FROM MY BOOKSHELF 02.05.2018 | Paul Hockenos

'Globalization and its Discontents Revisited'

Nobel Prize-winning economist Joseph Stiglitz says workers and citizens are missing out on the benefits of globalisation

Read this article in German.

There's a dark irony about the globalised economy's new class of discontents, writes the US Nobel Prize-winning economist Joseph Stiglitz in an updated version of his classic *Globalisation and its Discontents*, originally penned a quarter of a century ago. Today, the systemic unfairness of the transnational movement of goods, services, and capital has doubled back to savage the middle classes in the very countries (the US and western European states) who wrote the system's rules in the first place – for their own benefit.

The world economy is in even worse shape than it was 25 years ago, argues Stiglitz. Unfettered globalisation has wreaked havoc further afield and more intensely than he had predicted. The plethora of economic meltdowns since the late 1990s – in Argentina (1998-2002), Russia (2014-2017), East Asia (1997), the global financial crisis (2007-2009), the euro crisis (2010-2012) – illustrates that no country, region or bloc has been spared the instability inherent in our current, neoliberal stripe of globalisation. Nor will they be in the future, either, Stiglitz warns, unless the rules governing globalisation are fundamentally rewritten.

Stiglitz's first critique of globalisation zeroed in on the inordinate price paid by the world's least affluent countries (who are still the primary victims, even if now they have company). Once known as the Third World, now labelled developing countries, they comprise 85 per cent of the world's population but garner only 39 per cent of its income. Hardest hit was, and is, the poverty-stricken Sub-Sahara, which has a per capita income of just 2.5 percent of that of the US. These countries have no choice: either be a part of the globalised system or be excommunicated from it. They lose either way.

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But today, Stiglitz admits he had grossly underestimated the blow that the developed world would suffer – and not just Rust Belt factory workers in the American Midwest. Large swaths of middle and lower income wage earners in the world's most advanced industrial countries also now count among the losers.

Yes, they include American factory workers and farmers, but also the once solid middle class on both sides of the Atlantic whose fortunes have stagnated over the previous two decades.

The mortality rate, for example, has risen for white, middle-age male Americans, while elsewhere it is on the decline. Early deaths happen more often in societies plagued by decline and inequality, which expresses itself in alcoholism, suicide, and drugs. The same types who could have counted on buying their own house, sending kids to college and then peacefully retiring, can no longer do so – and they're angry about it.

The rampant deregulation of financial markets and the greed of its progenitors triggered the global financial crisis of 2008-2009, which hit the middle classes the hardest.

The winners are not only overwhelmingly fewer than the cheerleaders of globalisation had promised, but even fewer than critics such as Stiglitz had assumed. Those who've profited the most are the top 1 per cent, or even the top 0.1 percent of earners. They're a few hundred thousand American super-earners – the millionaires and billionaires. Firms like Apple made a mint because the financial transactions of the big multinationals were either taxed lightly or not at all. Stiglitz notes that the only other group to join this elite are the new middle classes in emerging markets, such as India and China.

The rules that Washington imposed on the global system prescribed the purest of neo-liberal principles for the world economy. 'It was called "free trade" but it was really managed trade…,' argues Stiglitz, '…managed for corporate and financial interests'.

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Stiglitz pulls no punches in his blistering critique of the IMF and the World Bank, the institutions, he claims, that, under the thumb of the US, inscribed and enforced Washington's vision. This harsh critique is all the more meaningful coming from Stiglitz, the World

Bank's former chief economist. The proponents of *laissez-faire* globalisation refused to write into their model measures to counter the negative impacts on those who would be hurt – and there will be those, writes Stiglitz, as jobs move and technology changes.

Stiglitz explains the phenomenon of Donald Trump, but of also Europe's national populists, as a wrong-headed reaction to the discrepancy between many people's expectations of globalisation – indeed it was sold as win-win-win for everybody – and its disappointing reality. Their understandable disenchantment extended to the elites who had oversold it and the institutions that had enacted their formulae.

But the populists capitalise on this ire by blaming the 'unfair' trade practices of their trade partners, thus pitting the US, for example, against China.

'The real conflict is elsewhere,' writes Stiglitz. 'On the one side [you have] workers and consumers –the 99 percent – in both developing and developed countries, versus corporate interests on the other.'

The populist response, namely a retreat from globalised trade through the protection of markets, is a red herring. The 'new protectionism,' argues Stiglitz, won't turn globalisation into a positive-sum phenomenon but will only make things worse. The lost jobs won't come back. Tit-for-tat retaliation and lost markets will drive up prices. Inflation will drag down economies. Living standards will fall.

There's nothing inevitable about the toll that globalisation has taken, argues Stiglitz today, much as he did 25 years ago. Globalisation could benefit many more of the world's citizens if organised and managed in a different way.

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The Nordic countries, for example, did it differently, compensating and retraining those whose jobs were lost.

'They showed that there could be social protection without protectionism,' writes Stiglitz. 'And there the fallout has been less severe. But they were the rare exceptions. They put in place policies that reduced

inequalities in both market income and in income after tax and transfers: they have shown that inequality is not just a result of the laws of economics, but of the policies that countries put into place to respond to economic forces, including globalisation, that have been pulling countries apart'.

The Scandinavian countries shared the wealth, and now have more stable economies and societies to show for it.

Stiglitz's conclusions echo those he made 25 years ago. Globalisation can be managed to benefit much greater fractions of the population, if not almost everyone – in developing and developed countries. There has to be a global reserve system, support for retraining workers, much closer regulation of financial markets, debt restructuring for debtor nations, and emerging markets and developing nations need to have a voice in the global system. Leftist parties, he says, have to stand up for disenfranchised workers, which they haven't done.

Stiglitz believes that completely new institutions have to be created for the new global economy. He hopes that world leaders will come to their senses in a post-Trump era in which we've learned from our mistakes. This would be a best-case scenario.

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