Globalization and Inequality: Are Growth Regimes in Open Economies Bound to be Biased? A Comparative Analysis of the US and Europe in the 2000s.

Seminar organized in Paris, January 17th and 18th 2008
By the CEPN Centre d’Economie de Paris Nord/ CNRS) www.cepn-cnrs.fr
And the SCEPA (Schwartz Center for Economic Policy Analysis)/New School, New York www.cepa.newschool.edu/

With the support of the INEQ, EU FP6 project www.criss-ineq.org

General outline of the theme of the conference

The question we seek to analyze in the proposed conference is the pervasive phenomenon of inequality. More specifically, we want to examine the extent to which the observed increase in inequality in most developed democratic countries is politically and economically sustainable, whether this trend can be checked, and, if so, by what kind of alternative policies. The problem addressed here is clearly linked to the chosen form of internationalization.

How growing inequality comes about in the US is certainly at the heart of this worldwide phenomenon. Even though several factors preclude the US from being a model to be copied by others (e.g. the special international role of its currency), other developed economies tend to follow the core features of its model1. Besides possibly harming themselves in the process, their mimetism adds a volatile multiplier to the global system. While developing countries are

---

also key partners in today’s global economy, there are still huge differences among them. And in any case the inequality issue does not play at all the same role in their governance.

The link with internationalization

The widespread increase in inequality, observed in the US as well as Europe, has often been associated with the greater internationalization of the economies concerned. In clearly linking the two, the latest OECD Employment Outlook (2007) points to a paradox. Increased internationalization of a large number of economies should in effect be a win-win game. But its contestation in both developed and developing countries across the globe seems to imply that such is not the case. Is this growing discontent due to the increasingly unequal impact which accelerating internationalization has on winners of this process versus the losers? Are those losses relative or absolute? Is it possible, as Alan Blinder and others have recently argued, that the number of losers is growing in developed countries. If such is the case, two further questions arise in need of meaningful answers. One, how does the increase in inequality relate to gains from trade? The other, is this correlation between accelerating internationalization of economic activity and the growing inequality of its impacts on winners and losers an inevitable one or can it be, if not avoided, then at least counter-acted?

Standard economic theory does not provide conclusive answers to these questions.

Generally speaking, trade does indeed induce a rise in inequality in developed economies where unskilled people face the competition from workers in low-wage countries. In developing economies the issue is more open. If Kuznets’ Law applies, inequality should at first grow in less-developed countries when more
workers are given the opportunity to access more formal jobs, then decrease beyond a certain threshold of development. Still, most countries exhibit a rise in inequality following greater internationalization, even when they obviously benefit from trade. This calls attention to the question how the internationalization process works effectively in different economies.

Trade can be beneficial to all partners, as has been argued since the beginning of modern economies, but little has been said on how these gains get distributed within each country.

Instigators and managers of these trade flows have the market power to capture a large share of these gains. In developing countries multi-national and local oligarchies are in a position to reap large shares of the gains on the basis of their prior investments or untamed decision power. There is a priori little room for open (re)distribution, even if workers, who are directly involved, may benefit from the trade in the form of better wages.

Conversely, how does the distribution of gains and losses from trade operate typically in developed economies, especially as it pertains to unskilled workers? We can identify and integrate different indicators of inequality which we may derive from new and well-received measures of social well-being. It would be too simplistic to argue that these trends towards increasing inequality follow inevitably from a full-fledged neo-liberalism spurring greater

\[\text{References:}\]


3 This discrepancy can show in the facts that increases in export shares may not lead to similar increases in the shares of total value added of the productions under view (see Millberg 2006).

internationalization. Much depends here on the relative bargaining power of all the stake-holders involved. And it would be equally simplistic to expect that such developments would not trigger resistance in democratic societies. Widely shared protests against the exaggerated compensation packages for CEOs are one sign. Growing needs in areas of social policy, such as environment, education, and health, are likely to strengthen this particular type of feed-back.

Democracy has certain implications. Economic status cannot deviate too much from citizen status. In other words, finance-led capitalism cannot be totally footloose in the wake of its globalization drive. The viability of any given growth regime sets some constraints on distribution patterns in democratic societies. If we wish to appreciate the stability of growth regimes, we need to consider distribution patterns along with productive patterns.

_Beyond Internationalisation, an overall Transformation of Productive Processes_

Greater internationalization (of productive processes and financial markets) has clearly been accompanied in large developed economies by a decrease in the bargaining power of workers, especially unskilled workers, and to a lesser extent also of industrial capital. The threat of delocalization is enough for such a shift to occur, even if in effect trade’s impact on employment remains relatively small in some countries. Technical change, especially as regards information and communication technologies, has reinforced this re-distributive patterns. The effects of internationalization and technical change are closely tied: the latter allows fragmentation of production processes, thereby increasing the scope and potential for restructuring both at home and abroad. This dynamic has been

---

accentuated by the parallel development of stock markets and financiarization facilitating the mobility of financial capital. We cannot track down those effects just at the micro-economic level, since they permeate all economic transactions at the same time. One has to take a more meso- or macro-economic perspective to take into account of all the externalities involved in the wake of these changes.

Facilitating Transformations on the Demand Side

We cannot assess the viability of the new growth regime on the national level without considering the changes that are simultaneously taking place at the demand level. The consumer surplus and its distribution, classically linked to imports of cheaper consumer goods, does play its role at a time when slow growth makes it difficult for the lower middle classes to access the standard sets of durable goods. There is even a tendency to produce cheap durable goods (cars, PCs...) to attract middle classes in developing countries which in turn facilitates access to these durables in developed countries. This does not solely imply that more middle-class families have access to such goods. It may also mean that the cheapening of imported durables helps people cope with stagnation or even a reduction in their income. While the pressure on the middle class is a matter of intense debate, there is clear evidence at least in the US of its struggles to maintain living standards. The wealthy have used their political clout to enhance their already privileged position at the top further by means of favorable fiscal-policy adjustments, in particular tax reductions on their income and wealth. America’s working poor, while already facing long-term stagnation

---

6 Thomas Palley stresses the major distortion brought by this aspect of cheap imports of the US trade deficit. “The troubling Economics and politics of the US trade Deficit”, National Strategy Forum Review, 15(4), Fall,


of their income, face an audacious drive by that nation’s companies to extract more profits from them.\footnote{Echoing this time the cover story of \textit{Business Week}, May 21, 2007.}

We can put in similar perspective the extension of credit to the lower middle classes, made possible by the financial system’s growing ability to spread risks around. American households, two-thirds of which are home-owners, have seen their situation transformed by using their real-estate assets as collateral for more and more credit, a process dramatically boosted in the past decade by steep increases in housing prices. As the experience with that speculative bubble and its recent crash has shown, consumers face a certain structure of risks as debtors which they may not assess correctly or at all. Access to knowledge, specifically the ability to treat complex information flows adequately, has thus become a new source of inequality of growing importance\footnote{Still the anti redistributive nature of credit, where the poor are paying more than the rich, is an old story of capitalism.}. Keeping in mind evidence of social class bias in the distribution of obesity, which has emerged as new risk source, it is clear that this knowledge-processing source of inequality applies even to seemingly simple goods, such as food.

There are learning processes involved in these matters. Many lessons arise in the wake of acute crises which may or may not lead to regulations, laws, or institutions aimed at adjusting risk structures to socially acceptable levels, such as legislation limiting debt levels of households\footnote{Parallels can be drawn with the situation at international levels where financial crises are bringing lessons to countries, influencing or not international ruling of endebtment.}.

It follows that inequalities are also reflected in the structure of risk exposures\footnote{An issue becoming quite familiar that goes well beyond the big new environmental hazards with which one tends to associate the Risk society à la Beck. See for instance J.S Hacker (2007) \textit{The great Risk Shift: the Assault on American jobs, Families, health Care and Retirement and How can you fight back}.}. 

\footnotetext{\textcopyright\textit{Business Week}, May 21, 2007.}

\footnotetext{Still the anti redistributive nature of credit, where the poor are paying more than the rich, is an old story of capitalism.}

\footnotetext{Parallels can be drawn with the situation at international levels where financial crises are bringing lessons to countries, influencing or not international ruling of endebtment.}

\footnotetext{An issue becoming quite familiar that goes well beyond the big new environmental hazards with which one tends to associate the Risk society à la Beck. See for instance J.S Hacker (2007) \textit{The great Risk Shift: the Assault on American jobs, Families, health Care and Retirement and How can you fight back}.}
Environmental issues are likely to raise similar problems of inequality even though the threats pushing ecological matters to the forefront of our agenda affect entire populations across the board\textsuperscript{13}.

\textit{Forging New Deals}

We can draw a parallel between the issues surrounding growing inequality, which we have just referred to, and the kind of broad “national” bargaining underpinning the “golden years” of capitalism\textsuperscript{14}. Following the economic crisis of the 1930s and the ensuing disaster of World War II, that period was marked by a widespread belief that capitalism had to be reformed or risked being scrapped\textsuperscript{15}. The reforms, referred to as the “Keynesian Revolution,” focused on growth-sharing schemes and institutions which fostered the development of wage-labour income and so fuelled thirty years of unprecedented growth. The challenge of communism, where capitalism had been effectively eliminated, reinforced this far-reaching policy revolution which impacted more or less on all the various levels of bargaining concerning workers.

Sources of legitimation have drastically changed since then. Over the last couple of decades internationalism and technical change have been presented as key sources of social and economic progress. The liberalization of finance has become their main catalyst. Taking risks as an “entrepreneur” is now valued as the central virtue and has been applied across the board. Still, there are major

\textsuperscript{13} But clearly exposures to lead or asbestos intoxication are socially biased.

\textsuperscript{14} To echo S. Marglin and J. Schor, eds (1989): \textit{The Golden Age of Capitalism: Reinterpreting the Postwar Experience}. Oxford University Press

differences between the two different eras. There is no major vision\textsuperscript{16} and much of the coherence relies on an economic rhetoric. The conditions, under which these changes in perspective operate, are diverse, not always clear, and confusingly subject to contradictory definitions.

This period’s widespread reductions in previously guaranteed benefits are often enforced indirectly. The modus operandi of these transformations differs across largely diverse national situations. Scandinavian models are arguably as successful as Anglo-Saxon ones, and both are difficult to import anyway. Such diversity of capitalism notwithstanding, various national models find ways to push social benefits lower, introduce new rules of distribution, and revamp the coverage of risks.

The accent here is put on the surplus accruing to consumers, on the flexibility gained by workers, and on the freedom of citizens. This general anthem does, however, contain obvious contradictions and interest conflicts. As evident from the adjustments to distribution and consumption patterns mentioned above, those cannot be easily concealed. As we become more familiar with this new terrain, various feed-backs are emerging. The continuous rise of prison guard labour is one sign of this mounting tension\textsuperscript{17}.

Much of the bargaining between different social groups crystallizes these days around levels and conditions of a national economy’s openness versus protectionism. These issues extend increasingly to service activities, of which

\textsuperscript{16} as Heilbroner R. and Milberg W. pointed out in the first place at the beginning of the “free market revolution” in \textit{The Crisis of Vision in Modern Economic Thought}. Cambridge University Press (1995)

\textsuperscript{17} See the count of guard labour done by S Bowles and A Jayadev (2007) “Garrison America”. Economists’Voice. \url{www.bepress.com/ev}
more and more can be outsourced, and along new frontiers as in the sphere of intellectual property rights.

These new conflicts contain important ideological components, designed to enlarge the constituencies of supporters or opponents to further liberalization. Interest coalitions may be temporary and unstable as well as differ substantially from one country to another. Still, rising levels of poverty, combined with greater economic insecurity, force reconsideration of these issues. In the wake of corporate scandals (e.g. Enron, Worldcom), the ongoing wave of defaults on subprime mortgages, or global warming people are getting a more realistic view.

Such gradual maturing of people’s understanding makes this a good time to clarify the issues at stake in their broadest systemic context. Social scientists can help in this task, analyzing ongoing structural changes in order to strengthen our capacity to design consistent demand-led growth policies. They could in this way make a productive contribution to “countervailing power”\(^{18}\), one all the more needed in light of the fact that the elites in power have themselves abusively used the rhetoric of economics to justify the asymmetric globalization process as in the end good for everyone.

\(^{18}\) a notion paying tribute to J K Galbraith 1952, see in the Nation the short piece by James Galbraith. http://www.thenation.com/doc/20060417/forum/4