Globalization and its new discontents

By Joseph E. Stiglitz
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Fifteen years ago, I wrote a little book, entitled *Globalization and its Discontents,* describing growing opposition in the developing world to globalizing reforms. It seemed a mystery: people in developing countries had been told that globalization would increase overall wellbeing. So why had so many people become so hostile to it?

Now, globalization's opponents in the emerging markets and developing countries have been joined by tens of millions in the advanced countries. Opinion polls, including a careful study by Stanley Greenberg and his associates for the Roosevelt Institute, show that trade is among the major sources of discontent for a large share of Americans. Similar views are apparent in Europe.

How can something that our political leaders – and many an economist – said would make everyone better off be so reviled?

One answer occasionally heard from the neoliberal economists who advocated for these policies is that people *are* better off. They just don't know it. Their discontent is a matter for psychiatrists, not economists.

But income data suggest that it is the neoliberals who may benefit from therapy. Large segments of the population in advanced countries have not been doing well: in the US, the bottom 90% has endured income stagnation for a third of a century. Median income for full-time male workers is actually *lower* in real (inflation-adjusted) terms than it was 42 years ago. At the bottom, real wages are comparable to their level 60 years ago.

The effects of the economic pain and dislocation that many Americans are experiencing are even showing up in health statistics. For example, the economists Anne Case and Angus Deaton, this year's Nobel laureate, have shown that life expectancy among segments of white Americans is declining.

Things are a little better in Europe – but only a little better.

Branko Milanovic's new book *Global Inequality: A New Approach for the Age of Globalization* provides some vital insights, looking at the big winners and losers in terms of income over the two decades from 1988 to 2008. Among the big winners were the global 1%, the world's plutocrats, but also the middle class in newly emerging economies. Among the big losers – those who gained little or nothing – were those at the bottom and the middle and working classes in the advanced countries. Globalization is not the only reason, but it is one of the reasons.

Under the assumption of perfect markets (which underlies most neoliberal economic analyses) free trade equalizes the wages of unskilled workers around the world. Trade in goods is a substitute for the movement of people. Importing goods from China – goods that require a lot of unskilled workers to produce – reduces the demand for unskilled workers in Europe and the US.

This force is so strong that if there were no transportation costs, and if the US and Europe had no other source of competitive advantage, such as in technology, eventually it would be as if Chinese workers continued to migrate to the US and Europe until wage differences had been eliminated entirely. Not surprisingly, the neoliberals never advertised this consequence of trade liberalization, as they claimed – one could say lied – that all would benefit.

The failure of globalization to deliver on the promises of mainstream politicians has surely undermined trust and confidence in the "establishment." And governments' offers of generous bailouts for the banks that had brought on the 2008 financial crisis, while leaving ordinary citizens largely to fend for themselves, reinforced the view that this failure was not merely a matter of economic misjudgments.

In the US, Congressional Republicans even opposed assistance to those who were directly hurt by globalization. More generally, neoliberals, apparently worried about adverse incentive effects, have opposed welfare measures that would have protected the losers.

But they can't have it both ways: if globalization is to benefit most members of society, strong social-protection measures must be in place. The Scandinavians figured this out long ago; it was part of the social contract that maintained an open society – open to globalization and changes in technology. Neoliberals elsewhere have not – and now, in elections in the US and Europe, they are having their comeuppance.

Globalization is, of course, only one part of what is going on; technological innovation is another part. But all of this openness and disruption were *supposed* to make us richer, and the advanced countries could have introduced policies to ensure that the gains were widely shared.

Instead, they pushed for policies that restructured markets in ways that increased inequality and undermined overall economic performance; growth actually slowed as the rules of the game were rewritten to advance the interests of banks and corporations – the rich and powerful – at the expense of everyone else. Workers' bargaining power was weakened; in the US, at least, competition laws didn't keep up with the times; and existing laws were inadequately enforced. Financialization continued apace and corporate governance worsened.

Now, as I point out in my recent book *Rewriting the Rules of the American Economy*, the rules of the game need to be changed again – and this must include measures to tame globalization. The two new large agreements that President Barack Obama has been pushing – the Trans-Pacific Partnership between the US and 11 Pacific Rim countries, and the Transatlantic Trade and Investment Partnership between the EU and the US – are moves in the wrong direction.

The main message of *Globalization and its Discontents* was that the problem was not globalization, but how the process was being managed. Unfortunately, the management didn't change. Fifteen years later, the new discontents have brought that message home to the advanced economies.

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