Globalization for Whom

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Introduction

At the height of the debate over "fast-track" authority last November, President Clinton summed up his sentiment with this statement: "I wish we could have a secret vote in the Congress," he said, "we'd pass it three or four to one."1

Prior to the North American Free Trade Agreement (NAFTA), the President would have had his wish. International trade and commercial agreements received scant public attention and were relegated to obscure articles buried deep in the business section of the newspaper. The public controversy over NAFTA six years ago changed all that and initiated a process of democratization of U.S. foreign economic policy. The recent debate over "fast-track" exemplifies the progress of this democratization since the pre-NAFTA days. Furthermore, the fact that the House of Representatives, despite enormous lobbying from business interests, was unwilling to grant the President "fast-track" authority to negotiate new trade and commercial agreements — that is, subject only to an up or down vote by Congress — indicates the widespread public perception that such agreements are not in their interest.

Since May of 1995, the Organisation of Economic Co-operation and Development (OECD) has been quietly negotiating the Multilateral Agreement on Investment (MAI).2 This wide-sweeping agreement among twenty-nine developed nations sought to codify the liberalization of international investment, much as NAFTA had done for North America.3 Initially, the MAI was scheduled to be completed by April of 1997. Grassroots opposition from environmental and citizens organizations throughout the OECD countries — especially the United States, Canada, and France — had pre-

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3. Although NAFTA was presented to the public as a trade agreement, the five chapters dealing with the liberalization of investment are arguably of much greater impact, especially since U.S. trade barriers were already quite low, and the potential for expanding the Mexican market for U.S. goods is not all that large. What U.S. corporations wanted most, and got from NAFTA, was a set of rules that made it easier, safer, and more profitable to invest in Mexico.

vented this scheduled completion.4

The Asian economic crisis also threw a wrench into the machinery of financial liberalization. The crisis opened a whole new debate over how to protect national economies from the instability caused by international capital flows. Even more importantly, the crisis has caused people to question the role of globalizing institutions, such as the International Monetary Fund (IMF), in dealing with international economic problems. In short, the crisis initiated a broadening in the debate over global trade and capital flows.

The level of this debate has been uneven. The general public has been the most active participant of the debate. The populace has always been open to considering questions about who benefits and who loses from globalization. Among popular audiences, it has never been off limits to suggest that the process of globalization should be slowed, halted, or reversed. The general public will not embrace globalization until its costs and benefits might be more equitably distributed, or until it can be made compatible with core public values on such issues as democracy, national sovereignty, labor rights, or the environment. Organized public interest groups have been the most dynamic; for example, even though most of the major U.S. environmental groups initially supported NAFTA, the same organizations opposed both fast-track and the MAI a few years later.

Among circles of elite opinion, the debate remains much more subdued. Nevertheless, there are significant openings. Although most economists continue to view liberalization of trade and investment flows as representing beneficial progress, some important research and writings, however, have begun to acknowledge some of the problems associated with liberalization. For example, Dani Rodrik's book, published by the staunchly pro-globalization Institute for International Economics, was the first work of its kind to focus on the damage inflicted by global economic integration on broad sectors of the labor force.5 Rodrik acknowledged that the increased international mobility of firms has made it more difficult for governments to pursue policies that raise the cost of labor or to sustain a social safety net for the labor force.

In a study that was also published by the Institute for International Economics, William Cline concludes that part of the increase in wage inequality over the last twenty years has resulted from trade.6 It should be noted that this wide gap in income distribution was caused by regular trading. It does not include the downward pressure on wages that results from employers' increasing ability to move production to other countries. Jeffrey Sachs of the Harvard Institute of International Development concluded that "the IMF medicine seems to be adding to the financial panic."7 Sachs'

research, with Steven Radelet, on the Asian financial crisis similarly documents how international financial liberalization created the conditions for the crisis.8

Within policy making circles, there has been much less debate. The executive branch remains committed to "full speed ahead." While they are constrained by popular opinion, government officials have made no concessions to opponents of liberalization in their description, analysis, and vision of the world. For them, removal of barriers to international investment and trade remains a positive step forward.

The media generally agrees with this position. While it has reported the views of those who oppose fast-track or other pro-globalization initiatives, mainstream journalism has yet to report the serious debates within the economics profession. Some of this complacency is due to the unique and partly coincidental historical conjuncture that appears, in the eyes of the media, to lend support to the advocates of global deregulation. The Japanese economy, once looked upon as a model of successful industrial policy, has been in a slump for more than six years. Advocates of liberalization interpret this slump as a failure of the entire Japanese model, which therefore needs to be scrapped in favor of a more open and competitive industrial and financial structure. The European Union is viewed in similar terms. Its double-digit unemployment rates are attributed to its attempt to maintain inflexible labor market policies in the face of growing global competition. With the U.S. economy at 4.5% unemployment, it is easy for journalists to conclude that the American model, and indeed a much more globalized and idealized form of it, is the only viable alternative to economic stagnation.

In reality, European unemployment rates are attributed to the tight monetary policies that have been adopted in recent years. Prior to this tightening, the difference between European and American labor market flexibility was actually much greater, but the European unemployment rate was lower. For instance, Sweden had an unemployment rate of 1.8% as recently as 1990. Likewise, it is difficult to blame Japan's slump on the industrial policy that gave it one of the highest growth rates in the world during most of the post-war period. And the United States' apparent success is largely a cyclical phenomenon: by most measures of economic performance (e.g., capital formation, productivity growth, wage growth) the current economic expansion still compares poorly with previous business cycle upswings. In any case, there is little empirical or theoretical basis for the simplistic notion that increasing liberalization of international trade commerce is the solution, without regard to the specifics of the economic institutions of particular countries.

The continued blind adherence to the neoliberal paradigm and its enforcement through the expanding scope of international agreements such as the MAI poses a threat to democratic reform generally. South

Korea, for example, had its first democratic election at the end of last year, and the suffering brought on by IMF's austere reform package will likely induce some nostalgia for past years of dictatorship.

Disillusionment with democracy is also prevalent in Latin America, one of the more structurally adjusted regions in the world. Since the IMF and the World Bank began structural adjustment programs in Latin America in the early 1980s, the whole region has had a per capita growth rate of about zero. In Mexico, most of the population had been better off economically under an authoritarian regime. Mexican economic growth prior to international trade and investment liberalization was fairly rapid, at a real per capita rate of 3.9% in the 1960s and 3.2% in the 1970s. Since the beginning of the 1980s, when liberalization began, per capita income has stagnated and real wages have actually fallen. People's attitudes towards democracy are easily poisoned when its introduction coincides with economic stagnation. It is a tragic irony that Latin America achieved formal democratic governance at a time when global economic institutions and their austere reform packages have so severely restricted the choices available to democratically elected governments.

Global economic institutions are not solely responsible for limiting the range of economic choices. There has also been a great deal of change in economic theory. In the 1950s, economists recognized that "late industrialization" required greater protection and state intervention than what developed countries had relied upon during their early development. The discipline of development economics was founded on the premise that the problems of underdeveloped countries were fundamentally different from those of the rich countries and that the poor countries required different tools of analysis as well as policy prescriptions.

Today's economists no longer recognize this version of development economics. It has been replaced by what Albert Hirschman has called "monoeconomics": the belief that there are universal laws of economics that apply to all economies, and economic policy-making is overwhelmingly a matter of conforming to these laws. Today, monoeconomics translates into following the dictates of the global economy.

The MAI and the programs of the IMF and the World Bank are manifestations of the adoption of monoeconomics.

Advocates of monoeconomics believe that governmental interference in the economy will only lead to harmful distortions in the marketplace. Neoclassical economists, such as Rodrik, subscribe to such libertarian

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9. See, e.g., Diana Jean Schemo, Venezuelans Confronting Democracy's Dire State, N.Y. TIMES, Dec. 14, 1997, at A3. The article cites "the end of Government price supports"—a condition enforced by an IMF agreement—as well as the fact that "70 to 80 percent of the population [is] in poverty" as part of the reason for disillusionment. Id.


views. According to Rodrik, the danger is that the domestic consensus in favor of open markets will ultimately erode to the point where a generalized resurgence of protectionism becomes a serious possibility.

But this domestic consensus is an agreement among the elite and does not extend to the general population, which has borne the costs of globalization. When Harvard economist Robert Lawrence stated that we cannot pay $10 an hour for "unskilled" labor in a global economy, the public has good reason to question this reasoning. After all, we were able to afford these wages, in real terms, thirty years ago. Productivity has in fact increased more than fifty percent over the last three decades. It is worth emphasizing that the most common definition of "unskilled" labor used by economists includes anyone without a college degree, which is more than seventy percent of the labor force. Does our current participation in the global economy require declining wages for the majority of workers in the face of rising productivity? If this is true, then the logical response is not to accept this requirement as inevitable, but to re-examine our participation in the global economy.

I. Socioeconomic Impacts of Globalization

A. The Age of Globalization as Compared to the Bretton Woods Era

If we divide the post-World War II era into two periods — from 1946 to 1973 and from 1973 to the present — there is a clear decline in the material well-being for the majority of Americans. The first period, often called the "Bretton Woods era," was a time of rapid income growth. The real wages of a typical American employee increased by more than eighty percent during this period. Since 1973, by contrast, real wages have declined.

Since 1973, the rate of unemployment has increased. Significant increases in temporary and contingent employment and an increase in overall job insecurity characterize the present era. The lifetime employment once offered by companies like IBM and General Motors has pretty much disappeared. In 1996, a survey of workers at large firms found "that 46 percent were fearful of a job layoff." From 1979-1990, no more than

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13. As Jeff Faux has noted, "faith" is the best word to describe Rodrik's (and other economists') attachment to the principles of free trade; when economists actually try to measure the gains from trade, they turn out to be very small. Rodrik concedes as much: "For example, no widely accepted model attributes to postwar trade liberalization more than a very tiny fraction of the increased prosperity of the advanced industrial countries. Yet most economists do believe that expanding trade was very important to this progress." Jeff Faux, Hedging the Neoliberal Bet, Dissent, Fall 1997, at 119-21.
17. Another commonly used definition is production and non-supervisory workers, which is about 80% of the labor force.
twenty-four percent answered yes; by 1995 and 1996 that number reached forty-six percent.\(^\text{20}\)

Poverty and income inequality have also increased in recent years. The reversal of the gains from the War on Poverty is most strikingly revealed in the poverty rate for children. In 1960, this rate was twenty-seven percent, but by 1973, it had fallen to fourteen percent. By 1993, it was back up to twenty-three percent.\(^\text{21}\) The post-War progress in combating income inequality has ceased. The ratio of family income for the top to the bottom quintile of families declined from almost nine to one in 1947 to seven to one in 1973.\(^\text{22}\) It has now soared to eleven to one.\(^\text{23}\) Almost all of the income gains from economic growth in the last decade have accrued to the top five percent of American families.\(^\text{24}\)

These downward trends have not reversed in the course of the current economic recovery. The fact that most Americans cannot count on making real income gains during an economic expansion is probably one of the defining characteristics of the present era. The old saying, "a rising tide lifts all boats," which described the economy of the Bretton Woods era, no longer holds true. The U.S. economy is now entering its eighth year of economic expansion, which is long by any historical measure, and the majority of American employees have still not reached their pre-recession (1989) level of real wages.\(^\text{25}\)

This lack of progress coincides with increasing globalization of the American economy. The share of imports in manufacturing has more than doubled in the past twenty-five years.\(^\text{26}\) Financial capital has become extremely mobile, with daily currency transactions rising from a mere $80 billion in 1980 to $1.26 trillion in 1995. In proportion to world trade, trade in foreign exchange rose from a ratio of 10:1 to nearly 70:1.\(^\text{27}\) Foreign direct investment (FDI) has also taken off. During the eight years following the world recession of 1982, FDI increased by thirty-five percent per year.\(^\text{28}\) As a percentage of the world's gross fixed capital formation, FDI has nearly doubled since the beginning of the 1980s.\(^\text{29}\)

\(^\text{20. Id.}\)
\(^\text{22. Gary Burtless et al., Globophobia: Confronting Fears About Open Trade 3 (1998).}\)
\(^\text{23. Id.}\)
\(^\text{25. This is in spite of the fact that median real wages have actually risen for 1996 and 1997 at an average annual rate of 2.6%. It remains to be seen whether this recent trend can be sustained; clearly it has much to do with the relatively low levels of unemployment that have been sustained for the last few years. See generally Mishel et al., supra note 18.}\)
\(^\text{26. Id. at 192.}\)
\(^\text{28. Peter Nunnenkamp et al., Globalisation of Production and Markets 6-7 (1994).}\)
\(^\text{29. Edward M. Graham, Global Corporations and National Governments 1 (1996).}\)
While the focus here is on the United States, it is worth noting that the same is true for most of the rest of the world. The majority of European workers have suffered reduced wage growth and, in recent decades, high unemployment. For most of the less developed countries, the post-Bretton Woods era has been a disaster. Africa has fared the worst, with an actual decline in average income per person — not just the income of the majority — over the last two decades. Latin America has had about zero per capita income growth since 1980. The exceptions to the general trend have been those Asian countries (e.g., China, South Korea, Taiwan) that were able, through considerable regulation, to participate in the global economy without sacrificing the needs of their domestic economies.

Advocates of trade and investment liberalization do not deny the decline in economic performance during the post-Bretton Woods era. For them, the question is one of cause and effect: how much, if any, has the increase in globalization contributed to these problems? If it has, how has this happened, and what should be done about it?

B. Globalization and Living Standards

Economists who support liberalization have recently begun to concede that large numbers of workers have been harmed by the process. They argue, however, that these effects are small relative to the actual and potential gains. For example, the OECD has just issued a pro-liberalization report describing the negative impacts as "modest."\(^3\)\(^0\) Citing the low end of the range of estimates for the effect of trade, the OECD attributed about ten to twenty percent of the change in wage and income distribution in the developed countries to trade with developing countries.\(^3\)\(^1\) Leaving aside the fact that other estimates are much higher,\(^3\)\(^2\) how is one to assess the importance of this impact? No one disputes that the impact of trade on wage inequality is statistically significant. The question is whether, from a policy point of view, this impact should be considered large or small.

In measuring the impact of trade liberalization, there is an obvious standard of comparison: the efficiency gains that are claimed as an achievement of trade liberalization. William Cline estimates the annual efficiency gains to the U.S. economy from the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) to be $450 million.\(^3\)\(^3\) If we multiply this figure by 1.5 to account for the growth of trade since 1990, we get $675 million.

How do these gains compare to the losses suffered by workers who have been negatively impacted by trade and investment liberalization? Real average hourly earnings in the United States fell from $12.72 an hour in

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31. Id. at 67.
32. See, e.g., CLINE, supra note 6.
1973 to $11.46 an hour in 1995.\footnote{In 1995 dollars. Mishel et al., supra note 18.} From 1989 to 1995, there was a 3.4% drop, from $11.87 to $11.46.

These figures are for production and non-supervisory employees, who comprise about eighty percent of the workforce. Applying the forty-one cents an hour reduction for the years 1989-95 to 1995 wages, the result is about $82 billion in lost wages. Even if we were to accept that “only 10-20%” of these lost wages are due to trade liberalization, the loss is still approximately $8.2-16.4 billion for 1995. That amount is twelve to twenty-four times the efficiency gains from trade that accrued to the \textit{entire population}, not just these workers.\footnote{This approximation is for 1995. Earlier years in the 1989-95 period will show smaller losses, and the average year would be about half of this $8.2-16.4 billion. The lost wages would still be many times the estimated gains from freer trade.} As illustrated by this comparison, the losses that most workers suffer from liberalized trade cannot be considered “modest” or small, unless we dismiss the gains from trade as completely trivial.

It should not be surprising that most workers would lose more from the downward pressure on wages due to globalization than what they could hope to gain from cheaper goods resulting from liberalized trade. The real wage is a statistic that takes into account both of these effects. Because real wages for the majority of U.S. workers have fallen since 1973 (i.e., during the post-Bretton Woods era of increasing globalization), there is a strong \textit{prima facie} case that, at least for the majority, the costs of globalization have exceeded the benefits.

The relationship between globalization and declining wages is complex and cannot be fully captured in standard economic measures, such as the effective increase in labor supply due to increasing trade. This is evident if we consider some of the ways in which fundamental economic arrangements have changed since the end of the Bretton Woods era. Since 1973, union membership has fallen from twenty-four percent to about fourteen percent of the labor force. The accord that previously existed between capital and labor has broken down: employers have resorted to previously proscribed tactics such as permanently replacing striking workers, and the legal obligation of employers under the 1935 Wagner Act to bargain in good faith with a recognized union has been rendered practically meaningless. Industries in the transportation and communications sectors have been deregulated. Perhaps most importantly, there has been a drastic change in monetary policy, especially since 1979, that has favored higher unemployment and slower or zero real wage growth.

How much has globalization had to do with these changes? The most straightforward and obvious connection has manifested itself in the loss of unionized jobs, particularly in manufacturing. Recent estimates show that the increase in trade between 1979-1990 caused a net loss of 2.4 million jobs, as compared to a baseline scenario in which trade remained at the same percentage of the economy.\footnote{Robert E. Scott et al., Economic Policy Institute, \textit{Trading Away Good Jobs: An Examination of Employment and Wages in the U.S.}, 1979-1994, at 1-11 (1997).} Increased trade has probably been the
largest contributor to the decline in union membership over the last twenty-five years.

As union membership dwindled, workers found it more difficult to stem the erosion of their legal rights. Even under a Democratic President and with a Democratic majority in Congress (1992-94), there were few reversals of the legal and institutional changes that began with President Reagan's mass firing of striking air traffic controllers in 1981.

Given that liberalization has made it easier for employers to move the production process to countries with lower wage rates, liberalization has increased the employer's bargaining power vis-à-vis the workers. This increase in bargaining power has kept wages low. In a study commissioned by the labor secretariat of NAFTA, Kate Bronfenbrenner surveyed firms that faced union organizing drives since the agreement was passed. She found that the majority of these firms threatened to shut down operations if the union won. Fifteen percent of the firms actually did close all or part of a plant when they had to bargain with a union — this is three times the pre-NAFTA rate of such incidents.

Such statistics accord with the result of a Wall Street Journal survey taken prior to NAFTA in which executives of major U.S. corporations were polled on what they would do if NAFTA were to pass. Forty percent said it was likely that they would move at least some production to Mexico, and twenty-four percent said they would use the threat of moving as a bargaining chip to keep U.S. wages down.

This survey data is not easily quantifiable as a percentage of workers' real wage declines, but it is clearly a significant and understated part of the story. The fact that the MAI, like NAFTA, contains provisions that benefit foreign investors without any protection for domestic labor is seen by critics as a signal that the agreement will likely accelerate present trends.

Put most simply, globalization severs the link between productivity and wage growth for the majority of the work force. Thus, while the majority of employees were able to share in the productivity gains during the Bretton Woods era, this is no longer true.

One could fairly expect that the increasing mobility and consequent bargaining power of capital, along with the corresponding weakening of labor, would not only increase wage inequality but also alter the distribution of income between capital and labor. This apparently has happened. In the United States, the share of national income that goes to corporate profits has increased by 3.2% since the last business cycle peak in 1989. Although this may not seem like a large number, it actually represents a significant redivision of the economic pie. But for this shift, the median

wage earner would be making about $1100 more per year than what he or she is presently earning.

In Europe, the redistribution of income from labor to capital has, over a longer period, been considerably greater than in the United States. For countries in the European Union, the share of capital income in the business sector was 5.5 percentage points higher in 1997 than the average share from 1970 to 1980.\(^{40}\)

On the other hand, the United States, which has gone further and faster down the path of regressive globalization than OECD Europe, has become a low-wage country among the more developed nations. If we look at hourly compensation costs in manufacturing for the fifteen countries with the highest income, the United States is basically tied with Italy for third from the bottom.\(^{41}\)

While conventional wisdom says that the lowering of wages has benefitted U.S. employees by creating jobs, this argument rests on a fallacy of composition. The argument confuses the operation of economic forces at the micro level (i.e., the level of the individual firm or industry) and the macro level (i.e., economy-wide). Within the context of an individual firm, it is indeed possible, and even likely, that the number of employees hired would fall as wages rise and rise as wages fall. However, at the economy-wide level, we would expect no such relationship, and in fact none is observed empirically in studies that looked at increases in the minimum wage.\(^{42}\) Such disparity is due to the fact that the economy-wide level of employment is primarily determined by the amount of aggregate demand in the economy rather than by wages. As wages rise, firms substitute capital for labor, but there is no reason for this to increase the unemployment rate in the economy, so long as there is enough demand for the goods and services for those who want to work and are capable of producing.

This generalization, of course, has limited efficacy, especially in the short run. If the minimum wage, for example, was doubled overnight, some unemployment would result. But there is no reason to expect a similar result from less dramatic wage growth, even if the end result is very high. The composition of jobs would change as wage levels increased — in the United States, for example, we could expect fewer jobs in the fast food industry. In general, there would be a relative decline in the number of very low productivity jobs. These would be replaced, however, with newly created, higher-productivity and higher-paying jobs.

\(^{40}\) Organisation for Economic Co-operation and Development, Outlook 62, at A27 (1997). European workers, unlike their American counterparts, have not suffered an absolute decline in their real wages during the post-Bretton Woods era. This was possible in spite of the much greater shift of income shares (as compared to the United States) from labor to capital in Europe because of higher productivity growth rates in Europe.


\(^{42}\) See, e.g., David Card & Alan B. Krueger, Myth and Measurement: The New Economics of the Minimum Wage 1 passim (1995); Mishel et al., supra note 18.
Instituting a low-wage economy could actually slow economic growth and overall income growth by slowing the rate of productivity growth. If we compare OECD Europe with the United States, we find that productivity, since 1979, has grown at an annual rate of about two percent in Europe, as opposed to one percent in the United States. The lower U.S. wage levels, especially at the lower deciles of the wage ladder, have likely been responsible for much of the difference in productivity growth. These low wage levels encourage the creation of low-productivity jobs and discourage investment in new capital and technology that would boost the rate of productivity growth.

C. Globalization and Monetary Policy

Most people are unaware of the tremendous impact that monetary policy — the setting of interest rates by the central bank — has on economic growth, employment, wages, and income distribution. In the United States, a committee of the Federal Reserve meets every six weeks to set short-term interest rates. The Federal Reserve is able to slow economic growth by raising interest rates. The unemployment created by the raised interest rates in turn exerts a downward pressure on wage growth.

The Federal Reserve faces a trade-off in determining its monetary policy. If the economy grows too fast, there is a likelihood of inflation. On the other hand, if it focuses on keeping inflation down, the Federal Reserve will then retard economic growth and create higher unemployment. The Federal Reserve is supposed to balance these two conflicting goals to maintain the highest levels of economic growth.

Since the late 1970s, however, the Federal Reserve has been almost exclusively concerned with inflation. As a result, the United States has had much higher unemployment and slower growth than it experienced during the Bretton Woods era. This focus on inflation is partly a result of ideological changes in economic theory, but it is also very much an issue of political power. Large bondholders and financiers in general, prefer a tight monetary policy (i.e., higher interest rates). Any increase in inflation, or even the threat of an increase, erodes the value of their bonds. By contrast, the majority of people would be better off with an extra percentage point of inflation if it meant higher real wages and more available jobs.

During the Bretton Woods era, the interests of bondholders were counteracted by those of large domestic manufacturers, who had a stake in a growing U.S. economy and the demand that it generated for their products. Their influence, together with that of organized labor, was enough to ensure a monetary policy that resulted in relatively higher levels of employment.

In the present period, the tight monetary policy prevails because financial capital trumps manufacturing interests, and labor has very little influence at all. Globalization has played a major role in bringing us to this state of affairs, especially through the hollowing out of our manufacturing base and the weakening of unions. Extending the process of international economic integration through agreements such as the MAI will further con-
solidate the financier's grip on monetary policy, thereby making the pursuit of full employment increasingly difficult in the future.

Globalization increases the power of transnational corporations relative to domestic firms, which have more of an interest in a growing national economy. This conflict can be seen, for example, in the consistent opposition by the National Association of Manufacturers, an otherwise conservative business group, to unnecessary interest rate hikes by the Federal Reserve. Today, the combination of international financiers and transnational corporations is strong enough to prevent a return to the expansionary monetary policies of the Bretton Woods era.

Transnational corporations have an interest in a higher international value of the dollar because this allows them to buy assets and labor more cheaply overseas. However, a higher dollar value erodes our manufacturing base and increases our trade deficit by making U.S. imports cheaper and exports more expensive abroad.

Globalization also discourages the use of expansionary fiscal policy, that is, a deliberate increase in government spending in order to stimulate the economy when needed, such as during a recession. As the U.S. economy becomes more globalized, the feasibility and effectiveness of expansionary monetary and fiscal policies are reduced. The United States is still in the enviable position of being able to pursue full employment policies without having to worry about the inflationary consequences brought on by an international response to such action. An expansionary monetary or fiscal policy tends to cause depreciation of the domestic currency, which increases the price of imports. For most countries, especially in Europe, the resultant inflation can be prohibitive. Presently, our imports are still less than fourteen percent of our GDP, so we have little to fear from a drop in the value of the dollar. As the share of trade in our economy increases, however, it will become more difficult for the United States to pursue an expansionary monetary policy. The effectiveness of fiscal policy is also reduced as imports grow.

The role of globalization in consolidating the power of international financial interests, and their ability to exercise a veto over expansionary monetary and fiscal policies, is probably one of the most important effects. The expectations of financial markets tend to be self-fulfilling. If bondholders believe that increased deficit spending causes interest rates to rise, 

44. In 1998, the Federal Reserve has allowed the unemployment rate to remain below five percent, without raising interest rates. The Federal Reserve last raised rates in March 1997 and was criticized for doing so because there was no evidence of rising inflation. A combination of factors, including falling inflation and the Asian financial crisis, have kept the Federal Reserve holding nominal interest rates steady since then. It remains to be seen to what degree this represents a long-term policy change; prior to mid-1994 the Federal Reserve operated under the theory, supported by most economists, that unemployment could not drop below six percent without causing inflation to accelerate. See id.
this will in fact happen, even if there is no economic basis for their belief. This occurs simply because their selling of bonds in response to an increase in government spending will push up long-term interest rates. By increasing the power of these financial interests, globalization undermines the ability of governments throughout the world to engage in social spending for the public interest.

In all of these ways and more, globalization strengthens the forces and tendencies that favor slower growth, higher unemployment, and lower wages. In sum, globalization serves the interests of international financiers, whose agenda may be more powerful than those of trade and investment flows. These effects are difficult to measure, but they are no less real than the resulting plant closures and direct job losses due to import competition.

II. International Legislation of Globalization

It is undisputed that the MAI is intended to facilitate the process of globalization. The controversy concerns whether the kind of globalization it promotes will benefit broad sectors of the population or whether it will exacerbate the problems that critics have attributed to the past twenty-five years of global economic integration.

There are a number of provisions that would support the latter prognosis. First, the rule on national treatment requires that foreign investors and investments be treated no less favorably than domestic ones. Many national, state, and local initiatives that promote employment, local investment, and industrial policies would have a differential impact on foreign-owned firms, and thus these could be prevented by the national treatment requirement. For example, the direction of state pension funds to invest in local businesses, as part of a local economic development plan, could run afoul of the agreement's national treatment provisions.

For less developed countries, these provisions would preclude many of the development strategies that were most successful in the past. For example, most of the policies that were essential to South Korea's growth and development would be prohibited by the national treatment provisions of the MAI. The Korean government intervened heavily to promote targeted industries such as cement, fertilizer, petroleum refining, steel, chemicals, as well as capital and durable consumer goods. This was done through subsidized credit, tax, tariffs, exemptions, export subsidies, and the creation of protected monopolies. Foreign direct investment was restricted, and it played only a minimal role in South Korea’s industrialization and development.

45. See Eatwell, supra note 27.
46. See MAI Negotiating Text, supra note 2, art. III (National Treatment and Most Favored Nation Treatment).
47. See, e.g., Larry Westphal, Industrial Policy in an Export-Propelled Economy: Lessons from South Korea's Experience, 4 J. Econ. Persp. 41, 47 (1990).
The MAI would also limit performance requirements that require firms to comply with certain conditions in order to operate in a particular country or municipality. Requirements that foreign firms hire a certain percentage of local residents or use domestically or locally produced inputs could be prohibited under the MAI.

Opponents are also concerned about a proposed provision for resolving disputes between investors and national governments. This provision would give private investors and corporations the right to sue national governments for monetary damages. This is a powerful tool for intimidating governments into not passing environmental regulations that a particular company might not like, and it could also prevent governments from undertaking a variety of regulatory measures that are aimed at serving public interests. Currently, under agreements such as the GATT, a corporation may not directly sue a foreign government but rather must ask its own government to pursue the complaint.

To illustrate the significance of this change, consider the following example. Last year, the Canadian government prohibited the import of MMT, a gasoline additive that is effectively banned in the United States. It was banned on the ground that it was a potential health hazard. The producer of the additive, the American-based Ethyl corporation, sued the Canadian government for $251 million in damages. Ethyl's argument was that the Canadian government's ruling discriminates against Ethyl, and they sued under the provisions of NAFTA that provide for equal treatment of foreign and domestic investors.

On July 20, 1998, the Canadian government dropped its ban on MMT and agreed to pay Ethyl US$13 million, in Canadian currency, for legal costs and lost profits. While there might be legitimate disagreements over the scientific evidence regarding the additive's threat to public health, there is little doubt that the Canadian government banned this substance for public health reasons. There is no evidence that it was done in order to benefit Canadian firms at the expense of Ethyl or any other foreign firm. The question is whether the judgment of elected or appointed officials entrusted with protecting public health or the environment in such matters should be overturned by international agreements designed to protect corporate interests.

The idea that no nation may legally distinguish between foreign and domestic investors is the guiding principle of the MAI. As a result, it would make it more difficult for state and local governments in the United States, for example, to support local economic development based on local businesses. Municipal governments would not even be able to defend themselves if sued by a foreign corporation. Instead, they would have to rely on the federal government, which may be unsympathetic to their aims, to defend them in an unaccountable international tribunal.

48. See MAI Negotiating Text, supra note 2, art. III (Performance Requirements).
Among the opponents' primary concerns are that these and other provisions establish new rights for corporations without any corresponding rights for labor or the public and limit the ability of governments to carry out policies to promote employment and local, or even national, economic development. The opponents argue that this is exactly the kind of globalization that has contributed to increases in poverty and income inequality over the last two decades.

III. Financial Problems of Globalization

A. Destabilizing Capital Flows: The Asian Financial Crisis

Prior to the onset of the Asian financial crisis one year ago, there were few mainstream challenges to the globalizer's maxim that the liberalization of international capital flows was in everyone's best interests. This principle seemed almost as well established as the theory of comparative advantage with regard to trade and was able to benefit from a sort of "proof by association" with the latter, even though trade theory does not apply to capital flows. In addition, the theory of comparative advantage has limited usefulness to any kind of economic development strategy.

The cause of liberalizing international investment received its most serious blow when the economies of South Korea, Indonesia, Malaysia, Thailand, the Philippines, and others in the region were hit by a financial crisis that quickly developed into a regional depression. Although the policies of the IMF helped to transform the financial crisis into a crisis of the underlying real economy, it is also now clear that the financial liberalization of these countries was a major proximate cause, if not the major cause, of the crisis. Jagdish Bhagwhati, one of the world's leading international economists, and the former Economic Policy Adviser to the Director-General of the GATT (1991-93), noted that "the Asian crisis cannot be separated from the excessive borrowings of foreign short-term capital as Asian economies loosened up their capital account controls and enabled their banks and firms to borrow abroad . . . it has become apparent that crises attendant on capital mobility cannot be ignored."

What was so striking about this case is that it was truly "the intrinsic instability in international lending" that pushed these countries to the abyss. Most important was a net reversal of private international capital flows to the region of $105 billion — from a net inflow of $92.8 billion in 1996 to a net outflow of $12.1 billion in 1997. This amounts to about eleven percent of the pre-crisis GDPs in South Korea, Indonesia, Malaysia, Thailand, and the Philippines. This is a massive and highly destabilizing

51. Id. at 8.
53. Id.
reversal of international capital flows, and it does not appear to be related to the workings of the real, underlying economies of the region.

The regional current account deficit peaked at 5.9 percent of GDP in 1996, which is large but not overwhelming by historical standards. If we look at South Korea, for example, its current account deficit was three percent of GDP just before the crisis, as compared to a deficit of nearly nine percent of GDP in 1980. South Korea's foreign debt as a percent of GDP was twenty-two percent in 1996, which is low by international standards. The same is true for its debt service as a percentage of exports (5.4%).

These figures varied by country. For example, the current account deficit ranged from 3.5% of GDP for Indonesia to 8.0% for Thailand.

All of the Asian nations, however, were taking in capital flows in excess of their current account deficits, that is, accumulating foreign exchange reserves. They were all running domestic budget surpluses, or balanced budgets, up to the crisis, and had relatively low inflation. In short, there was not much in the way of fundamentals that would have indicated a storm was brewing.

Indeed, the IMF's now well-known 1997 annual report, published after the crisis had already begun, was optimistic for the region: "Directors welcomed [South] Korea's continued impressive macroeconomic performance." The report praised the authorities for their enviable fiscal record. The directors also "strongly praised Thailand's remarkable economic performance and the authorities' consistent record of sound macroeconomic policies."

The IMF was not the only party that was taken by surprise. Many foreign lenders failed to perceive the trouble when interest rate spreads on Asian bonds continued to decline in Southeast Asia between mid-1995 and mid-1997. Investor rating services, such as Moody's and Standard and Poor's, did not drop their ratings until after the onset of the crisis. Krugman has argued that investors may have perceived the increase in risk but expected to be bailed out. However, as Radelet and Sachs have shown, this seems extremely unlikely. Although the larger foreign banks were eventually bailed out as part of the IMF agreements with these countries, there were many billions of dollars lent by other institutions that could not expect, and in fact did not receive, any government guarantees.

Other explanations for the crisis, such as the media sound bites about "crony capitalism" or "inefficient" industrial organization, have little evidentiary support. Indeed, when people, including some economists, refer to the Korean economic system as "inefficient," it is not clear what they mean. The most obvious economic meaning would be that resources were

56. Id. at 60.
58. See RADELEf & SACHS, supra note 52.
59. Id.
allocated inefficiently, such that the economy, and therefore living standards, did not grow in accordance with its full potential. The South Korean economy grew at a per annum rate of 7.2% over the last thirty years, one of the highest rates of economic growth in the history of the world. It is certainly possible that it could have grown even faster and have been more "efficient," but no one has presented an economic argument as to how this might have been accomplished.

In such cases, the real meaning of the word "inefficiency" appears to mean "they don't do things the way we would like them to." For example, as part of South Korea's bailout packages, the IMF demanded that companies engage in mass layoffs. This requirement could well provoke a political crisis in South Korea, a country in which big companies have traditionally provided steady employment and have no social safety net for the unemployed. The IMF argues that mass layoffs will make the Korean economy more "efficient." But it is not clear that throwing people out on the street is any more efficient than re-employing them elsewhere within a large firm or conglomerate, as has been done in the past.

Some explanations for the crisis focus on the weaknesses in the Asian economies that had been accumulating in the 1990s. Much has been made of the "speculative bubbles" in real estate markets. Although there was some increase in the portion of domestic lending that went to real estate loans, it is difficult to say how much. Official data underestimates the true amount because loans are not always used for their stated purposes. Official data for Indonesia showed a sharp rise in real estate lending from 1990 to 1996, but data for the other countries do not. Nor do real estate prices show the kind of dramatic run-up that would indicate a "speculative bubble." In Indonesia, despite the increase in real estate loans, real estate prices actually declined from 1991 to the eve of the crisis.60

That said, however, there were some problems accumulating in these five Asian countries in the 1990s. There was a buildup in domestic bank lending in all of the countries except Indonesia. Indonesian firms were borrowing directly from foreign banks. As large international capital flows poured in, real exchange rates did appreciate noticeably — about twelve percent for South Korea and twenty-five percent for the other four countries. But other countries have had much larger real appreciations without suffering a collapse in the value of their currencies. And it should be stressed that these weaknesses, as well as the current account deficits, were very much tied to the liberalization of capital flows that took place in the preceding years.

Radelet and Sachs have also examined the effect of international shocks61 such as the devaluation of the Chinese yuan in 1994, the increased competition from Mexico, and the overcapacity in certain industries such as semiconductors. The combined effect of these influences does not appear to account for what happened. It is therefore difficult to

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60. Id. tbls. 8-9.
61. Id.
escape the conclusion that international financial liberalization bears the primary responsibility for causing the crisis.

The reversal of capital flows, which amounted to eleven percent of the regional GDP, was a result of "herd" behavior: foreign and domestic investors alike were stampeding for the exits, lest they get caught holding greatly depreciated local currency and assets. The cause of the panic is fairly straightforward; the Asian crisis began with the fall of the Thai currency (the baht) and soon spread to other countries. With a high level of short-term international debt, a depreciation of the domestic currency increases the cost of debt service. Everyone then needs more domestic currency to get the same amount of dollars for debt service. The selling of domestic currency to get those dollars, or other "hard" currencies, further drives down the domestic currency. It does not take much to set off a panic, especially if the central bank does not have a high level of foreign currency reserves relative to the short-term debt. These reserves shrink further as more and more investors convert their domestic currency and domestic assets into dollars. To exacerbate the problem, foreign lenders often refuse to renew the short-term loans, thereby causing the downward spiral to continue.

Some economists believed that the inherent instability of international financial markets was a major cause of previous financial crises, including the Mexican crisis in 1994.62 Radelet and Sachs’s statistical analysis of recent crises in emerging markets indicated that the most important predictor of crisis was the ratio of short-term international debt to the country’s foreign exchange reserves.63 In other words, these countries became vulnerable to panic-induced capital outflows, as well as runs on their currency, because of a buildup of short-term international borrowing.

This build-up of short-term international borrowing was a direct result of the financial — and especially capital account — liberalization that took place in the years preceding the crisis. In South Korea, for example, this liberalization included the removal of a number of restrictions on foreign ownership of domestic stocks and bonds, ownership of foreign assets, and overseas borrowing by domestic financial and non-financial institutions.64 South Korea’s foreign debt nearly tripled from $44 billion in 1993 to $120 billion in September 1997. Although this was not a very large debt burden for an economy of South Korea’s size, the short-term percentage was dangerously high at 67.9% by mid-1997.65 For comparison, the average ratio of short-term to total debt for less developed non-OPEC countries at the time of the 1980s debt crisis (1980-82) was twenty percent.66

63. The authors used a probit model based on data for 22 emerging markets during the years 1994-97.
64. See Chang, supra note 54.
65. Radelet & Sachs, supra note 52.
66. Chang, supra note 54.
Financial liberalizations in other Asian countries led to similar vulnerabilities. Thailand created the Bangkok International Banking Facility in 1992, which greatly expanded both the number and scope of financial institutions that could borrow and lend in international markets. Indonesian non-financial corporations borrowed directly from foreign capital markets, piling up $39.7 billion of short-term debt by mid-1997, eighty-seven percent of which was short-term. On the eve of the crisis, the five Asian countries had a combined foreign debt of $274 billion, sixty-four percent of which was in short-term obligations.

The ratio of short-term debt to foreign currency reserves varied from 0.6 in Indonesia to 2.0 in South Korea. Economists who believe in the "efficient market hypothesis" (i.e., that investors take into account all relevant information affecting asset returns when deciding their market positions) would be hard pressed to explain the disinvestment from these countries. Once begun, this disinvestment proceeded without regard to country-specific economic or even financial conditions. The spread of such disinvestment to countries that are not even remotely related to the crisis should be reason enough to question whether deregulation of international capital flows is in the best interest of emerging market economies.

It is often assumed that liberalization is the antithesis of "crony capitalism" and that efforts by Western institutions, such as the IMF, to reduce the role of government in the economy can lessen corruption and inefficiency. Ironically, it appears that South Korea's liberalization in the last five years has had the opposite effect. According to Chang, Park, and Yoo, the sharp reduction in government planning, especially in industrial policy, has contributed to overcapacity in the petrochemical industry, as well as overinvestment and corporate failures in other industries such as semiconductors, steel, and auto. The collapse of the multi-billion dollar Hanbo conglomerate in a failed steel venture, as well as Samsung's destabilizing foray into the auto industry, are examples of the dangers of abandoning industrial policy in a manufacturing system that was based on a high level of coordination of investment. Ironically, even more striking is the new form of corruption, "crony capitalism," involved in these ventures, as particular chaebol (i.e., conglomerates) were able to leverage their influence with the government in ways that were not possible prior to the liberalization.

B. Globalizing Institutions: Making the Worst of a Bad Situation

The greatest tragedy of the Asian crisis is not the financial panic brought on by destabilizing capital flows, but its aftermath. Although the financial crisis was itself serious, there was no reason for it to have resulted in the terrible loss of income that has now spread across the region. Analysts are

67. Radelet & Sachs, supra note 52.
68. For a critique of this theory, with particular attention to the type of financial liberalization discussed here, see David Felix, Washington Univ. Econ. Dept., Globalizing Financial Capital Mobility: The Empire's New Clothes? (1998).
69. Chang, supra note 54.
comparing the situation to our own Great Depression, given the tens of millions of people who are being thrown into poverty. Years of economic and social progress are being negated, as the unemployed vie for jobs in sweatshops that they would have previously rejected, and the rural poor subsist on leaves, bark, and insects. Women have been particularly hard hit. They are first to be laid off and have taken sharper cuts in access to food and other necessities. Meanwhile, girls are being pulled from school to help with their families' survival.\textsuperscript{70}

The depression did not have to happen. The crisis did not result from problems with the underlying real economy; rather it resulted from a liquidity problem in the financial sphere. The problem, as we have seen, was that investors began to panic when the Thai baht started to slide in July 1997. To head off the currency and financial collapses that ensued, all that was needed was a loan of international reserves, so that investors could be assured that they did not have to sell today in order to avoid taking an exchange rate loss the next day. The short-term debt could then have been rolled over into long-term debt, thereby restoring stability. This solution was recognized, for example, by the largest foreign banks that had made loans to South Korea. They issued a statement last December saying that they “shared the view that the Korean economy is strong and that the present situation is due to a liquidity squeeze primarily caused by an excessive reliance on short-term debt.”\textsuperscript{71}

By analogy, we could compare the situation with our own savings and loan crisis a decade ago. In that case, the underlying financial weaknesses were quite serious — about $220 billion in bad loans. The government, however, was able to bail out the banking system, restructure those institutions that could be saved, and sell off the assets of others, all without causing any loss of output in the real economy.

Instead of following the U.S. solution to its banking crisis, the International Monetary Fund had its own plans for Asia. These plans had the strong backing of the U.S. government, which has the dominant voice within the IMF. Like most bad policies, theirs was a mixture of ideology and bad intent. The latter was expressed most brazenly by former U.S. Trade Representative Mickey Kantor when he said “that the troubles of the tiger economies offered a golden opportunity for the West to reassert its commercial interests. When countries seek help from the IMF, Europe and America should use the IMF as a battering ram to gain advantage.”\textsuperscript{72} This they did. Billions of dollars of assets in these countries are still being scooped up by foreigners at fire sale prices, thanks to both the undervalued currencies and the regional depression. Among the conditions that the


IMF attached to the bailout were numerous provisions making it easier for foreign investors to buy up local financial and non-financial enterprises.

But the ideologically driven component of the IMF's plan was much more damaging than the policies that were tailored to Western commercial interests. Like a medieval doctor whose first recourse is to drain the "bad blood" from the patient, the Fund prescribed its usual medicine: high interest rates and a tightening of domestic credit to slow economic growth; fiscal tightening, including cuts in food and energy subsidies in Indonesia, were later rescinded after rioting broke out; and further liberalization of international capital flows, notwithstanding the fact that this is what got these countries into trouble originally. For example, South Korea was required to abolish nearly all of its remaining restrictions on capital flows, including those relating to the domestic financial services market and foreign exchange controls.73

The IMF's power should not be underestimated. Countries suffering from balance of payments problems are generally required to get the IMF's seal of approval before they can obtain credit from other financial institutions, both public and private.74 After the IMF's mishandling of the Asian financial crisis, its power has come under challenge. As Jeffrey Sachs has noted: "it defies logic to believe that the small group of 1000 economists on 19th Street in Washington should dictate the economic conditions of life to seventy-five developing countries with around 1.4 billion people."75

It should also be noted that, at a meeting of regional finance ministers in September 1997, Japan proposed that an "Asian Monetary Fund" be created to provide liquidity to the faltering economies faster, and with fewer of the conditions imposed by the IMF. This fund was to have been endowed with as much as $100 billion in emergency resources, which would come not only from Japan, but also from China, Taiwan, Hong Kong, Singapore, and other countries. After strenuous opposition from the U.S. Treasury Department, which insisted that the IMF must determine the conditions of any bailout before any other funds were committed, the plan was dropped by November 1997. It is impossible to tell how things might have turned out differently, but it is certainly conceivable that the depression, and even the worst of the currency collapses, could have been avoided if the Asian

74. The IMF is correctly perceived in most of the world as a proxy for the U.S. government. Although Europe and Japan could outvote the United States if they wanted to (voting rights are proportional to contributions), they have never chosen to do so. The executive board operates by consensus; there have been 12 votes in the last 2000 decisions. Testimony to the House Comm. on Banking and Fin. Servs., General Oversight Subcommittee, 105th Cong. (Apr. 21, 1998) (testimony of Karin Lissakers, U.S. Executive Director, International Monetary Fund). Even when the Clinton Administration asked the IMF for an unprecedented $20 billion loan to Mexico during the peso crisis in 1995, on extremely short notice, the European representatives expressed their disagreement only by abstaining. See Nathaniel C. Nash, Western Allies Rebuff Clinton in Mexico, N.Y. Times, Feb. 3, 1995, at A1.
Monetary Fund had been assembled and deployed at that time.\textsuperscript{76}

The IMF has been imposing similar conditions around the world for decades, and it has often been criticized for causing recessions and worsening poverty, unemployment, and income distribution with its "structural adjustment" programs.\textsuperscript{77} However, its intervention in the Asian economic crisis drew more fire than any other action in its fifty-three year history in spite of the fact that the conditions the Fund imposed upon the Asian nations were very much in line with past practices. In a unique breach of protocol, Joseph Stiglitz, the chief economist at the IMF's sister organization, the World Bank, publicly criticized the Fund's policies: "These are crises in confidence," he said.\textsuperscript{78} "You don't want to push these countries into severe recession. One ought to focus . . . on things that caused the crisis, not on things that make it more difficult to deal with."\textsuperscript{79} One reason for the criticism is that the ideological underpinnings of the IMF's policies, which are normally presented as purely technical measures to stabilize the macro economy or improve efficiency, were more exposed in this case. Countries that need the IMF's intervention tend to have chronic or structural problems either with central government budget deficits or with international balance of payments. With these countries, it is easier to support the austerity measures that the IMF generally imposes, including the "structural adjustment" programs. The Asian nations, however, enjoyed balanced budgets, low inflation, and high national savings rates. In addition, their current account deficits, as noted above, provide little justification for the conditions attached to the bailout.

Although many of these bailout conditions remain secret, those that were publicized illustrate the destructive nature of the IMF's policies. For example, at a time when the South Korean won depreciated by eighty percent, the IMF imposed an inflation target of 5.2% for South Korea for 1998 in comparison to a rate of 4.2% the previous year.\textsuperscript{80} To hold inflation to such a small percentage increase, with the cost of imports soaring due to the currency depreciation, would require a recession, and perhaps even a depression.

The IMF has made other serious mistakes that have worsened the Asian crisis. In an internal IMF memo that was leaked to the press, one of the IMF's acts was admitted to be an error. This act involved the closing of sixteen Indonesian banks, a move that the IMF thought would help restore confidence in the nation's banking system. Instead, the closings led to panic withdrawals by depositors, thereby further destabilizing the financial


\textsuperscript{79} Id.

\textsuperscript{80} Sachs, supra note 57.
The IMF also failed to arrange a roll-over of the short-term foreign debt owed by Indonesian non-financial firms, thereby rendering Indonesia unable to stabilize its currency and leaving firms unable to obtain the necessary credits for essential imports and even exports. The Indonesian currency took its deepest plunge just days after the second IMF agreement was signed on January 15, 1998.

In retrospect, it is not surprising that the IMF failed to restore market confidence in the region. The IMF was negotiating for recessionary conditions with the affected countries. Even worse, the IMF was fighting for structural "reforms." The IMF argued that the crisis was due to "fundamental structural weaknesses" in the affected economies, rather than the easily solvable liquidity problem that, in actuality, caused the crisis. This is certainly not a recipe for inducing investors to return. The amount of funds actually dispersed was much smaller than the amount of funds committed. This amount was probably not enough for the IMF to function as the lender of last resort as was needed. In Indonesia, for example, there was only $3 billion in disbursements as compared to a $40 billion commitment by March 1998.

Conclusion

It has long been recognized that a system of unregulated markets does not regulate itself, is prone to crises and depressions, and does not necessarily allow the majority of its participants to share in the gains from economic growth and technological progress. Proponents of global financial liberalization, however, failed to heed this warning and chose to act in contravention to the economic history of the past two centuries. This Article argues that globalization represents capitalization in denial: it is a back-door way of reintroducing the worst excesses and irrationalities into healthy markets.

There is no global equivalent of the nation-state that can engage in expansionary fiscal policy to combat a regional or even global recession. Not even the automatic stabilizers that are built into the national budgets of the developed countries can combat such economic woes. There is no international central bank to use monetary policy to serve similar stabilization purposes. There is no global welfare state to provide a safety net for the hardest-hit victims of market forces. There is no global equivalent of national labor legislation to protect the rights of workers to organize and bargain collectively. There is no international environmental legislation, nor would there be a means of enforcing such legislation if it existed.

The global economy is, therefore, the last refuge for those who would prefer to avoid these encumbrances, including the transnational corpora-

82. RADELET & SACHS, supra note 52, at 33.
83. Id.
tions, who have the dominant voice in reshaping the world economic order in the present era. The transnational institutions of the global economy—the IMF, the World Bank, the GATT, the WTO, and the proposed MAI—are often viewed as quasi-state institutions, especially by reformers who see in them the potential for performing globally those rationalizing functions that nations have traditionally performed at the individual-state level. But in fact, these transnational institutions resemble the nation-state only in its most repressive aspects. They reinforce and exacerbate the existing distribution of wealth and power, as well as the international division of labor between rich and poor nations.

There is also a more irrational side to these institutions. Since the 1980s, as the ideology of neo-liberalism has increasingly taken on a life of its own, globalization is irrationally pursued as an end unto itself. The country specifics vary widely, but the overriding principle seems to be the subordination of the national economy to the vicissitudes of international markets. The tail wags the dog and hobbles it, too. In Russia, for example, the stability and convertibility of the ruble was given top priority at the behest of foreign investors, especially those concerned with portfolio investment. In August of 1998, the IMF loaned Russia $4.8 billion, part of a $22 billion dollar package, to stabilize the ruble. This money went right into the outstretched hands of speculators. In September, the ruble collapsed and Russia defaulted on both its domestic and foreign debts.

The collapse of the ruble and Russia's default have had profound implications far beyond Russia's borders. These effects have highlighted yet another spectacular failure of the IMF, coming not only on the heels of the Asian financial crisis, but also after six years of IMF intervention in Russia. The Russian people have paid a terrible price for their adherence to the IMF's neoliberal prescriptions, which advised that Russia's manufacturing and industrial base be scrapped—because they were not "internationally competitive"—and rebuilt using foreign investment. The first part of the formula has been applied. Russia now produces hardly anything but energy. However, it is now clear that the anticipated foreign investment will not be forthcoming. Meanwhile, in the last six years, the average Russian household has lost more than half of its income, a decline greater than that which occurred during America's Great Depression. The majority of Russians have fallen below the poverty line. The decline in male life expectancy, from a pre-"reform" 65.5 years to 57 years, is historically unprecedented in the absence of a war or a major natural disaster. The odds that Russia will opt for a path divergent from the IMF's "reform" program of the last six years are now considerable and increasing.

The final disintegration of the Russian "reform" model sent shock waves through the international financial system, highlighting the instability of globalized capital markets. As this paper goes to print, Brazil has been forced to raise interest rates to fifty percent and has spent more than a billion dollars a day over the last month to support its exchange rate; Mex-

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84. TAYLOR & PIEPER, supra note 77.
ico pushed interest rates to forty percent; and Latin America teeters on the edge of financial collapse. Even if the dreaded implosion can be avoided, the economic and social costs will be steep. Amazingly, all of this turmoil was caused by a financial meltdown in Russia, an economy with which Latin American countries have minimal commercial relations. The irrationality of international financial markets has reached new extremes, as one poor country after another is trampled by the herd behavior of investors.

Meanwhile, the fallout from globalization continues to drift back to the United States, most recently in the form of record trade deficits ($15.7 billion for May 1998) that followed in the wake of the Asian crisis. An estimated 700,000 jobs will be displaced in the United States. It is difficult to see why the IMF, and by extension our own government, has not been accorded its rightful share of the blame. By unnecessarily forcing the Asian economies into depression and leaving them no way to grow except through exports based on undervalued currencies, the IMF has greatly worsened the impact of the crisis on the U.S. economy.

As the evidence of globalization’s harmful effects continues to mount, the debate within the United States will undoubtedly intensify. A shift in the burden of proof seems long overdue. The logic of “downward harmonization,” as unfettered global market forces push both environmental and living standards toward the lowest common denominator, is straightforward. The instability and irrationality of global deregulation is becoming more obvious with the occurrence of each crisis.

Until recently, those who have claimed that the majority of citizens benefit from continually increased trade and investment liberalization have not had to defend their claim. They have not had to explain, for example, how international agreements that contain an array of new protections and privileges for transnational corporations, but not for the environment or labor, are in everyone’s best interest. They have only had to dismiss their opponents as protectionists, demagogues, atavists, or xenophobes. More recently, a group of economists diagnosed this opposition as suffering from “globaphobia,” an apparently irrational fear of the global economy.

Those days may be nearing an end, and the globalizers may soon have to make their case on the merits. Let the debate begin.

86. See BURTLESS ET AL., supra note 22.