GLOBALIZATION

Globalization is a term picked up by the media, primarily emphasizing the alleged major gains for this country and other countries from going all out for free trade among them. Actually going all out for completely free capital movement worldwide is the more critical part of the economic globalization that is being promoted in their own interest by transnational corporations and others. Globalization is currently being actively but too uncritically supported by some economic ideologues and by many politicians of both parties.

There is much to be said for some capital movements and for some freer trade, but buying the whole package being advocated in many quarters now could be a disastrous mistake for this country and for the world generally. That will require much explaining.

1. Since the media emphasize trade, let us start with a discussion of free trade. Are there real gains for countries from international trade? Yes. The case can be presented briefly. Every country has a comparative advantage in producing some things and a comparative disadvantage in others <u>at any particular time</u>. Every country gains by exporting that in which it has a comparative advantage, in order to enable it to buy cheaper from other countries the things in which it has a comparative disadvantage. That is the generally valid case for free trade.

a) When the classical economists worked out their original proof of that, they assumed that capital did not move between countries. It turned out to remain true when international capital movements were relatively small and relatively stable. But now capital movements are much larger, are often quite unstable, and potentially may dominate the international economy completely. We shall examine later what difference that makes.

b) Even the case for free trade at any particular time does not say what a country's economy should be like in the future, or how to get there. No country should have to remain almost a "banana republic", like some former colonies exporting only raw material and buying manufactures from the former mother country. There is a good case for ex-colonies to use tariffs to protect infant industries from competition from established industries elsewhere, as this country did after the American Revolution. Some Less Developed Countries (LDCs) are doing so now. And, as we did, many LDCs want to develop more highly diversified economies, whatever protection against too much import competition it requires to do that. It is absurd for economists to say that diversified development is always uneconomical. It may even change comparative advantage.

c) Will present trends produce free trade? Freer trade, yes, but not free trade. Every country manages its foreign trade now and will and should continue to do so in any foreseeable future, although it should change how it manages its international trade and broadly all of its international economic relationships.

d) Management of foreign trade is largely in response to political pressure in all countries, not a matter of any great wisdom by lawmakers. Political pressures used to be greatest from many import-competing industries, and they still get tariff protection (or protection by non-tariff barriers to reduce import competition). Some comparative disadvantage industries also need help to become more productive and efficient.

But now better organized and better financed pressure on government is coming from the transnational corporations (TNCs, that are sometimes called multinational corporations) that are big exporters. They want to get trade barriers down elsewhere in the world so they can sell without limit in foreign markets. They are the ones preaching the benefits of free trade because they don't have import competition at home--they are exporters.

e) Managing trade and international economic relationships should require careful consideration of the size and costs as well as benefits of each (who is involved in each, and the problems of any readjustments involved) for one's own country and for others also, plus whether they will create in the end the sort of country it makes good sense to try to develop.

2. A special trade problem arises from the transnational corporations (in the U.S. & other countries) if they succeed in a very important objective: to be able to move any part of their companies (including any of their manufacturing operations) to whatever foreign nation gives them some advantages, such as less regulation or lower taxes. So they are promoting free long-term international capital movement. After producing abroad, they want to export some of their their foreign-produced products back to the the home country, for example, the U. S., without any tariffs being levied on them, since they say that they are merely making transfers within the company structure.

a) So globalization seeks to permit any U.S. transnational corporation to manufacture in any country that it chooses because it may have lower taxes, or fewer safety regulations or poorer labor laws, or no environmental protections, and thus enable our TNC to escape all the regulatory laws in this country, and yet sell its products in this country as freely as if they had been produced here under our laws. They would be able to undercut the prices of firms that stayed here and complied with all U.S. laws. That is not the level playing field that is needed to permit fair competition. It would be nice for transnational firms, but it would not constitute fair trade for the

U.S. or for any country that would face similar unfair competition from their own TNCs. It should be obvious that it is a level playing field and fair trade that we should seek instead of free trade.

But what globalization is promoting is free long term capital movement and completely free trade, not just the efficiency that comparative advantage implied, and that justifies some international trade. It is the transnational firms that get the gains from globalization and that are the main ones promoting it. The politicians hat have joined in do not seem to realize the full implications of singing their globalization and free trade song in this situation.

One economist has predicted that as a result of this sort of globalization, the U.S. could lose all our basic manufacturing industries, essentially exporting them to other countries, and again become an underdeveloped and non-manufacturing country-- all in the name of free trade. It seems somewhat unlikely that it would go that far because we would likely change our policies before we reached that point. But the U.S. might lose much more manufacturing industry than would be desirable.

The U. S. may lose so many of its basic industries over time that it will have difficulty maintaining full employment. Wage rates would stop rising despite increases in productivity and would fall toward lower foreign wage levels. With fewer industries here and lower wages, our tax base will be eroded, and more taxes will fall on those remaining employed just to meet unemployment relief costs. The whole safety net will also suffer major cuts as our government gets poorer and can't maintain it. This further defines the problem. How could we prevent that?

b) It used to be argued that imports had to be offset by exports. But the U. S. has been operating for many years with a very large import surplus, and the movement of industrial production facilities to other countries will worsen not correct that import surplus. What happens to the excess dollars thus earned by other countries? Let us use the example of Japan. When Japan exported more to the U.S. than we were able to sell Japan, its surplus of dollars was used to buy income yielding assets in this country (including Rockefeller Center) from all of which it earns a profit that it can take out of the country. The U.S. has been consuming more than we are producing and paying for the excess imports by selling capital assets. Not very smart

One economist has suggested that the U.S. could eventually become a capitalist country that, to support its excess consumption, had sold all its capital to foreigners who then reaped all the profits from it. How far in this direction does it make any sense to go?

c) The U.S. could of course give up its laws that were originally passed in attempts to protect labor and the environment in some respects, and could lower tax rates to match the low tax rates that firms moving offshore would pay somewhere else. That could suit our transnational firms well; but unless all those requirements were a total mistake for the country as a whole from the beginning, such deregulation would be a bad mistake now.

To be sure, it has become politically popular in this country to proclaim that government is the villain, that we should go back to the small government suitable for Jefferson's day when we were an agricultural nation not an industrialized nation too. Deregulation has become almost a new irrational religion in some partisan quarters.
That is not a suitable way to counter the threat we face from TNCs moving their industrial production facilities to other countries.

d) It has been recognized in some quarters that if free trade is also to be fair trade it would require a movement to harmonize regulatory legislation among more freely trading countries. There has been little discussion as to how to do that harmonizing and how fast to proceed in further freeing trade accordingly.

e) Instead of deregulating our economy to the lower levels of economies to which our transnational business firms were moving their production facilities, the U.S. could protect its own economy best by imposing trade barriers on imports into this country that are produced abroad by TNCs evading our regulatory laws and taxes. We could and should impose tariffs (or non-tariff barriers) now on such imports to remove from them all the advantage of escaping our laws & taxes. "Tax havens" should also be closed down by making it illegal to escape taxes that way. That would halt most of the exodus of TNCs from our country. Thus a number of the problems of globalization could be controlled or avoided.

f) What we could hope for is that other countries' laws would sooner or later more nearly match our own regulatory framework. That will not happen by preaching to them that they ought to use the same regulations we do. Indeed as long as they can attract TNCs to set up in their countries to gain a cost advantage over us, they have an incentive not to regulate business very much.

But if our trade restrictive legislation took away that advantage from our TNCs, and if we provided in addition that as other countries also began to regulate their producers somewhat more nearly as we do, we would reduce our trade barriers in proportion, then other countries would have nothing to lose by regulations comparable to our own.

This is the only way that "harmonization" of regulatory laws could be harmonization upward instead of harmonization downward.

But under its present charter, such protectionism would be disallowed by the World Trade Organization (WTO), however justifiable the U.S. would be in using it for the purpose intended. It is so important, however, for us to protect the U.S. from flight to foreign countries of U.S. manufacturing and to level the playing field for fair trade, that the U.S. needs to proceed with the policy and if need be withdraw from the WTO as a way to force revision of its charter.

g) One more aspect of TNC moves to other countries needs to be noted now. To be brief I will cite just one notable example. A U.S. firm moved its production of a few light types of clothing to a less developed country, employed a large number of local women in sewing operations in a large rented building. This continued for several years as a successful business. Then one morning the women went to work as usual only to find the building shuttered and locked. They did not understand why they were shut out, but it turned out that the firm had, without any warning, moved its production to another LDC where it could pay a lower wage rate. The women were owed two weeks wages when the firm disappeared without paying them for the work they had already done. Women in LDCs are not accustomed to such treatment, and even less accustomed to doing anything about any poor treatment. But this time they were quite angry and a few leaders decided not to take this without protest. So they went to a government office that had something to do with labor problems and protested. Their protests fell on deaf ears, it seemed. They persisted and eventually were told by the government agency that it was not able to do anything at all for them because foreign business firms have the power to do what they did, and the LDC needs foreign business but has no leverage to force them to behave better. There are now a large number of women and their friends and their children who hate America for what its business did to them. We can't afford to create such hatred.

Needless to say, this sort of behavior by a U.S. TNC is not helping this country convince other countries that we are good guys and that others should adopt our democratic capitalistic system. We cannot win the hearts and minds of any others this way. But globalization does not presently prevent such behavior by TNCs anywhere.

It should be apparent that economic rule of the world by an unregulated and laissez-faire globalized world market for the transnational corporations would likely be a disaster waiting to happen for many countries and for most people of the world. We need instead a world in which investors and traders are regulated in the public interest and can be held accountable for their behavior.

It would be possible for the world to establish a system where this sort of behavior would be far less likely. The United Nations system for a time included an agency reporting to its Economic and Social Council that did research on behavior of foreign businesses in LDCs if they requested it.

That agency could and I think should be given power by unanimous consent of UN member countries to take the initiative and operate as an advisor and mediator in the negotiations between any TNC and any foreign country it wants to enter for at least two purposes: (1) to ensure that any agreement reached ensures that the TNC will not exploit the country or its inhabitants in any way whatsoever, but will contribute by its operations in the country to the country's desired development, and (2) to do whatever may be necessary to secure a fair settlement if the contract is violated in any respect by either party. The international order should not be completely lawless much longer.

There will still be problems because now transnational firms operations in less developed countries often destroy old handicrafts and many small businesses in those countries. And U.S. farm subsidies sometimes result in our agricultural exports undercutting farm prices in other countries, e.g. Mexico and even India, and put many farmers out of business. What can they do? Mexican farmers try to get to the U.S. legally or illegally.

3. Let us now discuss one very important thing that I did not mention when talking about reasons why our TNCs move production facilities abroad--TNCs leave the U.S. to avoid paying high U. S. wages by going to countries where wage rates are very much lower. To compete, some say, our U.S. wage levels would have to fall as low as that of these other countries.

a) Globalists say that our trade with less developed low wage countries is too small a proportion of our GNP to affect our wages in any case. But that proportion is continuously going up. And when any business can threaten to move to a low wage country, that most certainly helps business to hold down wages here and sometimes to reduce them. Many of our real wage rates have been falling recently.

b) Another answer that economists usually give to the contention that our wage rates will be competed down to that of low wage countries is that it need not happen. Where our wage rates are high, they argue, it is because labor here is highly productive (our labor is better trained, and more capital equipment and better technologies are used with it), so our costs of production are sometimes lower than those in less developed countries (LDCs). Sometimes low wage countries cannot even compete with us in some lines of production. We undersell them.

c) That is still true sometimes, but the world economy continues to change in mumerous ways. In recent years some changes alter the international competitive situation. It may no longer be true in many cases that our wage costs per unit of output are lower than in low wage countries due to the higher productivity of our labor.

For example, India, though mostly underdeveloped, is now producing an increasing number of students as highly trained in computer technology as those we produce in our leading universities and technical institutes. Their wage rates are much above other Indian wage rates, but perhaps only a tenth of what comparably trained persons in the U.S. receive. The result is that many jobs that require such trained personnel are now being “outsourced” to India. Other jobs, like data entry that require only a facility in using computers, are also being outsourced to India as more people there also have that ability now.

Finally, It is said that anything can be produced anywhere now and produced cheaply, if wage rates are low, since technology and capital equipment can often be adapted to unskilled labor. A variety of production methods have now been developed that enable people with only a little training to perform them; in a less developed country their wages will be much lower than ours, but their productivity may now be comparable to ours in those lines of production. When their productivity approaches or equals ours and their wages are a fraction of ours, our TNCs will outsource the jobs directly.

d) It used to be said that demand and supply of currencies determined exchange rates between the currencies of different countries (that is, the prices paid for foreign currencies), and that was a reflection of demand and supply of exports and imports. Since they had to be equal except in a very short run, exchange rates automatically adjusted for the difference between countries in their wage and price levels.

So other cost differences such as those due to different government regulations might not matter much either if exports and imports always had to be approximately equal.

But imports and exports often do not balance in the short run. They need not, because short-term capital movements between countries can take place permitting (one might say financing) temporary imbalances. These demands and supplies of foreign currencies also affect the exchange rates. Indeed short-term capital flows between countries now involve as much speculation as the stock market. There are over a trillion dollars worth of transactions a day in foreign exchange markets, far more than is generated by international trade and long term capital movements. So there is no assurance now that exchange rates will always offset wage rate differences or price and cost differentials.

e) The already mentioned U.S. import surplus was partly the result of a strong dollar in foreign exchange markets. That in turn was due in part to a conviction in international markets that the U.S. economy and hence dollar were more reliably stable than many other countries whose currency could readily be used in settling international imbalances in international payments.

The import surplus did help keep inflation down in the U.S. But another use of the dollars other countries acquired from their export surpluses to the U.S. was, as already mentioned, to buy up various income yielding assets in the U.S. and take the profits home

4. Globalization is indeed adversely affecting wage rates in this country. The threat to move abroad if wages are raised here is enough of a brake upon wage improvement in many cases. Thirty million Americans earn less than $8.70 per hour. A recent poverty count is 34.8 million in this country where everybody presumably thinks they have a real opportunity to become rich like many are. But real wages have risen very little for many years and have actually fallen for some groups. When people lose jobs from this outsourcing and are able to find other jobs, they almost always are at much lower pay than the jobs they previously had. This is the context in which Wall-Mart has been able to grow tremendously despite paying low wages and providing poor working conditions.

But the even more serious consequence of outsourcing many manufacturing jobs, plus many service jobs now, and government giving work visas to bring in skilled foreign workers (contrary to the law) is that many jobs are lost here. Estimates are that in the past three years or so, nearly 3 million jobs have been outsourced. **Those jobs will not be coming back.**

The administration economists even contend that this is good economically--because it will lead to an increase in our exports and thus create better jobs. Thus far that has not happened, as our trade balance has even worsened. Administration economists are good at wishful thinking to support administration policies--that is what they are hired to do. Now even state governments are outsourcing clerical jobs. Half of the work force growth in recent years as been foreign born (now 14% of U.S. work force).

What is happening instead, and will continue to happen unless there is a reversal of some Washington policies that favor outsourcing, is the slow undermining and loss of much of America's big and hitherto thriving middle class. Many of them are now having to declare personal bankruptcy. In just 2003, our manufacturing job base declined 6%. White collar service jobs are declining at an accelerating rate and 14 million are said to be vulnerable. More than two-thirds of IBM recently announced 10,000 new jobs will be located abroad. When business invests now, much is invested abroad--$70 billion in China in recent years. Our transnational firms accounted in 2001 for 25% of U.S. GDP and 20% of its employment, but 26% of their global employment was abroad.

Retraining won't solve all the problems noted here--what should the outsourced retrain for now?

The fundamental question raised by all of this is what can be done to enable the nations in the world economy to develop competitively and cooperatively along lines that will lift all peoples out of the poverty trap, both in LDCs and MDCs, & that will build solid middle class of responsible citizenry. How can international trade (and investment) be promoted so as to be helpful instead of hurtful? What should be the U. S. role in all this? What can be added to some of the comments above?

It should be obvious by now that the major effects of globalization , good and bad, stem primarily from free international capital movements and outsourcing of production of goods or services and associated free trade. This paper has advocated fair trade instead, and will shortly discuss other appropriate trade policies that are useful whether there is globalization or not. But the key problem is not trade but free capital movements and outsourcing. Here I suggest that national policy should not make it easier to do this, but somewhat harder. The consequences at present are serious enough that we need to slow the process down considerably. We simply cannot afford to continue losing middle class jobs and pay. Tax havens abroad should be completely eliminated for one obvious change, and any tax advantages of outsourcing etc. should be eliminated. But it would not be desirable to eliminate entirely the operations that cost us some dislocation because some of them can be helpful to other countries that need some of it to benefit them. I will discuss that when I discuss globalization and less developed countries. I will also discuss short term capital movements separately. Now back to international trade.

In international trade there are always losers as well as winners. Countries as a whole can win when trade is fair instead of free, but it always requires the reallocation of resources among the different sectors of the economy, and that usually requires worker education and retraining and other efforts to assist labor mobility. Import competition does destroy jobs, and even if jobs open up in export sectors, the labor does not flow effortlessly to them. So import competition, however good it may be when comparative advantage applies, always creates a short run problem. The Kennedy round of tariff cuts initiated legislation providing readjustment assistance. This is the best possible response, because, among other things, it covered unemployed labor longer than before with unemployment insurance to give them more time to retrain or get to a new job. However much of the labor merely waited for their industry to recover instead of retraining. The law must be better administered. In principle, it would be good policy both to try to speed up the required readjustment to the import competition, and to slow down the rate at import competition is allowed to the rate at which readjustment is possible.

5. We now have a new international organization to which nations can take complaints about other nations' restrictions on trade--it is called the World Trade Organization (or WTO). It appears to have been designed by transnational corporations to give them much of what they want in international trade disputes. It replaces GATT, the General Agreement on Tariffs and Trade.

a) It does not require the elimination of all trade restrictions, but if a country claims that another country is doing something that restricts their normal trade relationships, it takes the matter to the WTO which then considers the matter and decides whether the complaint is valid. If the complaint is upheld, the country complained against is required to stop what it was doing that caused the complaint, and if it does not, the complainer is justified in doing something to retaliate against the other country's trade.

WTO decisions are made in secret without holding any public hearings, and without a chance for all interested parties to testify in their own behalf, and without requiring the WTO to take into account anything that might justify the action complained about. The WTO is not authorized to consider any question but one--was the normal trade interfered with?

Such WTO procedures are unwarranted, thoroughly objectionable, and undemocratic. It can not be remedied sufficiently simply by expanding its safeguards clause that permits some trade restrictions.

b) So the U. S. could not successfully protest that it had a sovereign right to restrict imports of fish caught by another nation with nets that also killed dolphins or other sea animals that the U. S. wanted to protect. It did not suffice to show that dolphins could be protected by the country using other fishing methods, or show that the U. S. had no other way to accomplish the same legitimate purpose. The WTO can in effect veto any new law that we may pass if another nation claims that it restricts its trade in any way, and the WTO agrees that it does, whatever our reason for the law was.

c) The WTO thus, in effect, takes away any nation's sovereign right of self-rule and self-determination of its own laws if those laws happen to hamper trade, or deliberately do so for whatever the Congress may consider good and sufficient reasons to do so. What is worse, it appears that the powers behind the WTO throne are major transnational corporations which thus become the effective ruling powers instead of national governments. This is atrocious.

d) I am very much of an internationalist, but any international institutions should be devised so that they can, and have to, take into account all the interests and all the values that are relevant to its decisions, and so that they have to do so in as democratic a manner as possible. Every country has a right to decide for itself, through its own procedures, what regulations they desire on economic activity in their country. And they have every right to limit imports, or capital movements in or out if they so desire. Their management of their own economies should not be threatened by any organization with the desirable but limited purposes of expanding international trade as though it was always mutually beneficial to the countries concerned. It is not always so.

It is obvious to me that the Senate approved the WTO without any serious understanding of the implications of what it was doing. The senate, in effect, though unintentionally, turned over control of the U.S. national economy to our transnational corporations. I expect that when they realize the full import of what they have done, the U. S. will withdraw, as some other nations will for similar reasons, and force a proper redrafting of the WTO Charter.

6. Three quarters of the human race lives in less developed countries (LDCs). Does globalization and do the TNC operations help or hurt LDC? We do not want to try the balance the two effects and say which it is on balance. We need to know all the effects and decide how to lessen or eliminate the adverse effects and increase the good effects.

Students need first to realize that the average income figures (which we see put in U.S. dollar terms) in LDCs are meaningless, partly because the exchange rates used to convert different currencies into dollars seldom are close to rendering comparable amounts of purchasing power in dollars, Also LDCs have small wealthy elites while most people are caught in a poverty trap. To get them out of poverty will require more capital, better technologies, improved political and economic institutions, better political leaders, some new and well run businesses an good national policies.

a) Transnational corporations can either be their part of their salvation, bringing in capital, technology, skilled management and contributing mightily to their development, or they can come in and exploit the people mercilessly and take out more capital than they took in. So it is not that TNCs should never go to LDCs where they can do a lot of good, but that they should go to make their profit from helping LDC peoples escape the poverty trap there, not to exploit them or only make their elites wealthier or just to export back to the U. S. at unfair prices.

b) The TNCs now often seem able to push LDC governments around to do whatever the TNC pleases, or to get the same result by corrupting their leaders, some of whom are corrupt already or are quite willing to be corrupted. LDCs now need honest leaders who serve their people's interests better. One thing outside countries can do is to stop supporting bad LDC leaders, many of whom have been supported in the past for insufficient reasons. In addition, outside countries could and should support a UN agency on transnational business to help negotiate mutually advantageous terms for TNCs and LDCs. The TNCs do need stable contracts with LDC governments such that they can make normal profits if they behave themselves. And LDCs do need binding agreements that ensure that TNC behavior will contribute to their economic development rather than exploiting the people and the country or just enrich their elites.

Some degree of globalization can mean either outcome for LDCs individually. We can help determine which it shall be, as each of them can also. Refer back to 2g above to review the proposal for a UN agency to participate in working out such agreements in all TNC operations in foreign countries. We can add here that the UN agency can in the process suggested help prevent the common corruption of LDC leaders as well as their possible domination by TNCs. And in order to promote development of LDCs, the U.S. needs to provide them access to our big market and provide them in exchange capital goods plus foreign aid that will promote their development.

c) A bit of history may be in order here. Shortly after the end of World War 2, most of the LDC colonies slowly freed themselves, mostly without much violence, and gained their independence from the colonial regimes of the industrialized countries. Political freedom did not automatically change the established trade patterns of the ex-colonies. They had primarily been kept as suppliers of raw materials and purchasers of manufactures from the mother countries. As independent nations they wanted to change this economic dependence and diversify their economies. But their ability to do so depended heavily upon the trade policies of the industrialized countries, including of course the U.S. as well as the former mother countries. The U.S. was indeed their biggest potential market for other than raw materials, but the U.S. also had higher tariffs on manufactures than on raw material imports. Within the UN to which they became admitted as sovereign states, they spoke about the need for industrial countries to reconsider their trade policies, but were largely ignored. So, representing as they did together about 3/4 of the world population, they proposed a separate conference on LDC-MDC trade called UNCTAD (UN Conference on Trade and Development). The U.S. tried to prevent the conference, but was outvoted and it was held in l964. At the conference we tried to prevent any resolutions being passed, but failed, so tried to prevent another such conference. They were held every 4 years & UNCTAD developed a permanent secretariat. Resolutions were passed demanding a New International Economic Order which would increase LDC strength in international economic institutions as well as give foreign economic interests less power over their home economies, plus making numerous specific demands for policy changes. After opposing everything for 12 years, the U.S. finally agreed to negotiate some changes case by case, the last of the MDCs to do so, and then only in international institutions where we still had effective control. This is cited so students know that in the eyes of LDCs, the U.S. has a history of obstructionism, never remembering that after we got our independence from England, we also wanted to diversify our economy and did so by a lot of infant industry protectionism but we had tried to block LDCs from doing likewise.

d) Now many of the LDCs are saddled with almost crushing debt problems, and the question is what can be done about this. Ironically the problem started when OPEC, resentful of the pressure by the "7 sisters" (oil buying firms) on their oil pricing quadrupled oil prices in 1972-3 & raised them again in 1879 demanding payment in dollars. Their payments were put in U.S. (& other MDC banks) which then had excess $ to lend. LDCs used little of the expensive oil but could not pay such high $ prices for it so borrowed $ which the banks then "recycled" to them. Later needs put them further into debt to MDCs. In the end, LDC debt service made capital flow from LDCs to MDC, whereas capital should obviously have been flowing the opposite direction. Indeed for some LDCs their export surplus could not fully service their debts, i.e. pay the annual interest to carry the debts. Debt forgiveness would dry up the availability of new capital or loans when needed. There has been some debt for equity swapping, but paying dividends forever may not be preferable to a fixed amount of indebtedness to pay off. A good solution is still to be devised.

7. Another problem arose independently of recently increased globalization but has been exacerbated by it. Proponents of globalization have been urging, among other things, that all countries develop stock markets more fully to help facilitate an increase in capital movements internationally. The increased international mobility of capital involves short term as well as long term capital movements. The large short term movements of capital are largely induced by differential short term interest rates, and often involve a large element of speculation. The problem is that such short term capital invested in foreign countries can be withdrawn even in very large amounts suddenly. Such "capital flight" can even cause a depression in the country from which it is withdrawn. This can be more than a small problem at times, but since it can not be attributed just to globalization, it will be treated in a separate essay.

a) We need to point out that when short term capital is quite free to move from one financial center to another as part of globalization, this may remove from the U. S. and other countries their ability to use monetary policy for domestic stabilization purposes. At a time when it may be desirable to raise interest rates substantially to check a demand-pull inflation, this may attract so much foreign short term capital inflow as to defeat the tight monetary policy and add to the inflation. Or at a time when it is necessary to lower interest rates to stimulate the domestic economy it may lead to such an outflow of short term capital seeking higher interest rates elsewhere as to prevent the lowering of interest rates. It is very undesirable for a sovereign country to lose its ability to use monetary policy for domestic stabilization purposes. The matter is under discussion internationally but no one has a satisfactory answer that has been generally accepted as yet.

Countries could restrict the amount of foreign short term capital that their financial institutions would be allowed to accept, or they might be allowed to accept it only with restrictions on the rate of withdrawal allowable, and that might solve the problem. See the essay on capital flight

8. I want to comment briefly now, but importantly, on a non-economic dimension of globalization: the cultural dimension.

Thomas L. Friedman, N. Y. Time foreign correspondent, wrote a recent popular book <u>THE LEXUS AND THE OLIVE TREE</u> that some of you may have read or might read. Friedman calls the world-wide free mobility of capital a wild herd (symbolized by the Lexus), and he claims there is no possibility of reigning in the wild herd, & claims that it would be undesirable to try to do so.

Clearly I think he is wrong. There is no reason to allow any such wild herd to run over all regulation of any economy, and, speaking for the U.S. over our economy and its democratic national government .

For Friedman, the Olive Tree symbolizes everyone's need to be rooted in their own culture. Only his last chapter tries to reconcile the two, not fully successfully in my judgment. Fortunately from my point of view, he does think it is too brutal not to have a good social safety net for those who are ground down and out, for whatever reason, in the market.

Friedman says the factor driving globalization is technology, and he develops that thesis in the book. Admittedly, it is important.

Even if economic globalization is limited along the lines that I suggested above, there will be some globalization for better or for worse. Globalization may be said to have started with television and it may move much farther with computerization and the world-wide Web. This is producing a limited but potentially important cultural globalization. Friedman cited instances of TV or computers on the Internet in some very remote corners of the globe and claimed that as evidence enough that globalization (of some kind) cannot possibly be stopped.

That kind will be hard to stop completely no matter how hard some theocracies in particular may try to shield their people from it.

One can also understand the thinking in some areas that Uncle Sam, through efforts to make money by publicizing and selling rotten and violent American movies and cop-killer songs, is the great Satan. The theocracies have some reason, and every right, to try to shield their people from this, and perhaps from other products of our entertainment media, as does every sovereign nation.

The U.S. needs to be concerned about the reactions to its policies abroad and the behavior of U.S. businesses abroad. Does it or could it do anything to reduce the efforts of U.S. tobacco companies to addict more foreigners to tobacco? Is it desirable to press for foreign respect for all our patents, even on pharmaceuticals instead of doing everything possible to help them get plenty of cheap drugs to combat infectious diseases that are wreaking havoc in some countries and to combat others that may even spread later to the U.S.?

But it is also true that increased contact with Western culture can hardly help but result in the status of women being improved over time in many places in the world <u>where it is by all odds the most needed cultural change that must somehow be brought about</u>.

Other cultural changes are already under way such as the wide spread of the English language, and the spread of hotel chains, etc., but there is little need to worry about all cultural differences disappearing. Fortunately, many cultural differences will be maintained, whatever the extent of globalization.

9. U.S. National policy toward globalization & criticism of it

Both President Clinton and President Bush have supported globalization in principle, including free trade and free capital mobility internationally, as have both major political parties. This does not mean that they have supported rapid elimination of our existent tariffs and non-tariff barriers to international trade, nor that they have pushed new legislation to stimulate capital mobility. But they have supported more international trade agreements to lower present national barriers to international trade, and have looked with favor upon further international capital flows.

In this they have had the intellectual support of economists in general, both inside and outside of U.S. government circles. Since the U.S. is the most influential single country in the International Monetary Fund (IMF) and the World Bank (IBRD), the policies of both of these institutions has in recent years has been close to those supported by the U.S. Treasury Department. That general agreement has come, beginning in the 1970s, to be called "The Washington Consensus".

Although there is not complete agreement on what all fits that term, it usually is said to support any or all of the following: (1) Extensive lowering of international trade barriers by nations, including elimination of import licensing; (2) Promotion of foreign direct investment; (3) Deregulation of economies, and privatization of all state enterprises (said to be necessary for efficient management and improved performance); (4) protection of all property rights (including intellectual property rights); (5) Fiscal discipline, a reduction of government expenditures, and a reduction of government deficits; (6) Tax reform and tax reduction; (7) Financial liberalization with market determined interest rates; and (8) competitive exchange rates to stimulate exports and promote growth.

U.S. international policies are in general those of the Washington Consensus. The idea is that the U.S. will thus lead in globalizing the world, and gain from doing so, although of course the claim is that the benefits of globalization will accrue to all nations to the degree that they take part in it. So the Washington Consensus is thought to provide a single set of policies that will fit the conditions of any and every nation
and promote its greater economic well-being. And there is evidence that much of it it has been applied nearly that way.

That constitutes an ideology that anyone should be suspicious of if they have any inkling of the wide variety of conditions to be found in the world characterized by quite different less developed countries and somewhat different more developed countries.

Fortunately there have been a number of well-informed critiques of the Consensus. One of the most trenchant and well informed is that of Joseph E. Stiglitz in a 2002 book entitled GLOBALIZATION AND ITS DISCONTENTS. He details how U.S. policy was misapplied in several countries by the U.S. Stiglitz was not only winner of the 2001 Nobel Prize in Economics, he had served as Chairman of the Council of Economic Advisors before he had a short stint as chief economist for the World Bank from which he was fired for his insubordinate views. The Stiglitz book or that of some other critics should be read to help judge how U.S. policy in international economic matters needs to be adjusted to each individual foreign country's somewhat unique situation

This globalization essay has focussed primarily upon its impact on the United States economy, how the possibly adverse effects could be dealt with properly, and the way our TNCs need to be dealt with by some UN agency especially when they go into any LDC.

10. My economic conclusions in briefer form are the following:

a) No nation should be at the mercy of all TNC capital and trade objectives. It should be able to determine and follow its own economic path, protecting itself from serious adverse outside influences while cooperating on a voluntary basis with other countries where that is mutually advantageous. This implies that the WTO must be changed to respect defensible national economic decisions and operate openly in as democratic a manner as possible. The U.S. and many others should withdraw until the WTO charter is changed accordingly.

b) The U.S. should also recognize that our high productivity can sometimes be matched now by lower wage countries, & that international currency exchange rates can no longer be counted upon to offset wage differentials. U.S. firms outsourcing to get cheap productive labor or escape U.S. regulations creates harmonization downward and needs to be prevented. Harmonization upward needs to be facilitated. That requires that we should for as long as necessary use variable amounts of tariff & NTB protection to promote fair trade rather than free trade and to prevent undesirable (but not all) losses of U.S. industries or foreign acquisition of them.

Our wages have already been adversely affected, and outsourcing has permanently reduced some US. jobs. Our middle class is being seriously harmed. These effects shoud be sereverly limited in the future, partly by our policy changes. Import of competitive labor should stop. Any policies that facilitate or encourage outsourcing should be eliminated and replaced by mild discouregement but not prevention. The advantage of off-shore tax havens should be eliminated . All firms producing or selling in the U.S. should have the same tax requirements.

Our managed trade policy should also try to speed readjustment when imports increase but slow the need for readjustment to what can be achieved, and help any industry protected from normal import competition to become more efficiently productive.

c) I think we need to get U.S. & other TNCs under control in LDCs, partly with the help of a UN agency in negotiating LDC arrangements with TNCs. TNCs need fair treatment so they can make a profit by things consistent with helping most people in LDCs escape the poverty trap, but the TNCs in turn must behave themselves and not discredit the U.S. or others by the bad behavior they have sometimes exhibited.

d) I think we need to help vulnerable LDCs & others to protect themselves from capital flights.

e) The U.S. needs a more intellectually sophisticated posture toward other countries than the Washington Consensus.

f) We should do whatever we can to improve the status of women worldwide, but must help more vigorously in every way we can where help is needed in combatting infectious diseases and resisting addictions everywhere, and need to learn to respect the right of other nations to resist American influences they deem undesirable.

g) That will produce very limited & controlled, not unlimited, globalization.