly by floating exchange rates that raise uncertainties and are a barrier to long-term commitments. The same point is made by noting that, though gross capital flows are very large, net flows are not. Current account deficits and surpluses are now a much smaller proportion of countries' GDP than they were between 1870 and 1913. Britain ran a current account surplus that averaged 8 per cent of GNP and invested this overseas, compared with 2–4 per cent for the West German and Japanese surpluses (and the American deficit) in the 1980s. But the fact remains that this is surprising in view of the talk of the globalization of capital markets. The bulk of foreign investment has been the capital import of the US and the outflow from Japan.

Foreign capital, mostly loans, financed one-third of domestic investment in New Zealand and Canada in the late 19th century, and one-quarter in Sweden. Today it accounts for 10 per cent in a few developing countries. Today's foreign investment is more broadly based than it was in the 19th century, is more short-term, more speculative and less stable. Nineteenth-century globalization produced greater stability than today's.

The fourth qualification is, as we have seen, that there is much less international migration than in the earlier period. Barriers to immigration are higher now than they were then. As we have seen, passports were unnecessary and people could move freely from one country to another to visit or work. Sixty million Europeans moved to the Americas or to Australia or other areas of new settlement. In 1900 14 per cent of the American population was foreign born, compared with 8 per cent today.[7]

The fifth qualification is the already mentioned fact that it is not the volume or value or rate of growth of trade that should be accepted as an indicator of economic interdependence, but the damage that would be done by its elimination, i.e. consumers' and producers' surpluses. These are difficult to measure. But we know that much trade is conducted in only slightly differentiated goods, which could readily be replaced by similar domestic products without great loss to buyers or great increases in costs.

On the other hand, a small and slowly growing volume of trade could be of great importance and lead to substantial losses if it were cut off. Like a link in a bicycle chain, it could, though small, make a big difference to the working of the whole system. The United States, for example, depends strongly on quite small imports of manganese, tin and chromium. Before World War I, trade was largely conducted in the form of an exchange between raw materials and manufactured products, for which consumers' and producers' surpluses are large. Today the bulk of trade is intra-industry and even intra-firm trade of often similar manufactured products for which these surpluses

are much smaller. Indeed, manufactured goods contain parts from so many countries that it is not possible to attribute their origin to any one country.

There are also important differences between globalization now and before World War I:

- First, intersectoral and inter-industry trade, mainly between agricultural and manufactured products, prevailed in the earlier period, whereas now, as we have seen, trade is largely intra-industry and intra-firm.
- Second, before World War I 45 per cent of foreign investment in the Third World and 55 per cent of total investment went into the primary sector. In the second phase these percentages were lowered to 20 per cent and 10 per cent respectively. Capital then flowed to countries rich in natural resources and much went into the construction of infrastructure; today investment is largely in manufacturing and flows to countries with plenty of cheap labor.
- Third, foreign investment in the earlier phase was largely in search of profits, whereas in the present phase short-term capital movements flow largely in search of capital gains.
- Fourth, as we have seen, in the present phase there are many restrictions on the flow of labor. Capital now goes to labor, while in the past it was labor that went to capital. The large-scale migration to North and South America, Australia and South Africa bear witness to this.
- Fifth, the technology has changed out of all recognition, and electronic technology can be said to have made the movement of labor less important.
- Sixth, the principal players then were imperial nation states, whereas now they are multinational corporations and international banks.
- Seventh, whereas in the earlier period the process of globalization was fairly evenly spread, globalization now is much more unevenly spread, leaving out large parts of the South (Nayyar, 1997).
- Finally, eighth, international integration did not conflict with national integration. Members of the present elites in the low-income countries have their medical and surgical treatment in the advanced capital cities of the North. Their children are sent to the schools in the North. They take their vacations there, do their shopping there, and visit relatives who have settled there. They invest their capital on the stock exchanges of the rich countries. As a result, they have no interest in improving the medical, educational and economic facilities in their own countries. Local 'capacity building' is not part of their agenda.

Partial international integration can thus lead to national disintegration.

INTERNATIONAL INTEGRATION AND NATIONAL DISINTEGRATION

There are five reasons for why (partial) international integration can lead to national disintegration:

1. Downsizing, restructuring, 'delayering', and re-engineering have reduced the demand for low-skilled workers in the rich and middle-income countries and maintained downward pressure on the wages of those who succeeded in keeping their jobs.
2. Preventing increases in the brain drain in developing countries and paying professional manpower salaries not too much out of line with those in rich countries makes egalitarian incomes policies impossible.
3. Tax revenues to pay for social services have been reduced, though the need for them has increased.
4. The elites in the low-income countries are opting out of national commitments. This leads to the neglect of essential social services like education and health.
5. The culture of the elites is global and estranged from the culture of the local people.

The process of globalization, according to some definitions, means opening-up to trade or liberalization. In the last decade such liberalization was followed mainly by the ex-socialist countries, which turned away from central planning in order to link up with the world economy, and by the developing countries, which changed from import-substituting industrialization to export orientation accompanied by a partial dismantling of the state. This move was not the result of entirely free choices, but was itself a response partly to global forces, partly to pressures by the World Bank, the International Monetary Fund in their stabilization and structural adjustment programs, and the words and doctrines of state minimalism of the rich countries, and partly to the hopes of benefiting from global gains.

Some OECD countries, on the other hand, have put up additional non-tariff barriers such as so-called voluntary export restraints, procedural protection most notably in the form of anti-dumping actions, and specific subsidies to exports of goods and services competing with imports. The Multifiber Arrangement and the Common Agricultural Policy of the European Union are blatantly protectionist devices. Other barriers have been raised against steel, electronics and footwear.

Trade is, of course, only one, and not the most important, among many manifestations of economic interdependence. Others include the flow of factors of production, capital, technology, enterprise and various types of labor, across frontiers; there is also the exchange of assets, the acquisition of legal rights, of information and knowledge. The global flow of foreign exchange has reached the incredible figure of $2 trillion per day, 98 per cent of which is speculative. The multinational corporation has become an important agent of technological innovation and technology transfer. In 1995 the sales of multinationals amounted to $7 trillion. Their sales outside their home countries are growing 20–30 per cent faster than exports.

As Jeffrey Williamson has shown, another aspect of globalization is the convergence of real wages in different countries.[8] Since the 1950s the gap between American and European wages has shrunk markedly. Similarly, in the second half of the 19th century European wages caught up with American ones. In Europe, some countries closed the gap with Britain, then the Continent's leader. In a later paper Williamson argues that economic integration (rather than, say, better education in the low-wage countries) was the main cause of this narrowing (Williamson, 1996). As a result of the growth of international trade the prices of traded goods became more alike in different countries. The relative prices of the abundant factors of production in each country rose (land in America, labor in Europe), while those of the relatively scarce factors fell (labor in America, land in Europe). A recent study confirms this (O'Rourke et al., 1996). Emigration from Europe to America also helps to explain the rise in wages in Europe and their containment in America.

After about 1895 the losers from international integration began to revolt and the claims for protection and restrictions on immigration became louder. Between the two wars the international order broke down. Today's low-skilled workers in America and other advanced countries may similarly claim that the economic rise in the South is a threat to them. The voices of Ross Perot and Patrick Buchanan in America and Sir James Goldsmith and Jean-Marie Le Pen in Europe gave shape to these alarms. In the developing countries corresponding visions are calling for a reversal of the trend towards globalization. But, in spite of rising unemployment, the political forces of nationalism are losing out against the economic forces of globalization.

In addition to economic interdependence (trade, finance, direct investment) there are educational, technological, ideological, cultural, as well as ecological, environmental, legal, military, strategic and political impulses that are rapidly propagated throughout the world. Money and goods, images and people, sports and religions, guns and drugs, diseases and pollution now

move quickly across national frontiers. When the global satellite communications system was established instantaneous communication from any part of the world to any other became possible. It is not only the creation of a 24-hour money market that had become possible, but also the flashing of pictures of statesmen and film stars across the globe, making these faces more familiar than those of our next-door neighbors.[9]

We hear much of the creation of a borderless world and the end of the nation state. It is true that satellites and the Internet have greatly increased the speed at which the communication of cultural and informational impulses is propagated throughout the globe. Americans fly British Airways, drive Japanese cars and drink Russian vodka. A German firm, Daimler-Benz, buys a quintessentially American company, Chrysler Corporation and Michael Gorbachev does Pizza Hut commercials.

But here again, as in trade and investment, vast areas in the poor South are either left out (subsistence farmers are not affected by global forces), or suffer the backwash effects of globalization. The rise of particularism and religious fundamentalism is a sign that many people protest against it. It has become a cliché to say that international interdependence is great, has increased, and will continue to grow. Normally this is intended to refer to trade, foreign investment, the flow of money and capital, and the migration of people. Advances in technology such as the jet, telex, satellite television, container ships, supertankers, super ore carriers and technical progress in transport, travel and, above all, in communication and information have shrunk the world. By reducing the cost of communication, technology has helped to globalize production and finance. Globalization, in turn, has stimulated technological progress by intensifying competition, and competition has forced the introduction of new technology. Globalization has spread its results widely through foreign direct investment. History may not have ended, but geography, if not coming to an end, certainly matters less. And the interaction of technology and globalization has presented new problems.

The international spread of ideological and cultural impulses is at least as important as that of economic impulses. Observe the young in the capitals of the world: from Ladakh to Lisbon, from Maine to Mozambique, from West Virginia to East Jerusalem, from China to Peru, in the East, West, North, and South, styles in dress, jeans, hair-dos, T-shirts, jogging, eating habits, musical tunes, attitudes to homosexuality, divorce, abortion, have become global. Even crimes such as those relating to drugs, the abuse and rape of women, embezzlement and corruption have become similar everywhere. But although American cultural influences are important, there are many other influences and no single dominant power.

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'The super-rich are seceding from their nations. So what you have is not a Western or East Asian or Southeast Asian or Chinese model. We are building enclaves of super-privilege. What you're having is not a global village but a series of global ghettoes. The Western elite is not the sole villain,' said Palagummi Sainath, the author of *Everybody Loves a Good Drought*, a critique of government and the establishment in India, based on his reporting from some of the poorest villages in the country.[10] Partial international integration, once again, leads to national disintegration.

> There is a new catchword in the developing world . . . to cover cultural wounds not believed to be strictly Western, Eastern or self-inflicted; the word is globalization. It wraps up all the fears of somehow losing control to foreigners, felt as much by Americans who hate the United Nations and immigrants as it is by Indians or Filipinos who feel threatened by the International Monetary Fund, Kentucky Fried Chicken, Joe Camel or Time Warner. That shrinking world everyone was so proud of a decade or so ago has become a cultural strangler' (Barbara Crossette, 1997, p. 5).

National Breakup and 'Retribalization'

But the impression of global uniformity can be deceptive. Just as trade, foreign investment and the flow of money have affected only a few regions of the world and left the rest comparatively untouched (except for some negative effects), so this globalization of culture is only partial. It is evident in the towns and suburbs, and the more advanced countryside. The poor in the rural hinterlands, in spite of the spread of transistors and television, have been largely bypassed. And in many lands there has been a reaction toward tradition and tribalism. Global integration has provoked national disintegration. Globalization has posed a threat to the rootedness on which community life depends. Ethnic or cultural passions are fracturing societies and regions. We witness Islamic fundamentalism in the Muslim world. Evangelical fundamentalism is spreading not only in the US, but also in East Asia, Africa, and Latin America, often linked to a Calvinistic, entrepreneurial ethics of saving and hard work. Hindu fundamentalism is evident in India and has led to the most horrific bloodletting (though Hinduism cannot, strictly speaking, be fundamentalist because it is a religion without dogma). In Israel, a recent decision of the Knesset, yielding to he pressure of a minority of fundamentalist rabbis, denies the right of Conservative and Reform rabbis to perform valid conversions for those wishing to become Jewish.

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(minorities, tribes, ethnic groups) asking for rights, participation or independence, reports on 'Sovereignty at Bay' (Raymond Vernon) 'The Twilight of Sovereignty' (Walter Wriston), 'The End of the Nation State' and 'Borderless World' (Kenichi Ohmae and others) are therefore somewhat premature. The illusion of rapidly increasing globalization arises from a short time perspective that looks only at the last 30 or 40 years, at the beginning of which countries were exceptionally closed as a result of the Great Depression and World War II.

Views on the benefits and costs of the global mobility of the different items, such as trade, finance, technology and ideas, differ. In a much-quoted passage Keynes wrote: 'Ideas, knowledge, art, hospitality, travel – these are things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national.'[11] Today it is more fashionable to deplore the 'cultural imperialism' or the 'homogenization' of television and the mass media and the global spread of mass culture, and to attempt to confine culture to local knowledge, activities and products, while advocating free trade in goods and services.

Neo-liberals advocate free trade and a good deal of laissez-faire but not the free movement of people. François Quesnay had added to laissez-faire laissez-passer, but this is forgotten today, perhaps because contemporary liberals fear that it would accelerate population growth (or reduce the pressures to reduce it) in the low-income countries of emigration and therefore not contribute to raising their welfare, or that it would interfere with economic objectives (especially the level and distribution of income), or cultural values, or social stability and cohesion, or security, in the country receiving the migrants. But all these objections also apply to the free movement of goods and services. In any case, there is an inconsistency.

GLOBAL FINANCIAL FLOWS

Global financial flows have enormously increased and now are on an average day about $2 trillion. Forty per cent of these transactions are reversed within two days and 80 per cent within seven days. This represents a ratio of foreign exchange dealings to world trade of nearly 70:1 and equals the world's total official gold and foreign exchange reserves. In 1971 about 90 per cent of all foreign exchange transactions were for the finance of trade and long-term investment, and only 10 per cent were speculative. Today, these percentages are reversed; well over 90 per cent of all transactions are speculative (Eatwell, 1995, p. 277). The enormous growth of these flows is the result of the collapse of the Bretton Woods system of fixed exchange rates in 1973,

combined with deregulation and liberalization of capital flows, and the opportunities this has provided for speculation on variable exchange rates.

The 24-hour international capital market has given rise to the fear that the international financial system is unstable. A run on any one country's currency can easily spread to other countries and lead to a collapse of values on stock exchanges, of markets and of whole economies. It has been argued that recent difficulties point to the strength, rather than the weakness, of the international system. The effects of the different crises – the Latin American debt crisis, the American savings-and-loan fiasco, the BCCI scandal, Mexico, Barings, Daiwa, the 1997/99 crisis in Asia and Brazil – did not spread internationally. Many individuals were hurt, including taxpayers, but these were mainly residents in the area and the rest of the world was sheltered. The system did not break down – at least so far. Obviously, this does not mean that it cannot do so in future. The summer of 1998 came near to such a breakdown.

The precariousness of the world economy is plain, and steps should be taken towards a substantial strengthening of the IMF, together with a change in its conditionality, or, better, a global central bank. As lender of last resort and creator of new money it would have to be able to lend freely, with much larger resources than are now at the disposal of the IMF, at penal interest rates, and against collateral. It would reduce the debts of some developing countries and oversee the operations of shaky financial institutions. It would buy the debt of a country in difficulties and perhaps later resell it at a profit. It would be accountable to an enlarged Group of 7, with additional membership rotating between countries like Mexico, Brazil, South Africa, Poland, India, China and South Korea.

The absence of institutions such as a central bank, a Securities and Exchange Commission, the insurance of bank deposits, or safety nets at the global level, while free markets run wild, accounts for the global turmoil in the stock markets of the world. The problem with creating such institutions is that of the leaky roof that never gets repaired. When the sun shines, there is no need, and when it rains, nobody wants to get wet. When all goes well, nobody is interested in creating such an institution, and in a crisis, officials are preoccupied with grappling with it.

Instability and Maldistribution of Capital Flows

The stunning increase in long-term private foreign investment has built roads, airports and factories in developing countries. Private flows to developing countries have increased from $34 billion in 1987 to $256 billion in 1997. They have brought much needed capital to these countries and good returns to the investors. But large inflows can be reversed and become large outflows,

as Mexico in 1994–95 and the Asian financial crisis in 1997–98 have shown. Moreover, capital mobility in the presence of trade distortions results in a misallocation of capital and a deterioration of the well-being of people in the capital-importing countries. If capital flows freely into a labor-rich country that protects its capital-intensive industries (such as steel and car production), capital will be misallocated, the country's national product at world prices will be reduced and its national income will be reduced further by the payment of returns to the foreign capital. Countries that impose rules and regulations restricting the purchase and sale of currencies, such as China and Chile, have fared best in times of crisis. (Chile, however, eliminated some of these controls in 1998.)

As we have seen, globalization of financial and real flows, as of trade, has been partial; there are hardly any flows to low-income countries; and while private flows to middle-income developing countries have enormously increased, official development assistance has stagnated. The bulk of the flows is between OECD countries; and there is some foreign investment in a selected group of developing countries, mostly in Latin America, East Asia and China. According to the IMF, 95 per cent of private flows to developing countries in 1996 went to just 26 countries; 140 countries shared the remaining 5 per cent (López-Mejía, 1999). And these private flows are highly volatile, tending to be withdrawn at short notice. The intra-OECD flows contradict neoclassical theory, according to which capital should flow from the capital-abundant to the capital-scarce countries. In fact, the USA, one of the capital-richest countries, has attracted most capital, in 2002 nearly $430 billion per year. And among developing countries it is those with substantial human capital and investor-friendly government policies that attract financial capital.

Some pessimists have two contradictory worries: first, that a massive outflow of capital from rich to poor countries will exports jobs; second, that cheap imports from the South will lead to a current account deficit of the North (which must mean a capital flow from the South to the North) and therefore again to job losses. Neither should be a cause for worry in the long run. A current account deficit of the South is more likely now that the Asian crisis has passed, and the resulting expanding markets in the South will create jobs in the North, although these will be different from current ones and this means re-education and redeployment of labor.

In the light of this large increase in financial flows, it is, as already mentioned, a puzzle to find that domestic savings and investment are closer together for most countries than they were before 1914. It follows that net flows are much smaller than gross flows. As we have discussed, many explanations have been offered for this paradox, among them the possible obstacle to long-term real investment and consequential global integration of

fluctuating exchange rates. Deregulation and liberalization have accelerated neither investment nor growth, nor resulted in high levels of employment nor in a better income distribution, nor in lower borrowing costs. They have also increased the volatility of asset prices.

Global financial deregulation and liberalization have brought some benefits but also greater risks for investors and the financial system. In the 1980s the task of stabilizing against high inflation, the debt crisis and structural adjustment preoccupied many governments. In the 1990s problems of coping with rapid swings in capital flows had become more pressing, highlighted by Mexico's financial crisis in 1995 and the troubles in South Korea, Thailand, Malaysia, Indonesia and the Philippines in 1997/98. Suddenly government was called upon to bail out the financiers who previously had preached the virtues of free markets. The cause of the East Asian financial crisis, as Robert Wade has said, 'was a structure of financial claims that involved too much short-term debt relative to long-term debt, too much debt relative to equity, too much foreign debt relative to total debt, too much foreign equity relative to domestic equity' (Wade, 1999, p. 485). This raised the question whether a return to control of capital markets is indicated. In developing countries regulations that favor direct foreign investment over purchases of shares, that inhibit short-term flows, and that discourage local firms from accumulating large foreign debts are again being discussed.

There is a need for re-regulation and harmonization of legislation. The more free-enterprise-oriented a country is, the greater the need for official supervision. Deregulation has resulted in higher and less stable interest rates, less stable exchange rates, boom and slump in property prices, gambling on asset values, interest and exchange rates. Excessive deregulation, allowing firms to borrow abroad without any government control or coordination, has led to the run on the currencies. The danger of business and bank failures is high. If we wish not to have to bail out financial institutions, deregulation has to be supported by close and well-coordinated supervision.

The Bretton Woods system was based on the premise that currency convertibility, multilateral trade and stable exchange rates require constraints on international capital mobility. Financial liberalization, carried too far, can damage the more important trade liberalization. For example, when a country should devalue because its prices have risen by more than foreign prices, it may be unable to do so because of speculative short-term capital inflows. Or changes in capital flows can produce large swings in the exchange rate, which are detrimental to trade. One way to slow down short-term capital movements would be the Tobin tax, a small, uniform tax imposed on all short-term international capital flows. There has been a good deal of recent discussion, and a book has been published that discusses the desirability and feasibility of the tax, both for and against it (Haq et al., 1996). More ambitiously, a new

global institution has been proposed that would supervise the participants in the global capital market and establish trading, reporting and disclosure requirements.

UNEVEN BENEFITS AND COSTS OF GLOBALIZATION

Globalization has helped to create undreamed-of opportunities for some people, groups and countries. Human indicators such as literacy, school enrolment, infant mortality, and life expectancy have enormously improved in the last few decades. In low- and middle-income countries life expectancy has increased from 46 years in 1960 to 64.4 years in 1998; infant mortality per 1000 live births has fallen in the same period from 149 to 64; adult literacy rates have risen from 46 to 73 per cent; and real GDP per head from $950 to $1,250 (UNDP, 2000). The Cold War has ended and democracy has spread throughout the world and replaced autocratic regimes. Between 1986 and 1996 the portion of the world's states with democratically elected governments jumped from 42 per cent to 61 per cent. Globalization has been particularly good for Asia, for the global growth of production, for profits and for the owners of capital and sophisticated skills (see Balance Sheet of Globalization, p. 73 below).

At the same time, the economic restructuring, liberalization, technological changes and fierce competition, both in the markets for goods and for labor, that went with globalization have contributed to increased impoverishment, inequalities, work insecurity, weakening of institutions and social support systems, and erosion of established identities and values. Liberalization and reduced protection of agriculture, by reducing agricultural supplies, have raised the price of food (compared with what it would otherwise have been), and food-importing countries have suffered as a result.

Globalization has been bad for Africa, and in many parts of the world for employment of those without assets or with rigidly fixed and unadaptable skills. International competition for markets and jobs has forced governments to reduce taxation and with it social services that had protected the poor, and cut public services and regulations that had protected the environment, has forced governments and firms to 'downsize', 'restructure' and 're-engineer' and has made necessary all kinds of steps to ensure that the cost of labor is low.[12]

Between 1972 and 1986, for developing countries as a whole, social expenditure as a proportion of total government expenditure declined from 35 per cent to 27 per cent and for industrial market economies from 58 per cent to 56 per cent (World Bank, 1988). Between 1980 and 1993, in the Philippines health expenditure declined from 4.5 per cent to 3.0 per cent, and in Kenya from 7.8 per cent to 5.4 per cent (World Bank, 1995). In Latin America, despite some recovery of social expenditure in 1991, expenditure per head on health and education was lower than in 1980–81 (IDB, 1996, p. 47).

At the height of the welfare state, in the quarter century after World War II, when it was thought that a government can steer the economy to full employment and keep it there, national integration had been accompanied by international disintegration. Though people had expected full employment to remove the case for trade restrictions, there were at least four (not equally good) reasons for trade restrictions and for limiting access of imports of labor-intensive products in conditions of full employment. The first and most obvious reason is the fact that full employment policies (and even more so over-full employment policies) make for stronger inflationary pressures and therefore tend to aggravate balance of payments problems if the country's inflation is greater than the average rate in its trading partners. Balance of payments difficulties resulting from inflation are perhaps not good reasons, but they are often used as excuses for trade and foreign exchange restrictions.

The second reason is that full employment policies were often interpreted (or perhaps misinterpreted) as policies that guarantee particular workers their present jobs. Transitional unemployment was not easily distinguished by its victims and their representatives from lapses from full employment. While it would be clearly a mistake to identify full employment in a growing and changing society with a prescriptive right to existing jobs in particular occupations and regions, it should be remembered that change and transition have social costs. The better off a society is, the more it can afford to forgo extra increases in income and production for the sake of less disruption, particularly if such disruption continues to be called for repeatedly or if its benefits are mainly enjoyed by others than its victims. If full employment policies were interpreted in this way, they presented a new motive against admitting more imports.

The third reason is that, according to the Stolper-Samuelson theorem, labor-intensive imports tend to reduce the absolute incomes of unskilled and semi-skilled workers. This is so because the relative price of the product intensive in this type of labor will fall after trade liberalization. Unless there is a perfect system of compensation, it is understandable that these groups resist the removal of trade restrictions.

The fourth reason is that in conditions of full employment the terms of trade argument for protection, also called the optimum tariff argument, comes into its own. If resources are unemployed, the nation can export more and simultaneously raise everybody's income. But in conditions of full employment national gains may be at the expense of other nations. In particular, it becomes important to keep the prices of imported necessities as

low as possible. It is not to be expected that many governments have imposed tariffs in order to improve their terms of trade. In any case, trade restrictions imposed for other reasons must often have led to higher barriers than those indicated by the optimum tariff argument. Nevertheless, there may be conditions in which the restrictions are not above the optimum and then governments are for good reasons reluctant to remove them because this would lead to a deterioration in the terms of trade below the optimum. To wish to avoid a loss is rather different from trying to snatch a gain at the expense of others.

It is for these and similar reasons that in the quarter century after World War II national integration led to international disintegration, in spite of what is regarded in retrospect as a golden age. Now the situation is reversed. After the early 1970s (partial) international integration has led to national disintegration. Beveridge and Keynes had to be dismissed in the face of the pressures of globalization, which weakened the pursuit of national monetary, fiscal and social policies, while at the same time weakening organized labor.

The Zapatista guerrillas held a convention in 1996 in the jungles of Southern Mexico entitled 'The Intercontinental Forum in Favor of Humanity and Against Neo-Liberalism'. The closing session met in a steamy, mudhole amphitheatre and ended with the Zapatistas doing a kind of drum roll and denouncing the most evil, dangerous institution in the world today. To a standing ovation, the Zapatistas declared the biggest enemy of humanity to be the World Trade Organization in Geneva, which promotes global free trade (Friedman, 1997).

But it is not primarily critics from the Left who have pointed to the excesses and threats of globalization, but the capitalists themselves. The 1997 meeting of the World Economic Forum in Davos – the assembly of the world's free-market elite – was devoted to ways of ameliorating the worst consequences of global competitiveness. George Soros, the multibillionaire financier, wrote an article for the *Atlantic Monthly* entitled 'The Capitalist Threat' (Soros, 1997). In Europe, the chief executives of some of the largest companies are voicing doubts about the European Monetary Union.

Income Disparities and Increasing Inequality

As Table 4.1 and Table 4.2 show, the share of the developing countries in the global distribution of wealth has shrunk between 1960 and 1994. Even in the rich countries unemployment, homelessness, crime, and drug abuse have grown. New conflicts have replaced old ones, terrorism is widespread and the US has declared a global war on it, and people's lives have become more insecure. New technologies, new types of organization, low-cost competing

imports, and immigrants have made redundant large numbers of semi-skilled workers.

Balance sheet of globalization
(Rough approximations)

Good for:	**Bad for:**
Japan, Europe, North America	Many developing countries
East and South East Asia (until 1997)	Africa (exceptions: Mauritius and Botswana) and Latin America (exceptions: Chile and Costa Rica)
Output	Employment
People with assets	People without assets
Profits	Wages
People with high skills	People with few skills
The educated	The uneducated
Professional, managerial & technical people	Workers
Flexible adjusters	Rigid adjusters
Creditors	Debtors
Those independent of public services	Those dependent on public services
Large firms	Small firms
Men	Women, children
The strong	The weak
Risk takers	Human security
Global markets	Local communities
Sellers of technologically sophisticated products	Sellers of primary and standard manufactured products
Global culture	Local cultures
Global peace	Local troubles (Russia, Mexico, Turkey)
Advocates:	
Businessmen, economists	Environmentalists, working people, consumer rights groups, family organizations, farmers, religious organizations

Table 4.1 Global distribution of wealth: 1960–94

	Industrial countries %	Developing countries %	Former USSR & Eastern Europe %
1960	67.3	19.8	12.9
1970	72.2	17.1	10.7
1980	70.7	20.6	8.7
1989	76.3	20.6	3.1
1994	78.7	18.0	3.3

Source: UNDP database.

Table 4.2 Global distribution of wealth: 1960–94 (excluding the former USSR and Eastern Europe)

	Industrial countries %	Developing countries %
1960	77.3	22.7
1970	80.9	19.1
1980	77.4	22.6
1989	78.8	21.2
1994	81.4	18.6

Source: UNDP database.

In the poor countries poverty, malnutrition, and disease have grown side by side with improvements in living conditions. Nearly one-third of the population in developing countries and more than a half of Africa's live in absolute poverty. In 1992 six million children under five years died of pneumonia or diarrhea. Twenty-three million people are classified as refugees. The dissolution of the old system of the extended family, together with the increasing reliance on market forces and the dismantling of state institutions, has left many victims of the competitive struggle stranded and helpless.

Globalization and the economic progress that goes with it have proceeded unevenly in time and in space. The rise in income per head has differed widely between countries and regions, so that income gaps have widened. Income disparities between the rich and the poor nations have doubled over the last 30 years. Whereas at the end of the 19th century the main agents on the international scene were states, dominated by Britain until 1913, and by the United States for a quarter of a century after World War II, today transnational corporations and international banks have joined states and to some extent replaced them. The world's 37,000 parent transnational

corporations and their 200,000 affiliates control 75 per cent of world trade. One-third of this trade is intra-firm (UNRISD, 1995, p. 27). The principle guiding their action is profit. At the same time, very few of these firms are genuinely transnational or even international (Shell and Unilever are the exceptions in being at least genuinely duo-national, British and Dutch). Most other companies that operate in many countries are stamped by the country of their headquarters. As we have seen, the prediction that sovereignty would be at bay and that the nation state, confronted with ever larger and more powerful transnational corporations, would wither away, was, like reports of Mark Twain's death, somewhat exaggerated. Many countries have successfully dealt with, regulated and taxed these firms.

The new technology, combined with deregulation and privatization, has contributed to the uneven impact of globalization. The new and rapidly growing information technology depends on institutions, infrastructure, skills and policies, which generate oases of activity and growth in the midst of desert zones. In addition to states and private companies and banks, there has been a growth of international non-governmental, non-profit organizations and voluntary agencies that form the international civil society. There are also the multilateral institutions such as the United Nations and its agencies, the World Bank, the International Monetary Fund, the regional development banks. The beneficiaries from the activities of the non-governmental organizations and the multilateral institutions have often been not the poorest but the better off among the small entrepreneurs. There has been polarization even within the informal sector. Some enterprises have done very well and graduated into the formal sector, while others have barely survived.

Finally, there are the international labor unions, which are weak compared with national unions. Globalization that relies solely on market forces further weakens the power of both national and international labor unions. It does not follow that developing countries would have been better off had they closed themselves off from the process of globalization and tried to become autarkic. Joan Robinson said that there is only one thing that is worse than being exploited by capitalists, and that is not being exploited by them. The same goes for participation in globalization. Those with skills and assets take advantage of the opening up to globalization, those without them get left behind. But there are better options than to allow these people to become the victims of the blind forces of globalization. Measures such as social safety nets, guaranteed employment schemes and training provisions to cushion poor people in low-income countries against being battered by these forces, should be built into the system of international relations. This is necessary not only for political stability, but for reasons of our common humanity.