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Book Reviews

Globalisation and Public Policy

A review of George F. DeMartino, *Global Economy, Global Justice: Theoretical Objections and Policy Alternatives to Neoliberalism*, London & New York: Routledge, 2000, ISBN 0-415-22401-2, xiv + 279 pages, index.

This is a thoughtful and thought-provoking book on a topic of immense economic, social and political importance. Indeed, it covers a number of important topics. The over-arching one, though, is that of globalisation, and how public policy should respond to the challenges and new problems being thrown up by the increasing internationalisation of economic relations, and the growing power of the transnational corporations. DeMartino describes the current state of the global economy admirably. The book goes much deeper, though, than merely describing and discussing current developments and policy options. It is also a sophisticated theoretical treatment of how social scientists understand the world. In particular, he critiques the neoclassical approach as being hopelessly unrealistic and unhelpful, indeed positively damaging.

The main policy discussion in the book is what approach should be taken to issues of trade and protectionism. DeMartino recognises that free trade is a slogan and a policy agenda that benefits some and harms others, 'It is not some sort of natural or technically efficient state of the world'. However, he is deeply suspicious of the sort of active trade policies generally advocated by the political left that seek to promote industrial development. He is fearful that this can all too easily degenerate into reactionary nationalism. Instead, he advocates a sophisticated approach whereby countries would be graded or ranked according to how well they perform on various measures—what he describes as 'egalitarian internationalism'. In terms of trade policy, countries that scored highly against these targets—that would be generally agreed as being desirable—would be rewarded as regards the terms they could then trade on internationally, thus introducing a positive incentive for governments to achieve such targets. The incentive structure thereby introduced would thus be the opposite of that represented by the current temptation for governments to undercut each other in how low they can push taxes on multinational corporations, or outbid each other in offering subsidies, or in offering low wage labour—in short, the sort of 'social dumping' that European Union countries considered the Thatcher Governments in Britain during the 1980s of engaging in, with repeated cuts in labour protection and other such deregulatory measures.

DeMartino acknowledges that the specific policy proposals he advocates are unlikely to be supported by governments in the near future. However, he argues that this is no reason to advocate policies that are either inadequate or inappropriate, simply because they are more likely to be pursued. Rather, he argues, the case needs to be made for the policy agenda and proposals that are thought to be right, and support built for them over time.

GLOBALISATION

The nature of today's global economy, and the processes generally referred to as globalisation, are admirably set out and discussed. DeMartino cites the UNCTAD and other data sources, plus the relevant literature, for example the description from Todaro (1997) of the size and power of the multinational corporations (MNCs):

> … in 1993, General Motors had sales revenue in excess of the GDP of Thailand. In fact, its gross sales exceeded the GDP of all but seven developing countries (China, India, Brazil, Indonesia, Mexico, Argentina, and South Korea). The five largest MNCs had combined revenues in excess of the GDP of many developed countries including Switzerland, Australia, Spain, Sweden, Canada, and Belgium. Were we to examine the 150 largest economic entities (both companies and countries), we would find that more than half (86) were MNCS. (Todaro, 1997, p. 535)

DeMartino points out that the power of MNCs is also exercised through various inter-firm relationships such as subcontracting. Such measures are often not picked up in data such as on FDI, which thus underestimate the extent of MNCs' power and influence (p. 3).

Neoclassical economics fails to offer any useful or meaningful analysis of these factors, their causes or consequences. DeMartino provides a sophisticated critique of neoclassical analysis. He points out that while Krugman dismisses his opponents as mere 'policy entrepreneurs', we are supposed to believe that 'he and his neoclassical colleagues remain entirely impervious to the forces that benefit from the policy conclusions they prescrible' (p. 37). The terms 'prize-fighters' and 'hired' come to mind.

The neoclassical approach is nicely illustrated by the conclusion of the World Bank's chief economist Lawrence Summers that pollution that might lead to a loss of life causes less damage in poor societies where wages are lowest. 'I think the economic logic of dumping a load of toxic waste in the lowest-wage country is impeccable' (Summers, internal World Bank memo, leaked to and published in the *Economist*, August 2nd 1992). This is reminiscent of Milton Friedman's argument against regulating the drugs market, on the grounds that the free market could do the job, ensuring that no company would introduce harmful drugs since the reputational costs of causing death and other ill-effects would be too great.

COMPETITIVENESS

DeMartino is also critical, though, of non-neoclassical economists who advocate 'competitiveness' policies that, he argues, are essentially nationalistic. While the dangers he points to are no doubt real, an important issue is surely the political context in which such policies are pursued, as well as the manner in which this is done, the sort of political coalitions built, and so on. Many policy agendas have the potential to be pursued in a reactionary, nationalistic manner, or in a progressive one. Indeed, to build a progressive coalition in one of the industrialised countries such as the US or the UK, a short to medium term economic policy agenda is crucial, and there are many cases of these having successfully included the sort of policies—such as industrial and trade policies—which, it is true, in other contexts could become dangerously nationalistic and reactionary. It is hard to generalise about the effect of adopting and pursuing any given policy in the abstract. The context of the particular country and the political context in which this is done, is crucial.

For the likes of Krugman (1994), the idea of 'competitiveness' is a 'dangerous obsession'. For most governments and many academics, however, it is key to economic growth, prosperity and rising living standards. Howes and Singh (2000), for example, argue that competitiveness does matter and that there are a number of progressive economic policies that can usefully be pursued in this regard. The key is to achieve relative productivity levels of the traded goods sector sufficient to allow the economy to operate at high levels of employment without running into unsustainable balance of payments deficits.

For Krugman, of course, there is no such thing as unsustainable balance of payments deficits, since an adjustment of nominal exchange rates will allow the price mechanism to achieve an equilibrium solution. The problem of course is that while the price mechanism may work well in theory—provided one maintains a sufficiently simplistic, pre-Keynesian theoretical outlook—in practice things are rather different.

Firstly, the exchange rate may fail to adjust. Certainly there have been cases in Britain's recent economic past when not only the exchange rate remained at an uncompetitive level rather than adjusting downwards, but those of us who pointed out that the exchange rate needed to adjust downwards were dismissed as not understanding that exchange rates no longer mattered in a world where most trade is internal to transnational corporations, or that any devaluation would result in interest rate rises to compensate for the loss of confidence, hence making matters worse. So there is always the danger that economic theorists, commentators and policy makers will defend an overvalued exchange rate, either explicitly by saying that it no longer matters, or implicitly by arguing that nothing can be done to buck the markets.

Secondly, even if relative prices were to always adjust instantaneously and costlessly, there is more to life—and the economy— than prices. Vitally important to international trade are all sorts of non-price factors. If firms lose competitiveness in these areas then price adjustments alone may prove insufficient to rectify the problem. It may then be important for government to intervene with industrial policy and other measures to prevent the economy becoming locked in recession.

CONCLUSION

DeMartino's book is an important contribution to the current debates on what sorts of economic policy should be pursued given the current degree of internationalisation of economic activities. Labour and environmental standards are clearly vital for the wellbeing and health of the global economy. It is important, though, that these are developed in a fashion that assists development rather than restricts it. Such policies must not be used as disguised forms of protectionism. DeMartino outlines an imaginative way in which such standards could be developed and utilised in the context of international trade.

DeMartino's book also serves as a useful critique of the limits of neo-classical economics. Its simplified and unrealistic assumptions may be useful for the development of tractable theoretical models, but when these are incorrectly assumed to relate to the real world, with inappropriate policies then proposed—or imposed—the results can be quite damaging.

A nice illustration of the gap between economic theory and reality came in the *New York Times* (July 29th, 2001), with the former vice chairman of the Federal Reserve Board, Professor Alan Blinder, complaining that:

> 'like 99 percent of economists since the days of Adam Smith, I am a free trader down to my toes. But the sad truth is that despite 225 years of trying, economists have not been able to convince the public or its elected representatives of the virtues of free trade. This constitutes pedagogical failure on a grand scale.' (Blinder, 2001)

If Professor Blinder really wants to understand the reasons underlying this 'pedagogical failure on a grand scale' suffered by him and '99 percent of economists since the days of Adam Smith', he would do well to read the explanation contained in this book by George DeMartino.

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The Case Against the Global Economy and for a Turn Towards Localisation
Edited by Edward Goldsmith and Jerry Mander
Earthscan Publications, 2001
Localisation: A Global Manifesto
Colin Hines
Earthscan Publications, 2001

I hope Goldsmith and Mander's book is a bad one. I hope their analysis of trade liberalisation and economic and cultural globalisation is misguided and partial and I will anticipate with impatience wealth 'trickling down'. In the meantime I will try to look past the ugliness of global consumer culture. Particularly when I'm searching for bargains. Except it is not a bad book. It offers a persuasive critique of the engines of globalisation, a passionate expose of their effects especially on the 'developing' world and an attempt to point to alternatives. It's a depressing book therefore, no more so when the systematic destructiveness of the processes it exposes seems to overwhelm the possibility of change.

Our attachment to the products of global capital is great. As reported in the book, Martin Khor, president of the Third World Network was asked whether, without expanded production, he was worried that the developing world would be deprived of western standards of living. His reply was simple, "It's the first world that depends on this...We wouldn't mind having some of the new technologies you offer, and some kinds of trade are very useful, but if the Western colonial powers and transnational corporations would simply leave us alone, stop exploiting our resources and our land so we could again regain their use, we could probably survive quite well. But what would you do?" (pg. 14). As an organizational sociologist also interested in theories of consumption, there is much here to ponder.

The strength of the book is to starkly set the amorality of corporations against the mortality of those they affect. Vandana Shiva writes of the livelihood of millions of Indian wheat producers, processors and traders being threatened by global agri-business's relentless pursuit of 'immature' (uncolonised) markets. Helena Norberg-Hodge tells of her 30 years experience in the remote Himalayan province of Ladakh. A once self-sufficient community opened to foreign tourists in 1975 steadily grew inert and uncertain. Food arriving in lorries from the Punjab could be bought cheaper in the local bazaar than food grown a five-minute walk away. For many Ladakhis it is no longer worthwhile to continue farming. Walden Bello writes of the Faustian bargain of structural adjustment programmes, most evocatively summarised by the Philippine government's notorious advertisement in *Fortune* magazine, "To attract companies like yours... we have felled mountains, razed jungles, filled swamps, moved rivers, relocated towns...all to make it easier for you and your business to do business here." Closer to home we learn of Walmart's insidious strategic creep and its desire to dominate the retail sector. We are forced to assess its claims to 'create' employment alongside the smaller businesses that have been driven to bankruptcy. According to Rowell, for every job generated at Walmart one and a half jobs are lost elsewhere. Cloaked by your local Asda the invasion is being prepared (pg.11).

'Invasion' is an attractive motif. In tends to suggest a nefarious conspiratorial intent; shadowy cabals plotting a new world order. And yet as Jerry Mander explains it is the corporate system that guarantees such behaviour. It demands the relentless search for 'growth'- to develop new products and technologies, to open up new markets, to expand its reach and powers. As this system grows in size and complexity, it becomes increasingly detached from the mortal sources of morality. The transnational corporation is ephemeral and mobile. Where do its loyalties lie? To its employees? To its customers? To communities? To 'stakeholders'?

To the *market*?

At least the belief that someone is *behind* all this offers some possibility