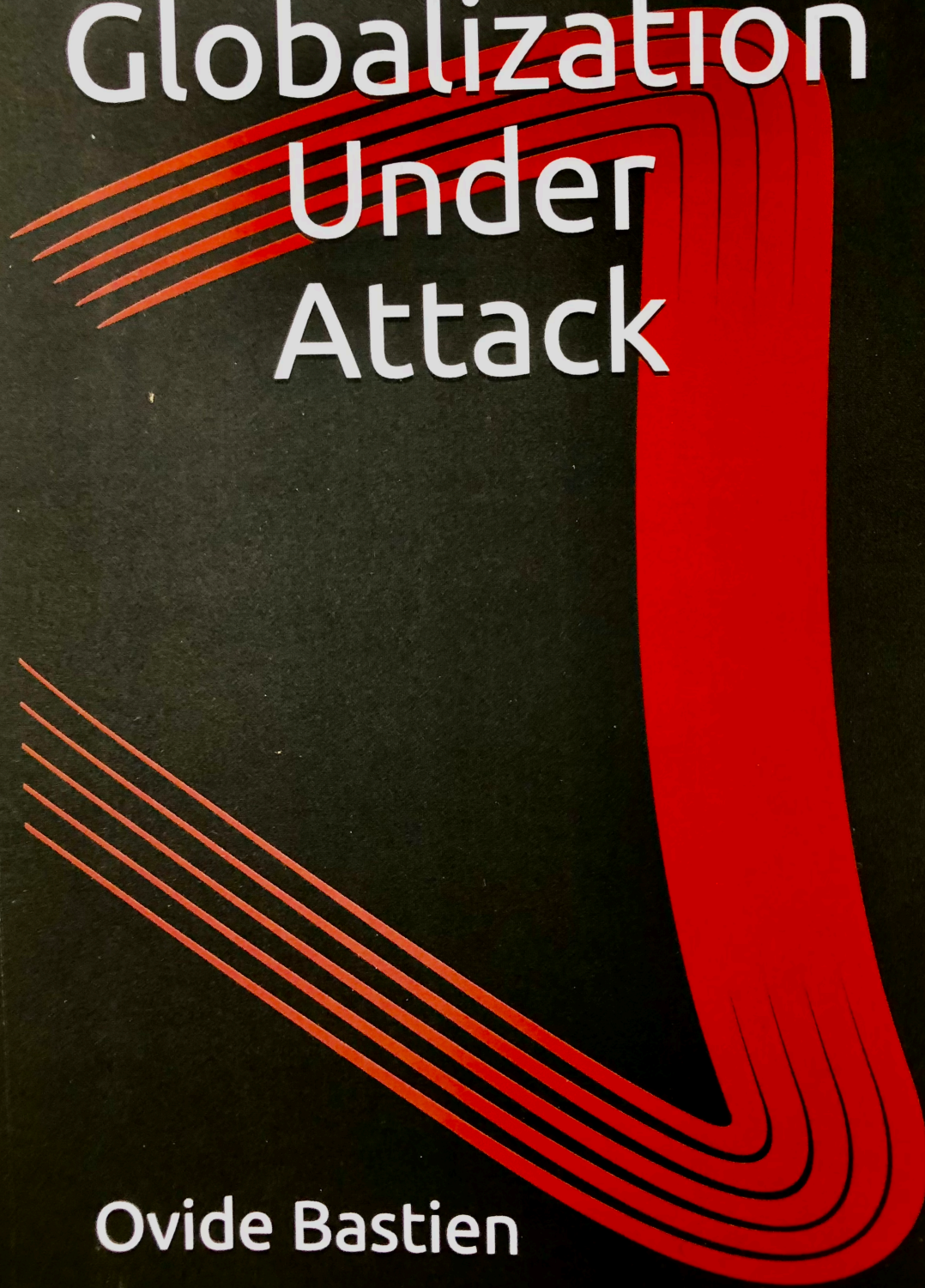


An abstract graphic consisting of several thick, red, curved lines that sweep across the cover from the top left towards the bottom right, creating a sense of motion and tension. The lines are layered, with some appearing as single strokes and others as multiple parallel lines.

Globalization Under Attack

Ovide Bastien

GLOBALIZATION UNDER ATTACK

Ovide Bastien

Copyright @ 2017 Ovide Bastien
All rights reserved

Other Books Published by Author

Chili: le coup divin published by “Les Éditions du Jour” in September 1974, in Montreal, Canada. Republished on Amazon as an eBook in 2014 and in paperback in 2015. A Spanish version, Chile: el golpe divino, published on Amazon as an eBook and in paperback in 2017. It includes a new section, Epíloga 2017.

CHILE: Underside of Economic Miracle published as a class manual at Dawson College from 1995 to 2011. Updated and republished on Amazon as an eBook in 2014 and in paperback in 2015.

My 9/11 Awakening to America’s Moral Crisis (Diary and Letters, Chile: 11 September 1973 Military Coup), published on Amazon as an eBook and in paperback in 2015.

Love or Money: What Makes the World Go Round? published on Amazon as an eBook and in paperback in 2015.

Cry of the Earth – Cry of the Poor, published on Amazon as an eBook and in paperback in 2015.

Conferences and Interview

To see the talk I gave on Chile during the Social Forum in Ottawa on 22 August 2014:

<https://www.youtube.com/watch?v=LJqi5bSLN0c>

Christ Dayo from the CHRY News Collective interviewed me in late September 2014. To listen to this half-hour radio interview on the Chilean Coup:

<https://www.mixcloud.com/discover/ovide-bastien/>

To see my 5-minute 2014 homage (mostly in French) to Sister Marie Denise Dubois, a woman who dedicated her

life to the marginalized in Chile and Honduras:

<https://vimeo.com/105806912>

To see the talk I gave on Chile – I was invited by the Egyptian Canadian Coalition for Democracy – during the World Social Forum in Montreal on 10 August 2016 (The talk is in French):

<https://www.youtube.com/watch?v=D2YsYG0lzVU>

Content

Globalization Under Attack	1
Roots of the crisis in the United States	7
Roots of the worldwide crisis.....	9
Anti-globalization Latin America also in crisis	14
Importance of critical thinking	22
The purpose of this book	25
Conflicting Views on Globalization	30
Introduction	30
Joseph E. Stiglitz - Globalization and its Discontents.....	32
Commentary.....	39
Ethiopia	40
The East Asian Crisis.....	44
Russia	51
IMF's Brief – Globalization: Threat or Opportunity?	58
Unparalleled growth, increased inequality: 20 th century income trends	61
Developing countries: how deeply integrated?.....	69
Does globalization increase poverty and inequality?.....	74
How can the poorest countries catch up more quickly?	76
Does globalization harm workers' interests in advanced countries?	81
ECLAC – Globalization and Development.....	86
Globalization: a historical and multidimensional perspective	86
Commentary.....	88
The economic dimensions of globalization	89
Commentary.....	93
Growing power of transnational corporations	95
Third world debt: a problem that persists	96
Commentary.....	96

Inequality of income	98
International factors contributing to underdevelopment..	101
Commentary.....	104
Commentary.....	107
James Petras and Henry Veltmeyer - Globalization	
Unmasked.....	108
Commentary.....	110
Globalization or imperialism?.....	112
Impact of globalization	123
U.S. leading imperial power	124
Imperialism and Latin America	127
Deterioration of Latin American economies.....	134
A minority of rich, and the others.....	137
Reform or revolution?.....	138
Commentary.....	140
Understanding Backlash Against Globalization.....	147
Brief Remarks on Nature of Globalization	147
Historical Roots of Neoliberal Globalization	147
Adam Smith	147
Milton Friedman's philosophy.....	153
Colonialism, slavery, and climate change: a part of globalization.....	158
Stiglitz and globalization in 2017	163
Rewriting the Rules of the American Economy	169
New rules to reduce inequality and boost growth.....	185
Growing the middle	198
Labour Manifesto in England and Stiglitz	213
ECLAC and IMF in 2017	225
IMF's changing views on inequality.....	234
Crisis of anti-globalization in Latin America	237
Chile turns its back on neoliberal globalization.....	242
Anti-globalization Donald Trump vs. Stiglitz	248
Concluding Remarks.....	295
Review Questions.....	298

Globalization Under Attack	298
Joseph E. Stiglitz - <i>Globalization and Its Discontents</i>	299
IMF's Brief - <i>Globalization: Threat or Opportunity?</i>	301
ECLAC - <i>Globalization and Development</i>	302
James Petras and Henry Veltmeyer - <i>Globalization Unmasked</i>	304
Understanding Backlash Against Globalization	307

Globalization Under Attack

When I wrote a class handout on globalization for my students in 2003 it was spreading with ever-greater speed throughout the world. And so was its ideological underpinning, free market fundamentalism or neoliberalism.

Today in 2017 both globalization and neoliberalism are in full crisis. A crisis that is leading to growing polarization.¹

Many are moving towards the right and supporting political leaders such as Marine Le Pen in France and Beppe Grillo – leader of the Five Star Movement – in Italy. The two most outstanding recent examples of this turn towards the right: Brexit, the United Kingdom’s referendum of 23 June 2016 in which people voted to leave the European Union; and Donald Trump’s surprising and unpredicted victory – all polls had been pointing to the victory of Hillary Clinton – as president of the United States on 8 November 2016.

At the same time others are moving towards the left and supporting political leaders such as Pablo Iglesias – leader of Podemos – in Spain, Alexis Tsipras – leader of the Syriza Party – in Greece and Jeremy Corbyn – the new and more radical leader of the Labor Party – in the United Kingdom.

A recent and outstanding example of this movement to the left: Bernie Sanders’ extraordinary popularity in the leadership campaign of the Democratic Party in the United States, especially among the young and the workers who lost their jobs because of the North American Free Trade Agreement (NAFTA). The fact that Sanders positioned himself as a “democratic socialist” led to a flabbergasting

¹ See the excellent and fairly long article of Nikil Saval in The Guardian of 14 July 2017: [Globalisation: the rise and fall of an idea that swept the world](#). Saval asserts: “It’s not just a populist backlash – many economists who once swore by free trade have changed their minds, too. How had they got it so wrong?” Retrieved the same day.

phenomenon: “socialism”, the very antithesis of globalization, “was the most looked-up word on Merriam-Webster’s site” in 2015.²

A second recent and outstanding example of this movement to the left: the rising popularity of Jean-Luc Mélançon just weeks before the first round of France’s presidential election on April 23rd 2017, especially among the young, whose unemployment rate now stands at 25 percent. A great admirer of Venezuela’s Hugo Chávez the former Trotskyist Mélançon modeled his campaign on that of Bernie Sanders. He promised “to bust the EU’s deficit rules by spending an extra €170 billion of public money over five years and to pull France out of NATO,” and vowed “to share work by moving to a four-day week and to bring in a top tax rate of 100% for those earning over €400,000.”³

Below, a few examples of how this crisis of globalization and neoliberalism is being described in the media.

* The right-wing weekly magazine The Economist following the historical Brexit referendum:

“Across Western democracies, from the America of Donald Trump to the France of Marine Le Pen, large numbers of people are enraged. If they cannot find a voice within the mainstream, they will make themselves heard from without. Unless they believe that the global order works to their benefit, Brexit risks becoming just the start of an unraveling of globalization and the prosperity it has created.”

“Today’s crisis in liberalism—in the free-market, British sense—was born in 1989, out of the ashes of the Soviet Union. At the time the thinker Francis Fukuyama declared “the end of history”, the moment when no ideology was left to challenge democracy, markets and global co-operation as

² *‘Socialism’ the most looked-up word of 2015 on Merriam-Webster*, The Guardian, Alison Flood, 16 December 2015.

³ *The French Election: La lutte*, The Economist, 22 April 2017.

a way of organizing society. It was liberalism's greatest triumph, but it also engendered a narrow, technocratic politics obsessed by process. In the ensuing quarter-century the majority has prospered, but plenty of voters feel as if they have been left behind."

"Their anger is justified. Proponents of globalization, including this newspaper, must acknowledge that technocrats have made mistakes and ordinary people paid the price."⁴

* Nancy Fraser in the left-wing magazine Dissent:

"The election of Donald Trump represents one of a series of dramatic political uprisings that together signal a collapse of neoliberal hegemony. These uprisings include the Brexit vote in the United Kingdom, the rejection of the Renzi reforms in Italy, the Bernie Sanders campaign for the Democratic Party nomination in the United States, and rising support for the National Front in France, among others. Although they differ in ideology and goals, these electoral mutinies share a common target: all are rejections of corporate globalization, neoliberalism, and the political establishments that have promoted them. In every case, voters are saying "No!" to the lethal combination of austerity, free trade, predatory debt, and precarious, ill-paid work that characterize financialized capitalism today. Their votes are a response to the structural crisis of this form of capitalism, which first came into full view with the near meltdown of the global financial order in 2008".⁵

* Frederico Rampini in the center-left Italian newspaper La Repubblica:

⁴ The Economist, Edition of 2 July 2016. The referendum took place on 23 June 2016.

⁵ *The End of Progressive Neoliberalism*, Dissent, 2 January 2017, consulted on 13 March 2017.

“From Brexit to Donald Trump, large sectors of society are supporting politicians who promise a return to the past, to the pre-globalization Golden Age. This represents a massive NO to open borders, common markets, free trade deals, and immigration. What is being called into question is everything that has characterized our world order in the last quarter century: globalization. A story born in two treaties: the 1992 treaty that created the European Common Market, and the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, the treaty that was negotiated in 1992 and ratified in 1994”.⁶

* The investor Ruchir Sharma, Chief Global Strategist at Morgan Stanley, in his 2016 bestseller *The Rise and Fall of Nations*:

“The flow of people, as measured by the number of tourists and airline passengers, is rising sharply. But overall the number of economic migrants moving from poor countries to rich ones has fallen, despite the heated controversy that broke out in 2015 over Muslim refugees from Syria and Iraq. And the flows of money that most directly influence economic growth—capital flows between nations and trade in goods and services—have slowed sharply.”

“Nations have been turning inward, rebuilding barriers to trade and fencing themselves off from their neighbors. In the 2010s, for the first time since the 1980s, global trade has been growing more slowly than the global economy. Big international banks have pulled back to within their home borders, afraid to loan overseas. After surging for more than three decades, flows of capital reached a historic peak of \$9 trillion and a 16 percent share of the global economy in

⁶ *Globalizzazione addio: il mondo che rivuole le frontiere. La crisi del Mercato unico*, 27 June 2016. (My translation from the Italian)

2007, then declined to \$1.2 trillion or 2 percent of the global economy—the same share they represented in 1980.”⁷

* Canadian author and activist Naomi Klein in her bestseller *This Changes Everything: Capitalism vs. Climate*:

“The victims of all this are regular people: the workers who lose their factory jobs in Juárez and Windsor; the workers who get the factory jobs in Shenzhen and Dhaka, jobs that are by this point so degraded that some employers install nets along the perimeters of roofs to catch employees when they jump⁸, or where safety codes are so lax that workers are killed in the hundreds when buildings collapse. The victims are also the toddlers mouthing lead-laden toys; the Walmart employee expected to work over the Thanksgiving holiday only to be trampled by a stampede of frenzied customers, while still not earning a living wage. And the Chinese villagers whose water is contaminated by one of those coal plants we use as our excuse for inaction, as well as the middle class of Beijing and Shanghai whose kids are forced to play inside because the air is so foul.”⁹

* And Naomi Klein’s comment in The Guardian following Donald Trump’s victory:

“They will blame James Comey and the FBI. They will blame voter suppression and racism. They will blame Bernie or bust and misogyny. They will blame third parties and independent candidates. They will blame the corporate media for giving him the platform, social media for being a bullhorn, and WikiLeaks for airing the laundry.

“But this leaves out the force most responsible for creating the nightmare in which we now find ourselves wide-awake:

⁷ W. W. Norton & Company, Inc., June 2016, p. 2.

⁸ The Guardian, *Foxconn offers pay rises and suicide nets as fears grow over wave of deaths*, 28 May 2010, quoted in Klein, *This Changes Everything*, Penguin Random House.

⁹ *This Changes Everything*, chapter 2.

neoliberalism. That worldview – fully embodied by Hillary Clinton and her machine – is no match for Trump-style extremism. The decision to run one against the other is what sealed our fate. If we learn nothing else, can we please learn from that mistake?

“Here is what we need to understand: a hell of a lot of people are in pain. Under neoliberal policies of deregulation, privatization, austerity and corporate trade, their living standards have declined precipitously. They have lost jobs. They have lost pensions. They have lost much of the safety net that used to make these losses less frightening. They see a future for their kids even worse than their precarious present.

“At the same time, they have witnessed the rise of the Davos class, a hyper-connected network of banking and tech billionaires, elected leaders who are awfully cozy with those interests, and Hollywood celebrities who make the whole thing seem unbearably glamorous. Success is a party to which they were not invited, and they know in their hearts that this rising wealth and power is somehow directly connected to their growing debts and powerlessness.

“For the people who saw security and status as their birthright – and that means white men most of all – these losses are unbearable.

“Donald Trump speaks directly to that pain. The Brexit campaign spoke to that pain. So do all of the rising far-right parties in Europe. They answer it with nostalgic nationalism and anger at remote economic bureaucracies – whether Washington, the North American free trade agreement, the World Trade Organisation or the EU. And of course, they answer it by bashing immigrants and people of colour, vilifying Muslims, and degrading women. Elite neoliberalism has nothing to offer that pain, because neoliberalism unleashed the Davos class. People such as

Hillary and Bill Clinton are the toast of the Davos party. In truth, they threw the party.”¹⁰

Roots of the crisis in the United States

Quite obviously many are increasingly rejecting globalization for one fundamental reason: rising and ever more obscene inequality and the resulting sharp drop in living standards.

Bill Moyers focuses on the situation in the United States but given that his analysis also sheds light on what has been happening globally it is worth quoting him at length:¹¹

“In 2009, economists Thomas Piketty and Emmanuel Saez explored decades of tax data and found that from 1950 through 1980 the average income of the bottom 90% of Americans had grown, from \$17,719 to \$30,941. That represented a 75% increase in 2008 dollars.”

“Since 1980, the economy has continued to grow impressively, but most of the benefits have migrated to the top. In these years, workers were more productive but received less of the wealth they were helping to create. In the late 1970s, the richest 1% received 9% of total income and held 19% of the nation’s wealth. The share of total income going to that 1% would then rise to more than 23% by 2007, while their share of total wealth would grow to 35%. And that was all before the economic meltdown of 2007-08.”

“Even though everyone took a hit during the recession that followed, the top 10% now hold more than three-quarters of the country’s total family wealth. (...)”

¹⁰ *It was the Democrats' embrace of neoliberalism that won it for Trump*, The Guardian, 9 November 2016.

¹¹ *How America became a 1% society*, The Guardian, 12 September 2016.

“The Pew Research Center recently released a new study indicating that, between 2000 and 2014, the middle class shrank in virtually all parts of the country. Nine out of 10 metropolitan areas showed a decline in middle-class neighborhoods. And remember, we aren’t even talking about over 45 million people who are living in poverty. Meanwhile, between 2009 and 2013, that top 1% captured 85% of all income growth. Even after the economy improved in 2015, they still took in more than half of the income growth and by 2013 held nearly half of all the stock and mutual fund assets Americans owned.” (...)

“In the 1970s, big business began to refine its ability to act as a class and gang up on Congress. Even before the Supreme Court’s Citizens United decision, political action committees deluged politics with dollars. Foundations, corporations, and rich individuals funded think tanks that churned out study after study with results skewed to their ideology and interests. Political strategists made alliances with the religious right, with Jerry Falwell’s Moral Majority and Pat Robertson’s Christian Coalition, to zealously wage a cultural holy war that would camouflage the economic assault on working people and the middle class.”

“To help cover up this heist of the economy, an appealing intellectual gloss was needed. So public intellectuals were recruited and subsidized to turn “globalization”, “neoliberalism”, and “the Washington Consensus” into a theological belief system. The “dismal science of economics” became a miracle of faith. Wall Street glistened as the new Promised Land, while few noticed that those angels dancing on the head of a pin were really witch-doctors with MBAs brewing voodoo magic. The greed of the Gordon Gekkos – once considered a vice – was transformed into a virtue. One of the high priests of this faith, Lloyd Blankfein, CEO of Goldman Sachs, looking in

wonder on all that his company had wrought, pronounced it *God's work*.”¹²

Using the example of a hypothetical man, Gary, who lives in the town of Gary, Indiana, Brown University professor of international political economy Mark Blyth describes the typical situation of the midwestern white working-class Trump voter (to watch his conference: <https://www.youtube.com/watch?v=Bkm2Vfj42FY&feature=youtu.be>):

“In 1989, Gary had 10 years in the union at age 30 and was a line supervisor making \$30 an hour (real dollars, adjusted for inflation). In 1993 (...) the U.S. passed NAFTA and his town lost a lot of jobs. The town took a huge economic hit. Tax base declined, schools got worse. Gary wound up getting a job in a call center for \$15 an hour. Five years later, the call center moved from Indiana to India. Now at age 58, Gary works for \$11.67 per hour at Walmart.

(...) “The only person who actually seems to articulate anything that Gary gives a shit about is Trump. And Gary knows that Trump’s a buffoon, he knows he’s a reality TV star. But Gary has seen politician after politician every four years saying ‘vote for me, better jobs! vote for me, more security!’ and Gary’s life has gotten crappier and crappier. So he has no reason whatsoever to believe a word that they say. So he has a liar on one side, and a bullshit artist on the other. Which one gives you more possibilities?”¹³

Roots of the worldwide crisis

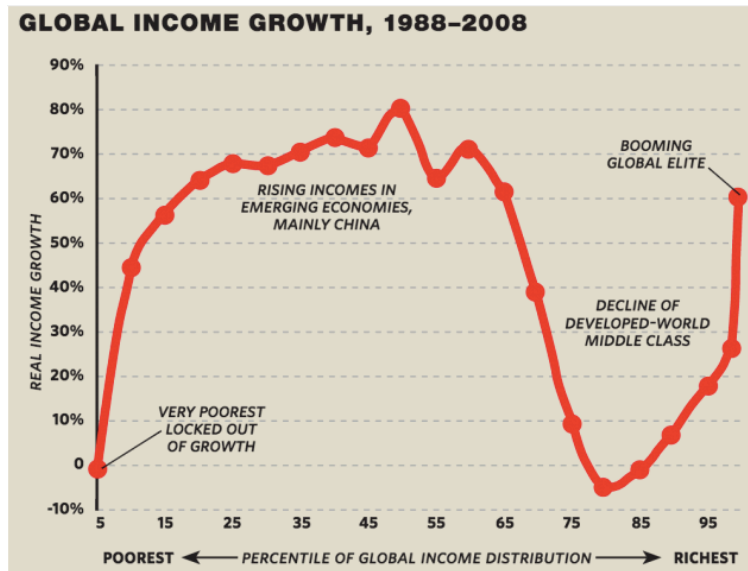
Contrary to Moyers and Blyth who focus on the crisis of globalization in the American economy, Branko Milanovic

¹² The Guardian, 12 September 2016.

¹³ Cited by Ben Gran in *Trump Is Not a Fluke: Why "Trumpism" Is a Global Phenomenon*, 31 January 2017, Paste Quarterly.

and François Bourguignon examine this crisis in its worldwide dimension.

Milanovic shows that the gains from globalization have not been shared equally. He illustrates this using the following graph, which has been coined the elephant curve:¹⁴



The elephant curve first ranks everyone in the world according to his or her real income in 1988. Those on the left of the horizontal axis have the lowest incomes and those on the right have the highest. Then on the vertical axis it records the percentage increase in real income of the various categories – from the poorest to the richest – over a period of 20 years, more precisely from 1988 to 2008.

While the very poorest in the world have literally been locked out of growth (a zero percentage increase) since 1988, the real income of many of the world's poor - mainly those living in emerging economies such as China and India

¹⁴ Global Inequality: A New Approach for the Age of Globalization, By Branko Milanovic, Belknap Press of Harvard University Press, 2016.

- has risen sharply (some 60, some 70 and some even 80 percent!) in that 20 year period. This has also been the case for the very richest, referred to on the graph as the booming global elite. Their real income rose sharply (a 60 percent increase!).

The big losers, however, are those forming the middle class in the rich countries; that segment of the curve that shows a big dip. Most in that group actually experienced a stagnating real income, and some even a 5 percent drop! These are the people whom Moyers referred to above when he described the rapidly diminishing middle class in the United States, a phenomenon one also finds in many other wealthy countries such as the United Kingdom, Spain, Italy, France and Japan.

François Bourguignon¹⁵ first points out a very positive impact of globalization: while the global income gap *between* nations increased from 1820 to 1980 it actually started decreasing after the 1990s, this mainly because of emerging economies such as China, India and Brazil, which have lifted hundreds of millions out of poverty: “In 1820 the 10 percent richest countries had a standard of living 20 times higher than that of the poorest countries, and by 1980 it was 60 times higher. However, after the 1990s the income gap between nations has been decreasing.”

Bourguignon then points out two negative impacts of globalization.

First, inequality *within* countries, after decreasing for a long period in the 20th century, has been constantly rising after the 1990s with the advent of globalization. Rising inequality has been spectacular in the United States and has even

¹⁵ This information was drawn from Danny Darling’s book review of François Bourguignon’s *The Globalization of Inequality*, Princeton University Press, 2015, posted on 7 May 2015 and from *La Mondialisation de l’inégalité*, Philippe Arnaud’s book review of the French original version of the same book, in *Le Monde*, posted on 11 September 2012.

skyrocketed in “relatively equitable France”. And the same is true of China. There “the Gini coefficient of wealth inequality rose by almost 10 percentage points between 1995 and 2002”.

Second, if we compare the richest 15 nations to the poorest 15 nations, inequality has literally exploded: “the increase in GDP between 1990 and 2008 of the very richest was 10 times greater than that enjoyed by the very poorest”.

In their February 2017 paper *Global Inequality Dynamics: New Findings From Wid.World* Thomas Piketty et alia discuss income inequality in the United States, China, and France (a country they find broadly representative of Western Europe). Thanks to their improved methodological approach they find that income inequality in China is greater than they had previously estimated using mere survey data. “We find a corrected top 1% income share of around 13% of total income in 2015, vs. 6.5% in survey data. We stress that our estimates should likely be viewed as lower bounds, due to tax evasion and other limitations of tax data and national accounts in China (...) China had very low inequality levels in the late 1970s, but it is now approaching the U.S., where income concentration remains the highest among the countries shown. In particular, we observe a complete collapse of the bottom 50% income share in the U.S. between 1978 and 2015, from 20% to 12% of total income, while the top 1% income share rose from 11% to 20%. In contrast, and in spite of a similar qualitative trend, the bottom 50% share remains higher than the top 1% share in 2015 in China, and even more so in France.”¹⁶

In 2014 Oxfam¹⁷ paints the following shocking picture of the impact of globalization:

¹⁶ To consult the full findings of Wid.World: *World Wealth & Income Database*.

¹⁷ *Working for the Few: Political Capture and Economic Inequality*, 2014.

- *-Almost half of the world's wealth is now owned by just one percent of the population.*
- *-The wealth of the one percent richest people in the world amounts to \$110 trillion. That's 65 times the total wealth of the bottom half of the world's population.*
- *-The bottom half of the world's population owns the same as the richest 85 people in the world.*
- *-Seven out of ten people live in countries where economic inequality has increased in the last 30 years.*
- *-The richest one percent increased their share of income in 24 out of 26 countries for which we have data between 1980 and 2012.*

Just three years later, in January 2017, Oxfam publishes its latest findings: now one learns that “just 8 super-rich men hold the same amount of wealth as the poorest half of the world's population”.¹⁸ In 2014 it was, as seen above, 85 people!

CBC reports on 5 July 2017 that famine has been increasing in the last two years. Millions are presently on the brink of starvation in the world, asserts Oxfam:

“East Africa, Yemen and north-east Nigeria are in the grip of an unprecedented and devastating food crisis. Famine is already likely happening in parts of northern Nigeria, while Yemen and Somalia are on the brink. Thanks to aid efforts, it has been pushed back in South Sudan but the food crisis continues to spread across the country.

“Across these regions, about 30 million people are experiencing alarming hunger, surviving only on what they can find to eat. According to UNICEF, 27 million people lack safe water, increasing the threat of cholera and

¹⁸ These 8 Men Have As Much Money As Half The World, Huffington Post, 15 January 2017.

spreading other water-borne diseases such as diarrhea. Malnutrition is having a disastrous impact and as ever, children are among the worst affected.

“Persistent drought has caused crops to fail and cattle to die in parts of Ethiopia, Somalia and Kenya – causing severe food and water shortages. Brutal conflicts in South Sudan, Yemen and Nigeria have driven millions of people from their homes and left millions more in need of emergency food.

“East Africa, Yemen and north-east Nigeria are in the grip of an unprecedented and devastating food crisis. Famine is already likely happening in parts of northern Nigeria, while Yemen and Somalia are on the brink. Thanks to aid efforts, it has been pushed back in South Sudan but the food crisis continues to spread across the country. Across these regions, about 30 million people are experiencing alarming hunger, surviving only on what they can find to eat. According to UNICEF, 27 million people lack safe water, increasing the threat of cholera and spreading other water-borne diseases such as diarrhoea. Malnutrition is having a disastrous impact and as ever, children are among the worst affected. Persistent drought has caused crops to fail and cattle to die in parts of Ethiopia, Somalia and Kenya – causing severe food and water shortages. Brutal conflicts in South Sudan, Yemen and Nigeria have driven millions of people from their homes and left millions more in need of emergency food.”¹⁹

Anti-globalization Latin America also in crisis

Quite paradoxically, it is not only globalization and free market fundamentalism or neoliberalism that are in crisis in 2017. So is that part of the world on which the left and anti-

¹⁹ Famine and Hunger Crisis, Retrieved on 7 July 2017.

globalization militants had been placing considerable hope in the last decade: Latin America.

At the beginning of the 21st century many left and center left governments were elected in Latin America. Strongly influenced by massive anti-neoliberal mobilizations and the charismatic leadership of oil-rich Venezuela's Hugo Chavez, these governments took radical redistributive measures to reduce income inequality and poverty. Based on sharply rising commodity prices – oil, gas, tin, lead, copper, soya – and on taking back partial control of their extractive industries from those very multinationals that epitomized globalization, these redistributive measures produced remarkable results:

- Brazil's extreme poverty rate decreased by 65 percent in only ten years.
- Venezuela's extreme poverty rate decreased radically from 1999 to 2011: from 15.6 percent to 7 percent.
- Ecuador's poverty rates decreased by 32 percent during Rafael Correa's government.
- Argentina's urban poverty was 54.7 percent in 2003; in 2011 it was only 6.5 percent.
- Bolivia's extreme poverty rate was 38 percent in 2005 and 21.6 percent in 2012.²⁰

However, with the drastic fall in the price of raw materials following the 2008 global crisis, the situation in Latin America has changed significantly. Several countries have seen their growth slow down considerably and a few, for

²⁰ This information on poverty reduction in Latin America was drawn from Naomi Klein's *This Changes Everything: Capitalism vs. the Climate*, 2014, Alfred A. Knoff Canada, chapter 5.

example Brazil, Ecuador and especially Venezuela, have even registered sharp contractions.

It is in this context that progressive governments started losing power to conservative ones. Cristina Kirchner lost the elections in Argentina in December 2015 and was replaced by the conservative Mauricio Macri; Dilma Rousseff was impeached in Brazil in August 2016 and replaced by the conservative Michel Temer; and Venezuela's Nicolas Maduro, after his United Socialist Party lost control of the Assembly in December 2015, is presently struggling to stay in power.

According to those on the right, this rapidly shifting political landscape in Latin America basically originates from growing popular grassroots discontent. And more precisely from ill-founded and incompetent economic policies combined with corruption. While they do acknowledge the negative impact on Latin America of the recent drastic reduction in the price of raw materials, they see it as only part of the problem.

Very typical of this conservative interpretation is the following article published by the New York Times on 20 September 2016 and titled How Bad Off Is Oil-Rich Venezuela? It's Buying U.S. Oil:

“One oil rig was idle for weeks because a single piece of equipment was missing. Another was attacked by armed gangs who made off with all they could carry. Many oil workers say they are paid so little that they barely eat and have to keep watch over one another in case they faint while high up on the rigs. Venezuela's petroleum industry, whose vast revenues once fueled the country's Socialist-inspired revolution, underwriting everything from housing to education, is spiraling into disarray. (...)”

“The declining oil industry is perhaps the most urgent chapter of Venezuela's economic crisis. Oil accounts for

half of the Venezuelan government's revenues, what former President Hugo Chávez once called an "instrument of national development." The state oil company poured its profits, more than \$250 billion in all from 2001 to 2015, into the country's social programs, including food imports. But those profits have evaporated with mismanagement and the drop in global oil prices over the past two years. To add insult to injury, the Venezuelan government has been forced to turn to its nemesis, the United States, for help. (...)"

"The problems are just some of the reasons Venezuela's oil production has plummeted to 2.4 million barrels a day, down 350,000 barrels from a year ago. That is nearly a million barrels below what it was in 1998 when Mr. Chávez took power. Venezuela is racked by shortages of foods like corn and rice, which it once easily imported using the company's vast foreign currency revenues. Essential medicines like antibiotics have disappeared. The economy is set to contract by 10 percent by the end of the year and has already seen triple-digit inflation".²¹

Another typical rightist interpretation of events in Latin America is the 9 June 2016 article on Argentina in the Economist²²:

"During her eight years as Argentina's president, Cristina Fernández de Kirchner had a way of dealing with nasty facts: denying them. When annual inflation reached 27%, she said the number was wrong. "If it were as high as they say it is," she scoffed in September 2012, "the country would explode." But truth will out: by the time she left office last year, a 100-peso note—the most valuable—fetched just \$10, less than a third of its level when she took office."

²¹ By Nicholas Casey and Clifford Krauss.

²² The cost of truth.

However, when one turns to progressive sources, one obtains an altogether different picture of current events in Latin America.

For example in his blog²³ La tragedia brasilena (The Brazilian Tragedy) the Argentinean political scientist and sociologist Atilio Borón argues that the present crisis in Latin America flows not only from errors made by its progressive governments *but also and primarily* from interventions on the part of the right, interventions firmly supported by the United States. Upon learning about the impeachment of Dilma Rousseff in Brazil Borón commented:

“I am calling it an ill-defined white coup because, as our experience with these kinds of crimes in countries like Paraguay and Honduras have shown, that which invariably follows such overthrows is a brutal repression to eliminate from the face of earth any effort to rebuild democracy. The three pillars of the right – judges, parliamentarians and mass media – all of them corrupt to the bone, have triggered a pseudo-legal and blatantly illegal process in which democracy in Brazil, imperfect like in any democracy, was replaced by a plutocracy whose only goal is to reverse the changes initiated in 2002 by president Luiz Inacio Lula. (...)”

And clearly taking aim at the United States government, Borón continues:

“Who killed democracy in Chile in 1973, in Brazil in 1964, in Indonesia and the Dominican Republic in 1965, in Argentina in 1966 and 1976, in Uruguay in 1973, in the Belgian Congo in 1961, in Iran in 1953 and in Guatemala in 1954?”

²³ Posted 31 August 2016. (My translation from the Spanish)

Glenn Greenwald²⁴, the reporter who became internationally renowned by breaking the story of Edward Snowden, commented the March 2016 pending impeachment of Dilma Rousseff in the following manner:

“The multiple crises consuming Brazil are now garnering substantial Western media attention. That’s understandable given that Brazil is the world’s fifth most populous country and eighth-largest economy; its second-largest city, Rio de Janeiro, is the host of this year’s Summer Olympics. But much of this Western media coverage mimics the propaganda coming from Brazil’s homogenized, oligarch-owned, anti-democracy media outlets and, as such, is misleading, inaccurate, and incomplete, particularly when coming from those with little familiarity with the country. (...)”

“In reporting on Brazil, Western media outlets have most prominently focused on the increasingly large street protests demanding the impeachment of Rousseff. They have typically depicted those protests in idealized, cartoon terms of adoration: as an inspiring, mass populist uprising against a corrupt regime. Last night, NBC News’s Chuck Todd re-tweeted the Eurasia Group’s Ian Bremmer describing anti-Dilma protests as “The People vs. the President” — a manufactured theme consistent with what is being peddled by Brazil’s anti-government media outlets such as Globo. (...)”

“That narrative is, at best, a radical oversimplification of what is happening and, more often, crass propaganda designed to undermine a left-wing party long disliked by U.S. foreign policy elites. That depiction completely ignores the historical context of Brazil’s politics and, more importantly, several critical questions: Who is behind these

²⁴ *The Intercept*, 18 March 2016. With the collaboration of Andrew Fishman and David Miranda.

protests, how representative are the protesters of the Brazilian population, and what is their actual agenda? (...)”

“Corruption among Brazil’s political class — including the top levels of the PT — is real and substantial. But Brazil’s plutocrats, their media, and the upper and middle classes are glaringly exploiting this corruption scandal to achieve what they have failed for years to accomplish democratically: the removal of PT from power. (...)”

“To provide some perspective for how central the large corporate media has been in inciting these protests: Recall the key role Fox News played in promoting and encouraging attendance at the early Tea Party protests. Now imagine what those protests would have been if it had not been just Fox, but also ABC, NBC, CBS, Time magazine, the New York Times, and the Huffington Post also supporting and inciting the Tea Party rallies. That is what has been happening in Brazil: The largest outlets are owned and controlled by a tiny number of plutocratic families, virtually all of whom are vehement, class-based opponents of PT and whose media outlets have unified to fuel these protests. (...)”

“Put simply, this is a campaign to subvert Brazil’s democratic outcomes by monied factions that have long hated the results of democratic elections, deceitfully marching under an anti-corruption banner: quite similar to the 1964 coup. Indeed, much of the Brazilian right longs for restoration of the military dictatorship, and factions at these “anti-corruption” protests have been openly calling for the end of democracy.”

In a recent article – Les 10 victoires du president Maduro en 2016 (The Ten Victories of President Maduro in 2016) – Ignacio Ramonet, former editor-in-chief of Le Monde Diplomatique, notes several positive developments in Venezuela, developments that are generally totally ignored by mainstream media:

“Social investments in 2016 represented 71.4% of the national budget. This is a world record. No other country in the world has spent almost three quarters of its budget on social investment.”

“In terms of health, for example, the number of hospitals has increased by a factor of 3.5 since 1999. And the amount invested in a new human health model has increased ten-fold.”

“In the framework of Misión Barrio Adentro, whose objective is to provide healthcare to the sick in the poorest urban areas of the country, almost 800 million consultations were carried out and the lives of almost 1,400,000 people were saved. Medical schools have trained 27,000 doctors and another 30,000 are expected to graduate in 2017. Mission Barrio Adentro now fully covers eight states of Venezuela whereas the initial target was only to cover six.”

“Before the Bolivarian revolution, only 19 per cent of those of pensionable age were receiving a pension; the others often lived in poverty or depended entirely on their families. In 2016, 90% of those of pensionable age were receiving a pension, and this even if they had not been able to make social security contributions during the years that they worked. A record in South America.”

“Thanks to Misión Vivienda 359,000 social housing units were produced in 2016 (this compares to a developed country like France that only built 109,000 social housing units in 2015). To this must be added the 335,000 houses renovated thanks to Barrio Tricolor, which is part of Misión Barrio Nuevo. Barrio Tricolor was praised by the world-renowned architect Frank Gehry, creator of the Guggenheim Museum in Bilbao and the Louis Vuitton Museum in Paris; so much so, in fact, that he said he would like to contribute to it. We are talking about almost 700,000 social housing units in 2016. An unparalleled number in the world.”

“Since the beginning of his mandate in 2013, President Maduro has already handed over almost one and a half million housing units to poor families. A world record that is totally ignored by mainstream media, which constantly present the Bolivarian Revolution in a negative light. And a record that even Maduro’s friends sometimes fail to mention.”²⁵

Importance of critical thinking

With such wide-ranging opinions on the current crisis of globalization in the world, and even on the crisis of the anti-globalization movement in Latin America, it is not easy for the average person to make up her or his mind.

But what clearly stands out is that our world direly needs broad and ever more informed minds, a spirit of dialogue, critical thinking and mutual respect, and, above all, the courage to become involved, as citizens, both individually and collectively, for the common good.

One of the greatest paradoxes of today is that despite the Internet revolution, which provides us with instant access to oceans of information and the capacity to communicate with one another instantaneously on a worldwide basis, there seems to be ever-greater polarization. A revolution that should be broadening our minds and fostering mutual understanding seems to be doing the exact opposite. (This was a point stressed by former President Obama in his speech in Montreal, Canada, on 6 June 2017: <https://www.youtube.com/watch?v=2RxQIuA5Q3Y>). As we have just seen in our discussion of Latin America, the same events are seen in a very different, and often contradictory light, by different groups.

²⁵ Iniciativa Cuba socialista, 5 January 2017. (My translation from French)

Overcoming polarization by embarking in critical thinking is a challenge for those on either side of the political spectrum.

There are those on the right who are so entrenched in their opinion that they simply deny climate change science, regardless of the facts. For example the speakers at the Sixth International Conference of the Heartland Institute in June 2011 who presented policies to combat global warming as a mere attempt to attack “middle-class American capitalism” and to replace it with “socialism”.²⁶ Or for example Donald Trump who declared during the presidential race that global warming was merely an invention of the Chinese: “Obama's talking about all of this with the global warming and ... a lot of it's a hoax. It's a hoax. I mean, it's a moneymaking industry, okay? It's a hoax, a lot of it.”²⁷ And who, once elected, did not hesitate to choose the climate-change denier Scott Pruitt to lead that very tool that the federal government had given itself to address climate change – the Environmental Protection Agency²⁸ – and to make “a sweeping new executive order (...) to start demolishing a wide array of Obama-era policies on global warming — including emissions rules for power plants, limits on methane leaks, a moratorium on federal coal leasing, and the use of the social cost of carbon to guide government actions”.²⁹

But there are also those on the left who are so convinced that they have the correct revolutionary solution that they immediately call any person who dares voice criticism of

²⁶ This Changes Everything: Capitalism vs. The Climate, Chapter 1.

²⁷ Donald Trump: Why climate change is a HUGE hoax, Express, By Sean Martin, 21 September 2016.

²⁸ Donald Trump choosing climate-change denier to head Environmental Protection Agency, Global News, by Michael Biesecker and Sean Murphy, The Associated Press, 7 December 2016.

²⁹ Trump's big new executive order to tear up Obama's climate policies, explained, Vox, 28 March 2017.

them as an enemy. When I attended the World Social Forum held in Montreal in August 2016 I was very impressed by one of the speakers who came from Argentina. “The Latin American progressive leaders must stop categorizing anyone who dares voice criticism of them as enemies, rightists and conservatives. If they do not embrace tolerance, respect and open debate, their projects will invariably fail”, she declared with conviction and passion.

An example of such intolerance on the part of the left: Daniel Ortega, one of the key leaders of the impressive Sandinista Revolution of 1979, and who has recently been elected president of Nicaragua for a third consecutive term. This leader, once described by the late Hugo Chavez as one of the greatest revolutionaries of our times, and who received hundreds of millions of dollars in aid from Venezuela in recent years with which he has done many positive things to help the poor in his country, has recently granted the building of a canal in Nicaragua to Wang Jing, a Chinese telecommunications billionaire. Considered the biggest industrial project the world has ever known, this canal, which will dwarf Panama’s 77-kilometer canal, represents a major ecological threat according to environmentalists. Faced with growing indigenous and popular opposition, Ortega has not only repressed demonstrators but has also harassed scientists and academics. “In one instance, the government delivered a memorandum to the largest publicly funded university, the National Autonomous University of Nicaragua (UNAN)” stating “that discussion of the canal was strictly prohibited *within its walls or anywhere near campus*,” notes Lori Hanson.³⁰

One last example of a polarization that results in name-calling. In a fund-raiser on Friday 9 September 2016 Hillary

³⁰ Daniel Ortega and the Interoceanic Grand Canal, Lori Hanson, Briarpatch Magazine, 30 June 2015. Retrieved on 7 July 2017.

Clinton remarked, “You could put half of Trump’s supporters into what I call the basket of deplorables”.³¹ And a few days later the rock legend Bruce Springsteen described Donald Trump as a moron. “The republic is under siege by a moron, basically. Without overstating it, it’s a tragedy for our democracy.”³²

The purpose of this book

Understanding globalization and its pros and cons is not something that can be achieved effortlessly. It requires mastering some fundamentals in economics and history, a task that can take considerable time, discipline and effort. It means comparing and contrasting different, and sometimes conflicting schools of thought. In other words, having the courage to embark in authentic critical thinking.

Trying to avoid this can lead one to oversimplify and to adopt revolutionary sounding but basically empty slogans, be they on either side of the political spectrum, the left or the right.

As the class handout *Conflicting Views About Globalization* that I produced in 2003, when globalization was still in full swing, sheds light on recent events and is thus still very relevant in 2017, I will first reproduce it. Four of the basic schools of thought on globalization – ranging from the left to the right – are explained in this handout and their similarities and differences discussed.

One single source is analyzed for each school of thought:

- The very well known and influential book *Globalization and its Discontents* of Joseph Stiglitz

³¹ Hillary Clinton Calls Many Trump Backers ‘Deplorables,’ and G.O.P. Pounces, The New York Times, By Amy Chozick, 10 September 2016.

³² Bruce Springsteen calls Donald Trump a ‘moron’, The Guardian, 24 September 2016.

(2002)³³ represents the center, a school of thought that favors capitalism and globalization but not of the neoliberal or free market fundamentalist type.

- The brief *Globalization: Threat or Opportunity?* produced by the IMF staff on 12 April 2000³⁴ represents the right, a school of thought that tends to favor neoliberal capitalism and globalization.
- The book co-authored by James Petras and Henry Veltmeyer, *Globalization Unmasked* (2001)³⁵ represents the more radical left, a school of thought that is critical of both capitalism and globalization, be they neoliberal or not.
- The document published in April 2002 *Globalization and Development* by the Economic Commission for Latin America and the Caribbean (ECLAC)³⁶ represents the center, but a more diplomatic one than Stiglitz's, given that ECLAC is a United Nations organization.

Then, in *Understanding Backlash Against Globalization*, I will revisit globalization, focusing directly on its crisis in 2017, especially in the U.S.

First, I will discuss the meaning of globalization and point out its theoretical underpinnings, distinguishing between Adam Smith, its 18th century broad and distant intellectual father, and Milton Friedman, its more immediate and modern 20th century intellectual father.

Second, I will revisit Joseph Stiglitz, who, after describing globalization's discontents in developing countries, has more recently turned to describing its discontents in wealthy, developed countries, and in particular in the United States. More precisely, I will present a rigorous summary of

³³ W. W. Norton & Company, New York-London, 2002, 282 pp.

³⁴ <http://www.imf.org/>, consulted on July 16, 2003.

³⁵ Fernwood Publishing - Zed Books, 2001, 183 pp.

³⁶ Downloaded from the ECLAC website on July 14, 2003, 380 pp.

Stiglitz's recent book *Rewriting the Rules of the American Economy*, which describes the situation of the discontents in the United States and proposes a broad solution to address their discontent. The fact that there is a striking resemblance between Stiglitz's book and the policies presented by the Labor Party in England under the leadership of Jeremy Corbyn, policies that led to "the most sensational political upsets of our time" in the snap 8 June 2017 election, is discussed.

Third, I will point out the profound similarity between the analysis of Stiglitz and that of the Economic Commission for Latin America and the Caribbean (ECLAC) in its document produced in 2016, *Horizons 2030 Equality at the Centre of Sustainable Development*.

Fourth, I will show that the IMF, a staunch promoter of neoliberal globalization in the last forty years, has been moving closer to the viewpoint of both Stiglitz and ECLAC on inequality.

Fifth, I will revisit the crisis of anti-globalization governments in Latin America, presenting the views of three progressives – James Petras, François Houtart and William I. Robinson – on fundamental aspects of the roots of this crisis.

I will also criticize the analysis of *The Economist*, which argues that Chile is one of the Latin American countries that did not turn its back on globalization. More precisely, I will argue that the vast majority of the population of Chile is presently turning its back on neoliberal globalization thanks to a historical democratic awakening. An awakening to the long suffering resulting from the 1973 military coup d'État – torture, executions, and a 17-year dictatorship, but also an awakening to the suffering resulting from the imposition of the most privatized neoliberal economy in the world.

Finally, I will turn to Donald Trump's spectacular and unexpected election in the United States. I will present his electoral promises and what he is now trying to implement and compare and contrast this with what Joseph Stiglitz proposes in *Rewriting the Rules of the American Economy*.

Three more comments:

- Several readers may prefer to go directly to the second part of the book, *Understanding Backlash Against Globalization*, which was written in 2017 and focuses more on the crisis of globalization in the U.S., instead of continuing with the following part, *Conflicting Views on Globalization*, which was written in 2003 and focuses more on the crisis of globalization in developing countries, and in particular in Latin America. There is no problem in doing so. The only inconvenience that I see: the study of the past often helps one to have a deeper understanding of the present.
- This book includes hyperlinks to nearly all the references. Most are for books and articles, but several refer to pertinent videos. The latter are included because my long teaching experience has taught me that people often learn more from videos than they do from lectures, books and articles.
- Just as my 2003 class handout on globalization – *Conflicting Views on Globalization* – ended with review questions, I have also chosen to end this book with review questions, in the hope that these may be helpful to readers, especially teachers and students.

Conflicting Views on Globalization

Introduction

All countries are increasingly affected by globalization. Some view it as an unavoidable and irreversible evolution of the market and argue that it will lead to immense progress for everyone. Others regard it with hostility and believe that it is increasing inequality within and between nations, threatening employment and living standards and jeopardizing the environment.

In what follows, I shall present four different views on globalization. That of:

1. Joseph E. Stiglitz, who worked as chief economic advisor of former U.S. President Bill Clinton from 1993 to 1997 and as chief economist and senior vice president of the World Bank from 1997 to January 2000, two jobs which gave him first-hand information on the globalization process.
2. The International Monetary Fund (IMF), one of the world's most powerful multilateral institutions and a major force in the globalization agenda.
3. The Economic Commission for Latin America and the Caribbean (ECLAC), a well-respected United Nations research organization.
4. James Petras, a well-known American sociologist who teaches at the State University of New York, and his colleague Henry Veltmeyer, Professor of Sociology and International Development Studies at Saint Mary's University in Halifax and Adjunct Professor in Political Science at the Universidad Autónoma de Zacatecas in Mexico.

My interest in choosing these four views on globalization stems from the fact that those who hold them originate from very different schools of thought and backgrounds.

The IMF plays a key and very powerful role in the world economy and represents the neoliberal viewpoint.

Stiglitz worked for the U.S. government and for the World Bank but resigned from his work in the Bank because he disagreed with the economic policies imposed by the IMF on the developing nations. Nobel Prize winner in economics in 2001 for his work on the asymmetries of information, Stiglitz calls into question neoliberalism, or what he calls free market fundamentalism, and identifies more with Keynesian views in economics.

Petras and Veltmeyer have been working for decades with grass roots organizations and have been outspoken critics of capitalism. Prolific authors on Latin America and world development, they are clearly identified to the more radical left.

As a United Nations organization, ECLAC reflects, of necessity, a moderate or middle-of-the-road view on globalization. The fact that ECLAC as well as Petras and Veltmeyer examine globalization with a special emphasis on Latin America is important also, given the fact that the course for which this text was prepared focuses mainly on that region of the world.

The methodology that I will follow is the following. Each one of the four above-mentioned views on globalization, as explained above, will be presented using one single source for each school of thought. And I will also make a few commentaries — in italics for ease of recognition — in which I will attempt to identify the areas where the authors seem to agree and those where they appear to disagree.

Joseph E. Stiglitz - Globalization and its Discontents

As mentioned above, Stiglitz³⁷ first served, from 1993 to 1997, as chief economic advisor for former U.S. President Bill Clinton and then went on to work as chief economist and senior vice president of the World Bank. During his stay at the White House, he felt that the American economy was performing quite well and considered that the ideas he had set forth had worked. Upon arriving at the World Bank, he felt confident that he could also make a difference at the world level, primarily for the poorest nations of the world known as the developing countries:

“(...) I felt that the greatest challenges for an economist now lay in the growing problem of world poverty. What could we do about the 1.2 billion people around the world living on less than a dollar a day, or the 2.8 billion people living on less than \$2 a day—more than 45 percent of the world’s population? What could I do to bring to reality the dream of a world without poverty? How could I embark on the more modest dream of a world with less poverty? I saw my task as threefold: thinking through what strategies might be most effective in promoting growth and reducing poverty; working with governments in the developing countries to put these strategies in place; and doing everything I could within the developed countries to advance the interests and concerns of the developing world, whether it be pushing for opening up their markets or providing more effective assistance.” (p. 25)

But his concrete experience soon taught him that the task before him was a daunting one not only because of the great immensity and complexity of the problems facing the Third

³⁷ You may find it interesting to consult Stiglitz’s own website:
<http://www-1.gsb.columbia.edu/faculty/jstiglitz/press.cfm>.

World but also and primarily because of what he discovered in his own backyard:

“I knew the tasks were difficult, but I never dreamed that one of the major obstacles the developing countries faced was man-made, totally unnecessary, and lay right across the street—at my ‘sister’ institution, the IMF. (...) I had expected there would be an open debate about strategies—strategies that in so many areas seem to be failing the poor. In this, I was to be disappointed”. (p. 25)

Below are some of the key ideas which express Stiglitz’ disappointment with and scathing critique of the IMF:

1. Many of the economic policies being literally forced down the throats of Third World governments and former communist countries by the IMF are making their economies, and thus the lives of ordinary people, much worse, not better. Production, instead of increasing, is decreasing. Jobs, instead of being created, are disappearing. The IMF assures that such policies, like a bitter pill, can cause short-term negative effects, but that these are outweighed by the long-term benefits. But the facts show that this is generally not true.
2. Many economists who originate from Third World countries are very competent and knowledgeable about their countries, in many cases much more so than the staff at the World Bank and the IMF; yet the IMF considers these economists with arrogance and generally simply ignores their opinions. Because the IMF has considerable power, and the developing nations very little, it can impose on these nations a course of action, even if that means that the nations are sinking ever deeper into poverty.
3. The policies imposed by the IMF often make no economic sense, when viewed from the interests of the ordinary people in Third World countries. But they do

make sense when viewed in the context of the interests of the big corporations in Wall Street. In other words, the IMF seems to be acting in the interests of the world moneyed elite but to the detriment of the great majority of the people living in developing nations. This is not surprising as many of the key personnel of the IMF come from the financial community. And, having served in the IMF defending the interests of this community, they rapidly obtain well-paying jobs in this same financial community upon leaving the IMF (p. 207).

4. Free trade is being forced upon Third World countries by the IMF, which is accountable primarily to the richest countries, mainly the United States, with thoroughness and at a speed that is very harmful to their economies. Free trade, practiced with such brutality, is not helping poor countries, but making them sink like a boat full of holes. The fact that developing countries are being forced to open themselves up to imported products that threaten their own industries often has disastrous consequences, both socially and economically. Poor peasants are rapidly losing their jobs because they simply cannot compete with the goods being imported. As alternative new jobs are not being created, or not being created fast enough, and as no safety nets exist to protect these workers, they fall into extreme poverty and misery. Stiglitz recalls that in the last two presidential campaigns in the United States, the candidate Pat Buchanan exploited American workers' worries about job loss from trade liberalization (free trade). If Americans, in an economy with near full employment (less than 4% unemployment in 1999), a good unemployment insurance system, a safety net in the form of savings, and a variety of assistance to help workers move from one job to another, worry about the job losses resulting from free trade, then it should be easy to understand the plight of workers in poor developing countries, where people "live on the verge of subsistence,

often on \$2 a day or less, with no safety net in the form of savings, much less unemployment insurance, and in an economy with 20 percent or more unemployment” (p. 60).

Yet the wealthy industrialized countries, in whose interests the IMF imposes free trade onto developing nations, systematically practiced protectionism in the early phases of their own development. They built their economies by selectively protecting some of their firms until they were strong enough to compete with foreign companies. Furthermore and quite hypocritically, the wealthy countries presently continue practicing protectionism to block agricultural and textile products originating from developing nations. They heavily subsidize their own agriculture and impose tariffs on textile and agricultural products originating from the Third World.

Stiglitz cites the example of Bolivia where, under IMF pressure, trade barriers were brought down lower than they were in the United States. Bolivia also simultaneously accepted to cooperate with the United States to virtually eradicate the growth of coca, the basis of cocaine. However, the United States responded by keeping its markets tightly closed to “alternative agricultural products, like sugar that Bolivia’s farmers might have produced for export—had America’s markets been open to them” (p. 61).

The protestors during the World Trade Organization meeting held in Seattle pointed out, quite rightly, this hypocrisy. “Developing countries”, writes Stiglitz, “get especially angry over this sort of double standard because of the long history of hypocrisy and inequities. In the nineteenth century the Western powers—many of which had grown by implementing protectionist policies—had pushed unfair trade treaties. The most outrageous,

perhaps, followed the Opium Wars when the United Kingdom and France ganged up against a weak China, and together with Russia and the United States forced it, in the Treaty of Tientsin in 1858, not just to make trade and territorial concessions, ensuring it would export the goods the West wants at low prices, but to open its markets *to opium*, so that millions in China would become addicted. Today, the emerging markets are not forced open under the threat of the use of military might, but through economic power, through the threat of sanctions or the withholding of needed assistance in a time of crisis.” (p. 61-2)

5. The IMF often imposes on very weak developing countries rapid and untimely capital market liberalization—removing controls over the flow of money in and out of a country—, a liberalization that can only be harmful to their economies. “(...) European countries banned the free flow of capital until the seventies. Some might say it’s not fair to insist that developing countries with a barely functioning bank system risk opening their markets. But putting aside such notions of fairness, it’s bad economics; the influx of hot money into and out of the country that so frequently follows after capital market liberalization leaves havoc in its wake. Small developing countries are like small boats. Rapid capital market liberalization, in the manner pushed by the IMF, amounted to setting them off on a voyage on a rough sea, before the holes in their hulls have been repaired, before the captain has received training, before life vests have been put on board. Even in the best of circumstances, there was a high likelihood that they would be overturned when they were hit broadside by a big wave” (p. 17).
6. The World Bank and the IMF are extremely secretive organizations. They make decisions without dialogue,

and from a purely market fundamentalist, or neoliberal philosophy. The study of facts, of what really works and what doesn't, matters much less than the narrow, zealous, rapid and very dogmatic implementation of a course of action triggered by conservative ideology.

7. The IMF and the World Bank have moved away, starting in the early 1980s, from the traditional Keynesian policies that had guided them since their foundation in 1944. They now adopt a very ideological, neoliberal agenda and apply it ruthlessly in various countries, not respecting the specificities of each country. "The ideas and intentions behind the creation of the international economic institutions (he refers to the IMF, the World Bank, and GATT—the latter recently became the World Trade Organization) were good ones, yet they gradually evolved over the years to become something very different. The Keynesian orientation of the IMF, which emphasized market failures and the role for government in job creation, was replaced by the free market mantra of the 1980s, part of a new 'Washington Consensus'—a consensus between the IMF, the World Bank, and the U.S. Treasury about the 'right' policies for developing countries—that signaled a radically different approach to economic development and stabilization" (p.16)
8. The IMF does not acknowledge that development requires the transformation of society. For example, it advises countries facing severe budgetary constraints to charge school fees for primary and secondary education. It makes this recommendation because it argues that statistical studies show that small fees have little impact on school enrolment. Most developing countries follow this IMF advice and, as a result, fail to tackle one of the key factors of underdevelopment. Stiglitz gives the example of Uganda's President Museveni who, fortunately, disagreed with this IMF advice. Convinced

that one had to change the very culture that led people not to send their children to school, especially girls, Musveni completely abolished all school fees. As a result, enrolments soared. “As each family saw others sending all of their children to school, it too decided to send its girls to school (p. 76).³⁸

9. The IMF forces developing countries to privatize—that is to sell off state-owned enterprises to private interests—rapidly, even when this is harmful not only to their short term interests but also to their long term ones.
10. The IMF and World Bank economists are often narrow-minded and do not consider the social and political impact of their decisions. For example, they will force a developing nation, in order to reduce its fiscal deficit, to eliminate a subsidy that helped the poor. As a result the poor end up rioting and this destabilizes the entire country, decreases investment and output. End result: the government incurs an even greater deficit!
11. The IMF, backed by the U.S. Treasury, insists that the Central Bank of a country be completely independent of the government, and that it set as its priority the struggle against inflation. This, even though there is no empirical evidence showing that this course of action is better for the economy. Imposed on developing countries, this

³⁸ *School fees in Nicaragua*: Students in North South Studies (Dawson College, Montreal) who have lived in rural families in the Cinco Pinos region of Nicaragua have been able to see for themselves what small fees do to school enrolment in poverty-stricken areas. In the 1980s, the Sandinista government paid all the expenses of children attending primary and secondary school. In the 1990s, the neoliberal oriented governments, under pressure of the IMF, imposed small fees for children at school. As it costs—in books, pencils, etc.—about \$25 U.S. per year for children to attend high school and most families in the Cinco Pinos region make less than \$200 U.S. per year, many of these large families simply do not send their children to high school. To address this problem, which not only condemns children to a life of poverty but also weakens the entire Nicaraguan economy, North South Studies has been offering scholarships to help some of these children to attend high school.

policy has resulted in very high interest rates that have negatively affected economic growth.

Stiglitz recalls that when he was working as chief economic advisor of Bill Clinton, the IMF, in the regular reports that it publishes on every country in the world, argued that interest rates in the United States should be increased. This, even though the United States was experiencing the lowest inflation rate in decades. As the Clinton administration thought that it was more important to maintain low interest rates to foster job creation, it ignored the IMF advice. The result was that the United States experienced, in the 1990s, “a boom that brought unprecedented prosperity and enabled the country to turn around its massive fiscal deficit into a sizable surplus” (p. 48).

Stiglitz points out that the United States could ignore the IMF’s advice with impunity “because it was not dependent on the IMF or other donors for assistance, and we knew that the market would pay almost as little attention to it as we did. The market would not punish us for ignoring its advice or reward us for following it. But poor countries around the world are not so lucky. They ignore the Fund's advice only at their peril” (p. 49).

Commentary

The scathing critique of the IMF presented above by Stiglitz is not new. It can be found in much of the literature originating from the left, both moderate and radical. For example Susan George, who is often interviewed in the excellent CBC documentary series The Politics of Food and who has written several books and articles on the Third World in the last twenty years, has made many of the same observations. What is totally new is that this time the critique originates not from leftist intellectuals, developing countries solidarity organizations, unions, Church groups

and popular organizations, but straight from a renowned expert working in the heart of the establishment itself. As Eyal Press points out:

“Stiglitz is hardly the first person to accuse the IMF of operating undemocratically and exacerbating Third World poverty. But he is by far the most prominent, and his emergence as a critic marks an important shift in the intellectual landscape. Only a few years ago, it was possible for pundits to claim that no mainstream economist, certainly nobody of Stiglitz's stature, took the criticism of free trade and globalization seriously. Such claims are no longer credible, for Stiglitz is part of a small but growing group of economists, sociologists and political scientists, among them Dani Rodrik of Harvard and Robert Wade of the London School of Economics, who not only take the critics seriously but warn that ignoring their concerns could have dire consequences”.³⁹

To better understand Stiglitz' critique of the IMF, it is important to place it in the context of some of the concrete situations he experienced when he was working at the World Bank. Below, I will therefore present a few country case studies that he exposes in his book.

Ethiopia

One month after he became chief economist at the World Bank in 1997, Stiglitz traveled to Ethiopia. Ethiopia's per capita income then was \$110 US a year. The country had suffered from successive droughts and famines that had killed 2 million people. Meles Zenawi, a man who had led a seventeen-year guerrilla war against the bloody Marxist regime of Mengistu Haile Mariam, had won in 1991 and was working hard, as Prime Minister, rebuilding a war-torn

³⁹ Eyal Press, *Rebel With a Cause*, 2003, <http://www.thenation.com/doc.mhtml?i=20020610&s=press> article, Posted May 23, 2002, consulted on July 15, 2003.

country. Meles was a doctor by training but had also studied economics. In fact his knowledge in this last discipline was such that Stiglitz was very impressed. “I went to meet Prime Minister Meles Zenawi (...), he demonstrated a knowledge of economics—and indeed a creativity—that would have put him at the head of any of my university classes. He showed a deeper understanding of economic principles—and certainly a greater knowledge of the circumstances of his country—than many of the international economic bureaucrats that I had to deal with in the succeeding three years” (p. 26).

When Stiglitz arrived in Ethiopia, Meles was engaged in a heated dispute with the IMF that had just decided to suspend its lending program to Ethiopia. In the opinion of the IMF experts, the Ethiopian government was not managing its budget well. The government was planning to spend more than it was making through tax revenues. The IMF argued that it should limit its expenditures to these revenues, and suspended its aid package, thus depriving Ethiopia not only of the IMF loan, but also of substantial loans from its sister organization, the World Bank.

The governments of developing countries, especially of the poorest such as Ethiopia, typically draw a substantial portion of the money for their budget from international aid. This is the case, for example, in Nicaragua. Given the great needs of Ethiopia for schools and health clinics, Meles had decided to include, in his projected expenditures, not only the money originating from tax revenues but also the money from international aid. In his view, it was urgent to address the crying needs of the majority of his people using *all* the money flowing into government pockets, not just part of it. He was not planning to overspend, that is, to incur a government deficit. But the IMF, worrying that Ethiopia’s international aid might dry up and that this would lead to a deficit, decided to suspend its loan package.

Given that the Meles government was very honest, competent and committed to the poor; given that it had radically cut its military expenditures and developed an impressive rural development strategy, which made plenty of sense in a country where 85 percent of the population lives in the rural sector, Stiglitz could not understand the decision of the IMF. The Ethiopian government assured that in the eventuality where international aid would dry up, it would simply not build some of the schools or clinics. Yet the IMF was not satisfied. It contended that international assistance is too unstable to be relied upon.

Stiglitz was convinced that for many Third World countries, especially the weakest, tax revenues are a less stable and reliable source of money than international aid. He felt that the IMF was wrong and the Meles government was right. So when he returned to Washington, he asked his staff to check the statistics, and they found that indeed aid money is empirically a more stable source of revenue than tax revenues for a country like Ethiopia.

The IMF had a second bone to pick with Ethiopia: the fact that without asking permission from the IMF, it had used part of its reserves to pay back a loan to an American bank. The loan had been made to purchase a plane and the Meles government felt that it made sense to pay it back earlier because the interest it had to pay on it was greater than the interest it was receiving for its reserves. Stiglitz agreed that this made perfect economic sense, as the government was thus saving money. Furthermore, should Ethiopia suddenly need more reserves, it could simply use the plane as collateral to obtain another loan. Stiglitz also felt that as a sovereign country, Ethiopia should be left free to act on its own, especially when its behavior was guided by such sound economic principles. However the IMF did not see it this way and accused Ethiopia of mismanaging its economy.

Finally, the IMF was also upset by the fact that Ethiopia was refusing to liberalize its capital market. While Stiglitz agrees that good capital markets are a hallmark of capitalism, he strongly felt that once again, the Meles government was right and the IMF wrong. Measured by the size of its assets, Ethiopia's entire banking system was smaller than that of Bethesda, Maryland, a small American suburb of about 55,000 citizens. Yet the IMF "wanted Ethiopia not only to open up its financial markets to Western competition but also to divide its largest bank into several pieces. In a world in which U.S. mega financial institutions like Citibank and Travelers, or Manufacturers Hanover and Chemical say they have to merge to compete effectively, a bank the size of North East Bethesda National Bank really has no way to compete against a global giant like Citibank. When global financial institutions enter a country, they can squelch the domestic competition. And as they attract depositors away from the local banks in a country like Ethiopia, they may be far more attentive and generous when it comes to making loans to large multinational corporations than they will to providing credit to small businesses and farmers." (p. 31)

Furthermore, on the grounds that this would lead to more funds available and to lower interest rates, the IMF wanted Ethiopia to "liberalize" its financial market, that is allow interest rates to be freely determined by market forces. Again on this issue, the Meles government disagreed and again Stiglitz believed that the IMF was dead wrong and Ethiopia right. Ethiopia had just seen one of its East African neighbors, Kenya, follow the IMF's advice on this matter and the former; the results had been disastrous. The number of local and indigenous banks had rapidly soared but fourteen of them had gone bankrupt within a period of two years, and interest rates in Kenya had increased, not decreased. Ethiopia did not want to be caught in a similar situation, one where most of its farmers would suddenly be

deprived of credit and thus be unable to buy seed or fertilizer. Wracked by droughts that result in massive starvation, Ethiopia did not want to see the income of its farmers fall.

Unhappy about the fact that Ethiopia would not heed its advice in the three above matters, the IMF decided to suspend its loans. But fortunately, Stiglitz and other economists at the World Bank were able to persuade their management that lending more money to Ethiopia made sense and, as a result, World Bank lending tripled. In the following months, Stiglitz and some of his colleagues also mounted a campaign in which they lobbied those working in the IMF to reverse its decision to suspend loans to Ethiopia. In fact, Stiglitz even used, to this end, the influence he had with the Clinton administration. As a result, the IMF reinstated, several months later, its loans to Ethiopia.

This first major entanglement with the IMF taught Stiglitz a lot about how this institution works. Even though there was substantial empirical evidence that the IMF was wrong in its heated debate with the government of Ethiopia, it just had to have its way. “It seemingly would not listen to others, no matter how well informed, no matter how disinterested. Matters of substance became subsidiary to matters of process. (...)—the IMF left itself open to suspicions that power politics, special interests, or other hidden reasons not related to the IMF’s mandate and stated objectives were influencing its institutional policies and conduct” (p. 33-4)

The East Asian Crisis

From the 1970s to the 1990s, the countries in East Asia—Singapore, South Korea, Taiwan, Thailand, Malaysia and Indonesia—experienced impressive growth rates. As Keith A. Bezanson points out, beginning ... “in 1780, it took the United Kingdom 58 years to double per capita output. Starting in 1839, the United States accomplished this in 47

years. Starting in 1880, Japan took only 34 years. But then Korea achieved the same doubling in 11 years. Thailand and Malaysia were on their way to achieving this in less than 10 years (...) In addition, over the 1990s, East and Southeast Asia accounted for a quarter of world output but half of world growth and almost two thirds of world capital spending. In social terms, the miracle was perhaps even more impressive, whether measured in education, health, housing or income distribution. Without any reasonable doubt, East Asia was a development miracle and the most impressive example of rapid progress and escape from poverty that has ever been witnessed.”⁴⁰

However, this economic miracle literally collapsed starting in 1997. Thailand’s GDP fell by 7.9 percent in 1997, 12.3 percent in 1998, and 7 percent in the first half of 1999. In 1998, GDP fell by 13.1 percent in Indonesia and by 6.7 percent in South Korea. In all of East Asia, output plummeted, banks closed and unemployment soared. The unemployment rate increased by 300 percent in Thailand, by 400 percent in South Korea, and by 1000 percent in Indonesia. Urban poverty almost tripled in South Korea while national poverty in Indonesia doubled.

Stiglitz notes that when the East Asian miracle was in full swing, the “IMF and the World Bank had almost consciously avoided studying the region, though presumably, because of its success, it would have seemed natural for them to turn to it for lessons for others” (p. 91). And he attributes this neglect to the fact that East Asia was successful precisely *because* it was not following the economic policies being recommended by these two multilateral organizations.

⁴⁰ *What Happened in East Asia and What Are its Meanings for Development?*
Institute of Development Studies, University of Sussex,
<http://www.ids.ac.uk/ids/global/conf/pdfs/kbeas.pdf>. This quote is mine, not that of Stiglitz. I consulted this source on July 21, 2003.

While the IMF and the World Bank obliged developing countries to follow the dictates of what is known as the “Washington Consensus”—minimal role for government, privatization, rapid free trade and radical financial and capital market liberalization, little attention to income inequality—East Asia had been, and with remarkable success, doing just the opposite. A long time observer of the East Asian economies—he had directed a study on these economies several years earlier—Stiglitz had been very impressed by what he had discovered:

- Governments in East Asia had been playing a major role in the economy, implementing industrial policies and setting a clear path for economic growth.
- Instead of privatizing, governments had been creating enterprises, both nationally and locally.
- Instead of practicing free trade outright, governments started by actively promoting exports, while maintaining barriers on imports; these barriers were only relaxed gradually as the national companies were strong enough to withstand the competition.
- Financial and capital markets were regulated by governments and only liberalized slowly, not rapidly as recommended by the IMF and the World Bank.
- In view of closing the income gap between themselves and the more developed countries, East Asian governments addressed the knowledge and technology gap by investing in education.
- Finally, governments addressed the problem of inequality of income by actively fighting to reduce poverty, conscious that a more egalitarian income

distribution strengthens social cohesion, a very important factor in economic growth.

Not only did the IMF tend to ignore the East Asian economic miracle, but also, according to Stiglitz, it actually contributed to its eventual crisis. At the outset of the East Asian crisis in September 1997, he attended, as chief economist for the World Bank, the annual meeting of the IMF and World Bank that was held in Hong Kong. There, he met with the ministers of the Southeast Asian countries. They were very concerned about what was happening. They knew what was causing the crisis of their economies. Too much hot, speculative money had been coming into their economies following their recent adoption, under IMF pressure, of capital market liberalization. As this money was being rapidly pulled out in view of fast speculative profits, it was making their exchange rates plummet and wreaking havoc with their economy. And they also knew what to do to address this crisis. To prevent the rapid outflow of this money, they had to place controls on the flow of money out of their countries, and maintain, by all means, low interest rates to prevent the chainlike bankruptcies of their firms.

However, they were in a bind because they were painfully aware of the fact that the IMF would use its considerable power and influence to prevent them from adopting this course of action and would insist on having its way. And this, at the end of the day, is precisely what happened. The IMF forced the East Asian economies not to impose any restrictions on the flow of money out of their countries. Instead, they put together an immense bailout package of \$95 billion so that they could sustain the exchange rate of their currencies. But this package came with conditions: they forced them to increase interest rates very substantially, to reduce government spending and increase taxes, and to restructure their economy along the lines of the Washington

Consensus. In essence, they forced them, argues Stiglitz, “to give up a large part of their economic sovereignty” (96).

In order to understand what happened as a result of these “structural adjustments programs”, one must examine in what way speculators, by moving large sums of money in and out of a country, can make rapid private profits while creating immense damage to an economy. Stiglitz takes the example of Thailand. If speculators believe that the currency of Thailand, the baht, will fall in value, they can convert the money they have in baht into dollars. Once the baht does fall in value, they can simply reconvert their dollars into bahts and make a substantial profit. In fact, speculators, by moving rapidly and massively out of the baht into dollars, can actually cause the plummeting of the baht, so that they can make their own prophecy materialize, and get rich thereby. Stiglitz takes a concrete example to illustrate:

“Assume a speculator goes to a Thai bank, borrows 24 billion baht, which, at the original exchange rate, can be converted into \$1 billion. A week later the exchange rate falls; instead of there being 24 baht to the dollar, there are now 40 baht to the dollar. He takes \$600 million dollars, converting it back to baht, getting 24 billion baht to repay the loan. The remaining \$400 million is his profit—a tidy return for one week’s work, and the investment of little of his own money. Confident that the exchange rate would not appreciate (that is, go from 24 baht to the dollar to, say, 20 to the dollar), there was hardly any risk; at worst, if the exchange rate remained unchanged, he would lose one week’s interest.”

According to Stiglitz, the IMF bailout package did not, in the end, achieve its purpose: maintaining the exchange rate of the baht. Instead, it had two very negative, but predictable, results. On the one hand, it allowed the governments of East Asia to provide the firms operating in

their countries and which had obtained loans from Western banks, to pay back these loans. In other words, the IMF bailout package served to protect the interests of the Western banks that had imprudently over lent to East Asia. Thus, Western Banks did not have to face the consequences of having made bad loans. On the other hand, it allowed rich people inside the East Asian economies to take advantage of a currency artificially supported by the IMF aid package and to whisk their money abroad, before the currency plummeted. This is called capital flight.

Furthermore, the structural adjustments imposed on the East Asian economies—cuts in government spending, high interest rates, higher taxes, etc.—made these economies nosedive into ever bigger problems. Demand decreased substantially, firms went bankrupt in a chain reaction and unemployment and poverty, as noted above, soared.

Following the end of the cold war, capitalism, under the leadership of the United States, felt triumphant. Investors saw the newly emerging markets—East Asia, Latin America, Russia and India—as a paradise of high returns and apparently low risk. Thus from 1990 to 1997, “capital flows from the developed to the less developed countries increased sevenfold while public flows (foreign aid) stayed steady” (p. 99). Even though the countries in East Asia had very a high savings rate, and thus did not need additional capital, “capital account liberalization was pushed on these countries in the late eighties and early nineties” by the IMF and the U.S. Treasury. Stiglitz comes to the conclusion that the liberalization of capital markets “was *the single most important factor leading to the (East Asian) crisis*” (p. 99). So, not only did the IMF, in Stiglitz’ opinion, grossly mismanage the East Asian crisis when it occurred, but it had also to a considerable extent even *caused* it.

Ironically, at the very moment that the East Asian crisis was breaking out because of excessive capital liberalization,

IMF officials were so sure about their course of action that they were asking for a change in the charter of the IMF so that their organization could put “more pressure on developing countries to liberalize their capital markets” (p. 93).

Stiglitz mentions that many believe that the East Asian crisis was created by the Western powers as a deliberate attempt to weaken East Asia, or at least to increase the incomes of those on Wall Street and the other money centres. He does not share this view; he thinks that the behavior of the IMF merely reflects the interests and ideology of the Western financial community. However, he readily admits that the facts do lend themselves to such an interpretation:

“The IMF first told countries in Asia to open up their markets to hot short-term capital. The countries did it and money flooded in, but just as suddenly flowed out. The IMF then said interest rates should be raised and there should be a fiscal contraction, and a deep recession was induced. As asset prices plummeted, the IMF urged affected countries to sell their assets even at bargain basement prices. It said the companies needed solid foreign management (conveniently ignoring that these companies had a most enviable record of growth over the preceding decades, hard to reconcile with bad management) and that this would only happen if the companies were sold to foreigners—not just managed by them. The sales were handled by the same foreign financial institutions that had pulled out their capital, precipitating the crisis. These banks then got large commissions from their work selling the troubled companies or splitting them up, just as they had got large commissions when they had originally guided the money into the countries in the first place” (p. 129-130).

Russia

When the Soviet Union turned away from communism in 1989 and decided to adopt Western style democracy and a market economy, “one of the most important economic transitions of all times began”. But in Russia, argues Stiglitz, the transition “has fallen far short of what the advocates of the market economy had promised, or hoped for. For the majority of those living in the former Soviet Union, economic life under capitalism has been even worse than the old Communist leaders had said it would be. Prospects for the future are bleak. The middle class has been devastated, a system of crony and mafia capitalism has been created, and the one achievement, the creation of a democracy with meaningful freedoms, including a free press, appears fragile at best, particularly as formerly independent TV stations are shut down one by one” (p. 133).

Those in Russia must take much of the blame for what happened, acknowledges Stiglitz. Nevertheless, “the Western advisers, especially from the United States and the IMF, who marched in so quickly to preach the gospel of the market economy, must also take some of the blame” (p. 134).

Stiglitz, whose advice the Chinese government sought from time to time, compares the transition that occurred in China, starting in the 1970s, with that of the Soviet Union.

The transition in China was gradual but gave rise to impressive, double digit growth rates. When the Chinese government opened up the economy to market forces it did so in a gradual manner, taking care to assure that new jobs were being created as old ones were eliminated, taking care to create the institutions necessary to support market-oriented reforms, privatizing only very slowly and methodically.

The transition in the Soviet Union followed the shock therapy method recommended by the U.S. Treasury and the IMF and resulted in dramatic drops in output. State-owned firms were sold off rapidly and in a disorderly fashion; not surprisingly, those who held political power and their friends filled up their pockets with the assets of these firms sold at rock bottom prices, or simply taken through corrupt means. Prices were freed, but not some of the most important ones—those of natural resources such as oil. This was an open invitation for those who were able to put their hands on oil to become filthy rich, nearly overnight, by selling oil on the international market at the higher world price. Furthermore, as the government had not taken care to create an effective tax system, the newly created class of oligarchs and businessmen, who eventually owned nearly 50 percent of the country's assets, were paying but a fraction of the taxes they owed. The government did not make a real effort to create, in Russia, a legal framework guaranteeing that real competition exists between firms. In a country endowed with an abundance of natural resources, the government was too poor to provide pensions for its elderly or welfare payments for the poor and was borrowing billions from the IMF. As the IMF had encouraged the Russian government to liberalize its capital market, people were free to move money in and out of the country. When the Russian economy went from bad to worse, the moneyed elite simply moved its newly acquired fortune out of the country to safer places in the West.

Ordinary citizens in Russia paid the price. From 1990 to 1999, Russian industrial production fell by almost 60 percent, and GDP fell by 54 percent, a devastation greater than that suffered by Russia in World War II. And while the size of the national economic pie was shrinking rapidly, it was being shared more and more inequitably. Thus the average Russian was falling into poverty. While only 2 percent of Russians were living in poverty in 1989, that

number had soared to 23 percent by late 1998, using the \$2 a day standard. According to a survey conducted by the World Bank, more than 40 percent of Russians were making less than \$4 a day. More than 50 percent of the children were living in families in poverty (p. 153).

“(…) China's success over the past decade stands in marked contrast to Russia's failure. While China grew at an average rate of over 10 percent in the 1990s, Russia declined at an average annual rate of 5.6 percent. By the end of the decade, real incomes (so-called purchasing power) in China were comparable to those in Russia. Whereas China's transition has entailed the largest reduction in poverty in history in such a short time span (from 358 million in 1990 to 208 million in 1997, using China's admittedly lower poverty standard of \$1 a day), Russia's transition has entailed one of the largest increases in poverty in history in such a short span of time (outside of war and famine)” (p. 181-2).⁴¹

The reason for which the IMF did not bother studying the very successful Chinese transition to the market stems essentially, according to Stiglitz, from its narrow-minded free market fundamentalism (neoliberalism). It is for this same reason that in advising Russia on its transition the IMF radical reformers “studiously ignored the advice of Russian scholars, whether they were experts in its history, (...), or society, (...): they believed that the *market revolution* which was about to occur made all of the knowledge available from these other disciplines irrelevant. What the market

⁴¹ *Conservative Economists vs. Political Economists*: When one studies the history of economic theory, one discovers that one of the biggest differences between conservative and progressive economists lies in this: conservatives consider that economics stands on its own two feet as a discipline and is not closely interrelated with, nor need the insights of other social science disciplines such as history, political science and sociology; progressives, however, believe that understanding economic issues of necessity requires a holistic approach. For this reason the latter are often called political economists. Stiglitz, obviously closer to the political economy school of thought, demonstrates the damage that the narrow-minded conservative economic theory inflicted on Russia.

fundamentalists preached was textbook economics—an oversimplified version of market economics which paid scant attention to the dynamics of change” (p. 138).

Rebel Without a Cause

By Eyal Press, in *The Nation*, posted May 23, 2002⁴²

“Joseph Stiglitz is—as usual—running late. It is nearing 2:30 pm on a sunny afternoon in New York City and Stiglitz, an economist at Columbia University, is standing on the corner of 103rd Street and West End Avenue trying desperately to hail a cab. He needs to get across town to the Guggenheim Museum, where in five minutes he is scheduled to deliver an address on the state of the global economy in the aftermath of September 11. Stiglitz has not prepared a speech—half an hour earlier, as we were talking over lunch, he had completely forgotten the event was today—but that is the least of his worries. For Stiglitz, getting to appointments on time is a challenge; finding something provocative to say once he gets there is not.

“Over the past several years, Stiglitz, a celebrated theorist who was awarded the 2001 Nobel Prize in economics for his work on asymmetric information, has grown accustomed to being at the center of controversy. From 1997 to 2000, he served as senior vice president and chief economist at the World Bank—a title that did not stop him from publicly criticizing the bank's sister institution, the International Monetary Fund. In a series of speeches and articles that culminated in a scathing April 2000 essay in *The New Republic*, Stiglitz blasted the IMF for being every bit as secretive, undemocratic and indifferent to the poor as its critics claimed. Stiglitz's outspokenness, unprecedented for a high-ranking insider, infuriated top officials at the IMF

⁴² Retrieved on 15 July 2003: <https://www.thenation.com/article/rebel-cause/>

and U.S. Treasury Department, and eventually led James Wolfensohn, the World Bank's president, to inform him that he would have to mute his criticism or resign. Stiglitz chose to leave.

“He has not, however, quieted down. Since trading in his job at the World Bank for a chair at Columbia, Stiglitz has stepped up his crusade to reshape the popular debate about globalization. At Columbia, he has launched an organization, the Initiative for Policy Dialogue, designed to furnish developing nations with alternative views on everything from trade policy to financial reform. His lectures on campus draw overflow audiences, and being purged from the World Bank seems only to have enhanced his mystique in the developing world. He is an adviser to several developing countries, including Serbia and Bulgaria, and he meets informally with the leaders of many more, often dispensing advice that puts him at odds with the IMF. He was recently flown down to Mexico at the invitation of that country's Foreign Ministry; afterward, he went to Ecuador to meet with leaders of that nation's central bank.

“Stiglitz, 58, is hardly the first person to accuse the IMF of operating undemocratically and exacerbating Third World poverty. But he is by far the most prominent, and his emergence as a critic marks an important shift in the intellectual landscape. Only a few years ago, it was possible for pundits to claim that no mainstream economist, certainly nobody of Stiglitz's stature, took the criticism of free trade and globalization seriously. Such claims are no longer credible, for Stiglitz is part of a small but growing group of economists, sociologists and political scientists, among them Dani Rodrik of Harvard and Robert Wade of the London School of Economics, who not only take the critics seriously but warn that ignoring their concerns could have dire consequences. In his new book, *Globalization and Its Discontents* (Norton), Stiglitz argues that many of the

complaints voiced by protesters in recent years—that IMF structural adjustment programs have caused widespread suffering; that free-trade agreements mainly benefit the rich; that privatization has proved disastrous in many countries—have a solid basis in fact. Unless the rules of global capitalism are radically altered, he warns, the gap between the world's rich and poor, and hence the social conditions that have fueled instability in places like Pakistan, will not go away anytime soon.

“How did an economist who until recently enjoyed the trust of the world's most powerful financial authorities come to sympathize with their most ardent critics? Stiglitz's break with the World Bank has earned him a reputation in the business press and among policy elites as an *enfant terrible* inclined to stir up trouble wherever he goes. His academic peers, however, describe him in markedly different terms. “There is something innocently nice about Joe,” says Jagdish Bhagwati, one of his colleagues in the economics department at Columbia. “He's a big puppy dog,” says Barry Nalebuff, an economist at Yale who has written papers with him.

“In person, Stiglitz indeed comes across as good-natured and agreeable. When we first met, he invited me to his house for dinner. When he spoke about his experiences at the World Bank, his voice betrayed not a trace of bitterness. With his scruffy gray beard and frequently disheveled appearance—he is famous for walking around shoeless, and has trouble keeping his shirt tucked in—Stiglitz looks like the typical absent-minded professor. He also acts like one. Most of our interviews began at least an hour later than originally scheduled, a pattern that Stiglitz appeared to take in stride, as though this were an inevitable part of being Joseph Stiglitz.

“And yet beneath the mellow exterior lies a fiercely independent, and at times disputatious, thinker. As far back

as high school, when he was a star on the debating team, Stiglitz displayed a taste for intellectual combat, and an occasionally acid tongue. Asked once what developing countries should do with the annual reports the IMF prepares on member nations, Stiglitz recommended '*picking it up, saying 'thank you very much' and dropping it straight in the garbage can.*'"

IMF's Brief – Globalization: Threat or Opportunity?

As we have seen in the first part of this book, Joseph E. Stiglitz, while chief economist and senior vice president of the World Bank, became increasingly critical of the IMF's role in the process of globalization. As he not only voiced his criticism internally but also made his views public, his boss, the president of the World Bank, eventually asked him to discontinue his public attacks on the IMF. Stiglitz chose to resign from his job in January 2000 and thereafter increased, with an ever-growing audience, his critique. A few months later, more precisely on April 12, 2000, the IMF exposed its views on globalization in a brief, *Globalization: Threat or Opportunity*,⁴³ that appears on its website and is obviously intended for mass consumption. What follows is a paraphrase and commentary of this brief, which was updated (“corrected”) by the IMF in 2002.

In its introduction, the IMF starts by recognizing that globalization has become a hotly debated and controversial issue. Some regard globalization as a beneficial, important and irreversible factor in world economic development; others as a negative factor which increases inequality within and between nations, threatens employment and living standards. Then it says it will present an overview of globalization and aim “to identify ways in which countries can tap the gains of this process, while remaining realistic about its potential and its risks.”

Globalization offers many opportunities for worldwide development but it is not, points out the IMF, progressing evenly. Some countries are globalizing—“becoming integrated into the global economy”—more quickly than others. As a result, they are experiencing faster growth and

⁴³ <http://www.imf.org/external/np/exr/ib/2000/041200to.htm#III> April 12, 2000 (Corrected January 2002).

reduced poverty. For example, much of East Asia, by adopting “outward-oriented policies”, has been able to transform itself from one of the poorest areas of the world 40 years ago to one of the most dynamic, where living standards rose, along with environment and work standards, and democracy.

The countries that have dragged their feet in the globalization process, continues the IMF, have seen their economies stagnate or decline. In these countries, “poverty increased and high inflation became the norm”. This is what happened when many countries in Latin America and Africa “pursued inward-oriented policies” in the 1970s and 1980s. Now these regions have changed their policies, in other words are becoming more integrated into the global economy. As a result, they are starting to reap the benefits. Globalization in Latin America and Africa must thus be encouraged, not reversed, argues the IMF.

The crisis in the emerging economies in the 1990s, acknowledges the IMF, makes it clear that with globalization there are not just opportunities but also risks. The risks arising from the volatility of capital movements. The risks created by poverty: social, economic and environmental degradation. Once again, this does not mean that one should seek to reverse the process of globalization. It only means that all concerned—investors, developing countries and advanced countries—should “embrace policy changes to build strong economies and a stronger world financial system that will produce more rapid growth and ensure that poverty is reduced”.

The IMF concludes its introduction in the following manner: “How can the developing countries, especially the poorest, be helped to catch up? Does globalization exacerbate inequality or can it help to reduce poverty? And are countries that integrate with the global economy

inevitably vulnerable to instability? These are some of the questions covered in the following sections.”

Commentary

It is interesting to note the sharp contrast between the IMF's presentation of the East Asian economic miracle and that of Stiglitz, which we have just examined. Stiglitz makes it clear that the East Asian miracle occurred not because the countries in this region followed the advice of the IMF, a key player in the present globalization process, but precisely because they implemented policies that contrast sharply with those of the IMF. The IMF attributes the success of East Asia to “outward-oriented economic policies”, a vague expression that one can interpret as a policy prioritizing exports, but which, in the context, obviously means globalization. The fact that East Asia developed not because of globalization, but rather because of a type of globalization that is the exact contrary of what the IMF is promoting, is completely left out of the picture.

Stiglitz, we have seen, identifies the IMF as a key player, if not THE key player in the present globalization process. Interestingly enough, the IMF implies, in its introduction, that the crisis in the emerging economies, the most prominent of which is in East Asia, arises from policy mistakes on the part of all concerned: the developing countries, the advanced countries and investors. It is silent about its own role, which, in Stiglitz' view, is prominent. So prominent in fact that Stiglitz repeatedly argues that the IMF treats the developing countries in a very undemocratic manner and literally forces them, through overwhelming economic power, to submit to its type of globalization policies. Policies that only make sense when viewed through the narrow interests of the moneyed elite in advanced countries, but that in fact hurt the majority of people in developing countries.

What is globalization?

Before addressing these and other questions, the IMF begins by attempting to define what is meant by globalization. It refers “to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity—village markets, urban industries, or financial centers.” More precisely, it is a historical process resulting from human innovation and technological progress and which consists in “the increasing integration of economies around the world, particularly through trade and financial flows”, but also through the movement of labor and technology from nation to nation. Although the term has only come into common usage since the 1980s, the reality of globalization has existed for decades if not centuries. However, what is special about contemporary globalization is the degree of integration of the world economies. Today trade and financial services are more developed and deeply integrated than ever before, thanks to modern electronic communication.

Unparalleled growth, increased inequality: 20th century income trends

The IMF recalls some of the basic lessons that you have learned in your *Introduction to Economics* course when discussing Adam Smith: markets “promote efficiency through competition and the division of labor—the specialization that allows people and economies to focus on what they do best.” Moreover, when local and national markets become global, that is reach out to the entire world, people can tap into ever-larger markets, benefiting from “more capital flows, technology, cheaper imports, and larger export markets”. However, the IMF adds that markets do not ensure that the benefits of increased efficiency are shared by all. Some move ahead, while others fall behind. For that reason, countries “must be prepared to embrace the policies needed, and in the case of the poorest countries may

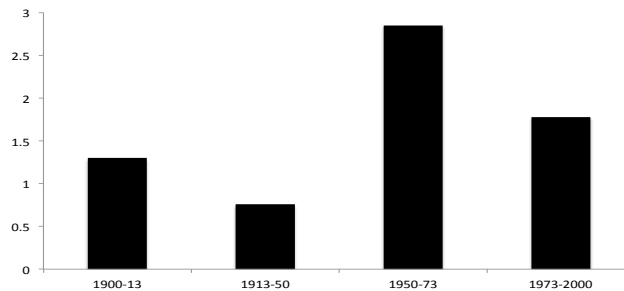
need the support of the international community as they do so.”

During the 20th century, the world economic output per person, or what the IMF refers to as global per capita GDP, increased by nearly 500 percent. The IMF clearly suggests that a key factor in this unparalleled economic growth is globalization.

Drawing its information from two sources—Angus Madison, Monitoring the World Economy⁴⁴ and IMF, World Economic Outlook May 2000⁴⁵—the IMF produces Chart 1a (below) that illustrates this impressive growth. The 20th century is broken into four periods—1900-1913, 1913-1950, 1950-1973 and 1973-2000—and the average annual percentage change of per capita GDP is shown for each period.

From 1913 to 1950, the world turned its back on globalization—“countries retreated into closed economies, protectionism and pervasive capital controls”. This, in the opinion of the IMF, “was a major factor in the devastation experienced during this period, where per capita GDP average annual growth was below 1 percent. For the rest of the century per capita GDP growth was over 2 percent, even though population grew at an unprecedented pace.

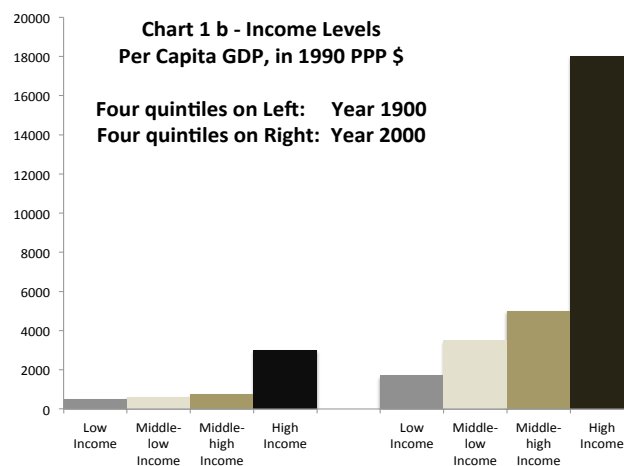
Chart 1 a - Income Growth
Average annual % change of per capita GDP



⁴⁴ <http://www.ggdcc.net/maddison/Monitoring.shtml>

⁴⁵ <http://www.imf.org/external/pubs/ft/weo/2000/01/>

However, the remarkable growth in world per capita GDP or income, notes the IMF, was not shared equally by the people of the world. Chart 1b (below) breaks down the world population into quartiles, each one representing 25 percent of total world population.⁴⁶ The income levels of each one of the four quartiles (on the left) are presented for the year 1900 and then (on the right) for the year 2000. It is obvious, says the IMF, that the “gaps between rich and poor countries, and rich and poor people within countries, have grown. The richest quarter of the world’s population saw its per capita GDP increase nearly six-fold during the century, while the poorest quarter experienced less than a three-fold increase. Income inequality has clearly increased”.



Commentary

It is important to note that the income levels of the world population are measured, in Chart B above, in 1990 PPP dollars. A word of explanation is thus required. GDP is measured in the national currency of each particular country. If one wishes to compare GDP growth across countries, a common accounting unit is necessary. Given

⁴⁶ Countries’ populations have been assigned to income quartiles according to GDP per capita in each country: each quintile contains 25% of world population

the predominance of the U.S. dollar, the latter is generally used as this common accounting unit. However, there are two problems involved when using the dollar: 1) the dollar changes in value as price changes; 2) the currency of each country must be translated into dollars using the exchange rate, and this rate fluctuates all the time.

In the course Introduction to Economics, you have learned to address the first problem when you discovered how to calculate real GDP. Nominal GDP, you will recall, measures the output, in goods and services, within the geographical boundaries of a country, using current market prices. Real GDP, on the other hand, neutralizes the distortion caused by price changes from one year to another, by measuring the output of each year in constant prices, that is, in the prices of a given base year. In a similar manner, the purchasing power of the dollar is rendered equal (PPP dollar) in each different country by neutralizing, in each country, the impact of price changes. As with real GDP, this is done using a base year. The base year used for Chart B above is 1990. Which is why the unit of account is referred to as 1990 PPP dollars.

The second problem posed by using the dollar as a common accounting unit arises from the fact that it is necessary to reduce all of the currencies of the world into one currency, the U.S. dollar. Doing so requires, of course, the use of the exchange rate. However, as you well know if you follow the value of the Canadian currency in terms of the American dollar, the exchange rate varies regularly over time. One day, the Canadian dollar is worth 74 U.S. cents. Another it is worth 72 U.S. The variation can be substantial, especially in the case of Third World countries, and thus leads to distortions, similar to that of price changes. The PPP dollar, by measuring the same physical output in every country, also removes this second, exchange rate-related distortion.

Although very useful, the PPP dollar has been called into question recently as a very inappropriate tool to measure world poverty (see following article by George Monbiot).

Poor, but pedicured

By George Monbiot
The Guardian, Tuesday May 6, 2003⁴⁷

“The global economy is working. The rich may be acquiring an ever greater share of the world's wealth, the ecosystem may be collapsing, but - or so we believe - the poor are emerging from poverty. This is portrayed as the ultimate test of the great neo-liberal experiment: if, as the world's resources are privatized and its corporations deregulated, the war against poverty is being won, then the accompanying inequality and destruction can be accounted as little more than collateral damage.

“There is only one set of figures which provides a global view of whether the incomes of the poor are rising or falling, and it is cited everywhere. The trend, it suggests, is slow but significant: between 1990 and 1999, the percentage of the world's people living in absolute poverty fell from 29% to 23%. Ugly as some of its characteristics may be, the existing economic model is helping the poor.

“The figures are compiled by the World Bank. It claims to know, to within the nearest 10,000, how many of the world's people are living below the international poverty line. The response of those who criticize the way the global economy works is to accept the bank's calculations, but to argue that there are more equitable and less destructive means of achieving the same results. But the figures are without foundation.

⁴⁷ Retrieved on 26 July 2003.

“A new paper by the economist Sanjay Reddy and the philosopher Thomas Pogge⁴⁸ demonstrates that the World Bank's methodology is so flawed that its calculations cannot possibly be correct. Not only does it appear wildly to underestimate the level of global poverty, but also the downward trend it purports to show appears to be an artifact of the way in which it has been compiled. The World Bank's figures, against which the success or failure of the entire global economy is measured, are useless.

“Most of the world's people do not use U.S. dollars to purchase what they need, and a dollar's worth of currency in one part of the world can buy more than a dollar's worth in another. So to try to discover how many people live on less than the equivalent of \$1.08 per day (deemed to be the absolute poverty line), the World Bank employs a method called "purchasing power parity". This measures the amount of goods or services that the equivalent of a dollar can buy in different countries.

“The bank's calculations suffer, the paper suggests, from several fatal deficiencies. The most obvious of these is that its estimate of the purchasing power of the poor is based on the measure of their ability to buy any of the goods and services an economy has to offer: not only food, water and shelter but also airline tickets, pedicures and personal fitness training. The problem is that while basic goods are often more expensive in poor nations than they are in rich ones, services tend to be much cheaper, as the wages of the people providing them are lower.

“If, for example, one dollar in the U.S. can purchase either the same amount of staple foods that 30 rupees can buy in India, or the equivalent of 3 rupees' worth of services (such as cleaning, driving or hairdressing), then a purchasing

⁴⁸ To consult the study of Sanjay Reddy and Thomas Pogge and related articles: <http://www.columbia.edu/~sr793/>

power parity calculation which averages out these figures will suggest that someone in possession of 10 rupees in India has the same purchasing power as someone in possession of one dollar in America. But the extremely poor, of course, do not purchase the services of cleaners, drivers or hairdressers. A figure averaged across all the goods and services an economy can provide, rather than just those bought by the poor, makes the people at the bottom of the heap in this example appear to be three times richer than they are.

“The bank would derive a far more accurate view of the purchasing power of the poor if it measured only the cost of what they buy, rather than what richer people in the same economies buy. Complete figures do not yet exist, but Reddy's and Pogge's initial calculations, based on the cost of bread and cereals, suggest that the bank's analysis might have underestimated the number of the world's people living in absolute poverty by some 30%-40%.

“As the service sector expands in poor nations, the bank's figures will create the impression that the purchasing power of the poor is increasing, whether or not their real economic circumstances have changed. The same false trend is established by a shift to the service sector in rich nations, as one dollar there will then buy a smaller proportion of the total of available goods and services. The relative purchasing power per dollar of the people of poor nations is increased by this measure, even though their absolute cost of living remains unchanged. When house prices boom in New York, the shanty-dwellers of Lusaka appear to get richer.

“These statistical artifacts create a downward trend in the poverty figures where no real trend exists. The bank has exacerbated it by recalibrating the international poverty line to reflect the pattern of total global consumption. As the world economy migrates towards the service sector, the

poorest people in the poorest nations appear to require less money than they might otherwise have needed to maintain their standard of living.

“Perhaps more gravely still, the figures which appear to be so precise that we can tell to within the nearest 10,000 how many of the world's 6 billion people are suffering from extreme poverty are, in reality, based on a mixture of guesswork and wild extrapolation. The first of the bank's two principal surveys measured price levels in only 63 countries. Embarrassingly, China was not among them, and neither that nation nor India figured in the second survey (from which the trend has been established). A set of global poverty figures, presented with six-digit precision, which contains no useful comparative data from the two largest nations on earth, could be described as imaginative.

“The bank's statistics, moreover, do not account for changes in inequality. If a nation's total consumption is rising only because the rich have become richer, the figures will not show this: they will suggest, instead, that everyone has prospered. Yet we know that in many countries - especially those in which the privatization, deregulation and reduction in social spending introduced by the neo-liberal model have been most extensive - the rich are becoming richer at the expense of the poor.

“That the key global economic statistic has for so long been derived by means which are patently useless is a telling indication of how little the men who run the world care about the impact of their policies. If they cannot be bothered even to produce a meaningful measure of global poverty, we have no reason to believe their claim that they wish to address it. Development on earth proceeds at present without any reliable means of determining whether or not it is making the poorest people poorer.”

Developing countries: how deeply integrated?

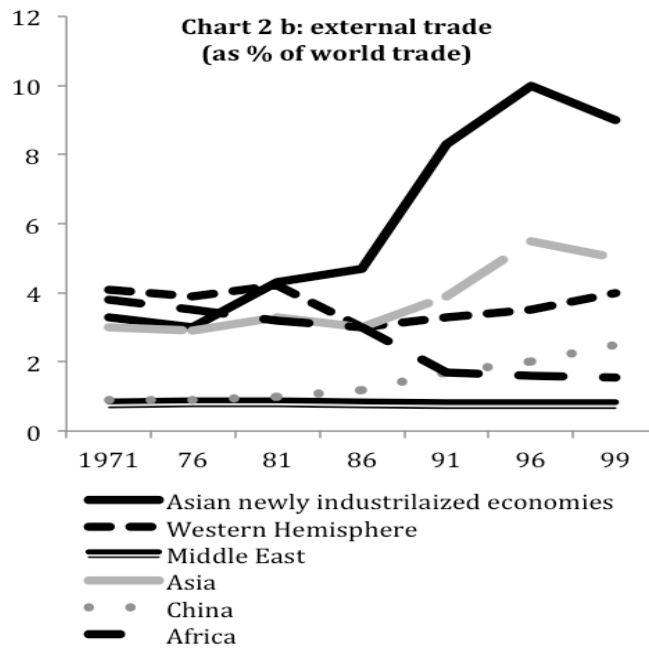
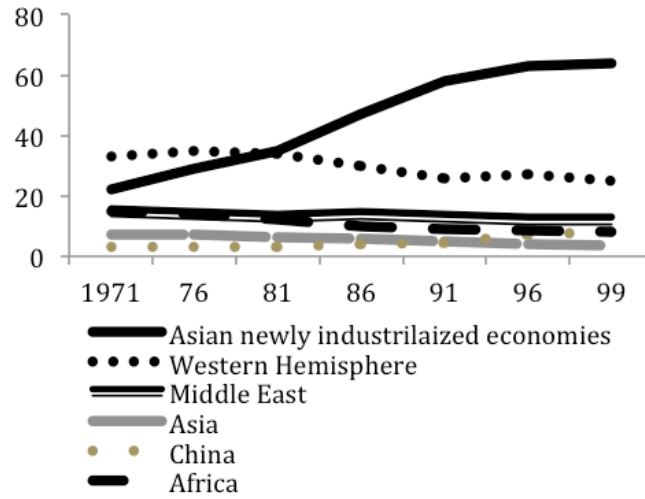
The IMF, while recognizing that inequality of income has substantially increased during the 20th century, maintains nevertheless that globalization has been a key factor in the growth of those developing nations that have moved ahead faster. In a word: the more globalized a country has become, the wealthier it has become.

To prove this, it shows that those countries that have captured a greater share of world trade in the last decades saw their level of income increase rapidly. As a whole, points out the IMF, developing countries increased their share of world trade from 19 percent in 1971 to 29 percent in 1999. However, some performed very well in this respect and others poorly. As can be seen by examining Chart 2 below,⁴⁹ which shows the output performance and trade shares of developing countries and newly industrialized countries,⁵⁰ those countries whose share of world trade increased rapidly saw their per capita income or GDP catch up rapidly with that of the advanced, industrialized countries. Similarly, those whose share of world trade dropped in that period experienced a deterioration of per capita income in terms of that of the richest countries.

⁴⁹ The source of Chart 2 a and b: IMF, *World Economic Outlook, May 2000*; Direction of Trade.

⁵⁰ Excludes oil-exporting countries. Asian newly industrialized countries: Hong Kong, SAR, Singapore, Taiwan. Asia: excludes China.

**Chart 2a : per capita GDP (PPP terms)
(as % of industrialized countries' per capita GDP)**



Commentary

Let us examine Chart 2 on which the IMF bases its argument. Chart 2a illustrates the evolution of per capita GDP of certain regions as a percentage of the per capita GDP of rich, industrialized countries. Chart 2b illustrates the external trade of certain regions as a percent of total world trade. As you can observe in Chart 2b, the Asian newly industrialized economies—Hong Kong, South Korea, Singapore and Taiwan—have seen their share of world trade increase substantially. In 1971, their share was about 3 percent and by the late 1990s it was about 10 percent. This factor, according to the IMF, explains to a considerable extent why the per capita GDP of these same countries has also increased substantially during this period. In 1971, as shown in Chart 2a, it represented only a little more than 20 percent of the per capita GDP of the rich, industrialized countries; by the late 1990s, it represented nearly 65 percent. A remarkable performance!

Contrariwise, Africa saw its share of world trade drop from about 4 percent in 1971 to less than 2 percent by the late 1990s. And the per capita GDP of Africa dropped accordingly. While it represented about 15 percent of the per capita GDP of the industrialized countries in 1971, it only represented about 7 percent by the end of the 1990s. A dismal and troubling performance.

Once again it is striking to see that the IMF attributes the rapid progress of the East Asian countries to globalization, associated here with a growing share of world trade, while failing to mention that the type of globalization practiced by East Asia, which produced its 'economic miracle', was exactly contrary to that type promoted universally by the IMF.

The IMF brief then makes a few observations on important aspects of globalization: capital movements, movement of labor and the spread of knowledge and technology.

Capital movements: The IMF examines the evolution of the movement of capital to developing countries from 1971 to 1999. More precisely, it compares the net private capital flows into developing countries to the net official capital flows⁵¹, expressed as a percent of their GDP.

Both private and official net capital flows to developing countries fluctuated considerably from 1971 to 1999. However, what stands out is the fact that private capital flows have been growing while official capital flows have been shrinking. In 1996 for example, official net capital flows had virtually dried up, while net capital flows to developing countries represented more than 4 percent of their GDP.

Also noteworthy is the fact that the *composition* of the net private capital flows to developing countries has been shifting from 1971 to 1999. The private direct investments in developing countries, which only represented about 0.4 percent of their GDP in 1971, represented 2.5 percent of their GDP by 1999. At the same time, private bank lending (other investments) to developing nations, which represented about 0.6 percent of their GDP in 1971 and nearly 3 percent in 1980, dropped suddenly and substantially in the early 1980s in the wake of the Third World debt crisis, and again in the late 1990s following the financial crises of that time period.

Spread of knowledge and technology: It is a well-known fact that capital is an important factor contributing to economic growth. By illustrating the evolution of net capital flows to Third World countries, the IMF is obviously trying to show how globalization, closely associated to the movement of capital, has been a positive factor for the developing countries.

⁵¹ Net private capital flows represent money originating from privately owned businesses, while net official capital flows represent money originating from governments.

Private net capital flows to the developing world have increased substantially, especially in the 1990s. The fact that direct foreign investments⁵² have become the largest component of these flows is also important. “Direct foreign investment,” notes the IMF, “brings not only an expansion of the physical capital stock, but also technical innovation. More generally, knowledge about production methods, management techniques, export markets and economic policies is available at very low cost, and it represents a highly valuable resource for the developing countries.”

Movement of labor: Capital and technology flow from country to country but so do workers in search of better employment opportunities. Although the numbers are still small, the proportion of labor forces in the world that was foreign born has doubled from 1965 to 1990. “Most migration,” notes the IMF, “occurs between developing countries. But the flow of migrants to advanced economies is likely to provide a means through which global wages converge. There is also the potential for skills to be transferred back to the developing countries and for wages in those countries to rise.”

In this section, the brief mentions the case of the economies in transition from planned economies (communism) to market economies but adds that these economies will not be “explored in much depth here”. The Soviet Union, notes the brief, faces “long-term structural and institutional issues similar to those faced by developing countries.”

⁵² The principal difference between foreign direct investment and portfolio investment is the extent of control. A direct investment is one in which the investor obtains a lasting influence in, and a degree of influence over the management of a business enterprise. Portfolio investment is all other investment including investments in financial assets without the expectation of significant management control of the real assets on which the financial assets are based. Other examples of portfolio investment include debt interests in business enterprise, interests in concessions agreements, contractual rights, (such as rights embodied in intellectual property interests) and ownership interests in tangible and intangible property, such as leases and mortgages.

Commentary

We have seen above that Stiglitz openly blames the IMF for both the dramatic drop in GDP and the sharp increase in inequality of income that occurred in Russia when it moved from communism to capitalism. This economic disaster, in his opinion, originates directly from the IMF policies imposed on Russia. Given this fact, it is perhaps not very surprising that the IMF, in its brief on globalization, has chosen not to explore the case of the economies moving from communism to market economies.

Does globalization increase poverty and inequality?

As it did earlier in its brief, the IMF starts out by admitting that during the 20th century the income gap between rich and poor countries has increased notably. “But incomes”, points out the IMF, “do not tell the whole story; broader measures of welfare that take account of social conditions show that poorer countries have made considerable progress. For instance, some low-income countries, e.g. Sri Lanka, have quite impressive social indicators. One recent paper finds that if countries are compared using the UN’s Human Development Indicators (HDI), which take education and life expectancy into account, then the picture that emerges is quite different from that suggested by the income data alone. Indeed the gaps may have narrowed.”

The paper referred to by the IMF is one of its own working papers.⁵³ It argues that while it is true that the income levels—inflation-adjusted— of today’s poor countries are still well below that of the richest (“leading”) countries in 1870, the comparison is strikingly different when one uses the UN Human Development Indicator (HPI). In terms of the HPI, the study found that the poorest countries of today

⁵³ Nicholas Crafts, *Globalization and Growth in the Twentieth Century*, IMF Working Paper, WP/00/44, Washington DC, April 2000.

“are well ahead of where the leading countries were in 1870”.

Not complacent in this surprisingly positive finding, the IMF argues that far too many people are nevertheless losing ground. “Life expectancy may have increased but the quality of life for many has not improved, with many still in abject poverty. And the spread of AIDS through Africa in the past decade is reducing life expectancy in many countries,” it notes.

Thus, it argues that it is urgent for countries to choose the right policies leading to growth, “as recent evidence suggests that there exists at least a one-to-one correspondence between growth and poverty-reduction”. Moreover, the chance that growth will lead to even greater poverty reduction increases if strongly pro-poor policies are implemented. “This is one compelling reason,” says the IMF, “for all economic policy makers, including the IMF, to pay heed more explicitly to the objective of poverty reduction.”

Commentary

Instead of addressing the critique of millions of demonstrators and numerous authors, including Stiglitz, who argue that globalization, in its present form, has been a key contributing factor to the increasing gap between rich and poor, the IMF simply ignores this critique and approaches the problem from another angle. It focuses on other elements of the gap, which seem to tell a different story: the Human Development Indicator produced by the United Nations Development Programme.

It would be interesting to learn what those who produce the yearly Human Development reports think of this study, and how its author deals with the complexities involved in gathering relevant statistics for the year 1870. Nevertheless, the conclusion one must draw from the information

provided seems obvious: globalization has produced good results even in this area.

How can the poorest countries catch up more quickly?

Economic growth, recalls the IMF, is caused by a combination of factors: capital (investment in plant and equipment), human capital (an educated labor force) and technological progress. The experience of those countries that have progressed most rapidly suggests that the following package of policies is necessary:

- “Macroeconomic stability to create the right conditions for investment and saving;
- Outward oriented policies to promote efficiency through increased trade and investment;
- Structural reform to encourage domestic competition;
- Strong institutions and an effective government to foster good governance;
- Education, training, and research and development to promote productivity;
- External debt management to ensure adequate resources for sustainable development.”

The IMF emphasizes the importance of “country-owned strategies to reduce poverty by promoting pro-poor policies that are properly budgeted—including health, education, and strong social safety nets”.

This section concludes with a call to the advanced economies to help the low-income countries integrate into the global economy by:

- Promoting trade, specifically by providing unrestricted market access for all exports from the poorest countries. “This should help them move beyond specialization on primary commodities to producing processed goods for export.”

- Encouraging flows of private capital to these countries, especially foreign direct investment, as the latter is a more stable source of capital and helps the transfer of technology.
- Implementing more rapid debt relief and increasing the level of official development assistance (ODA). Advanced countries, the IMF notes, have decreased (see chart 3 above) their assistance, at the very time when the peace dividend resulting from the end of the Cold War would have allowed them to increase it. ODA “has fallen to 0.24 percent of GDP (1998) in advanced countries (compared with a UN target of 0.7 percent).”

This section concludes by stating that the IMF is presently helping the poorest countries in two ways. First with its new Poverty Reduction and Growth Facility (PRGF); and second through its Heavily Indebted Poor Countries (HIPC) debt relief initiative.

Commentary

It is interesting to note that privatization, a key component in the policies imposed by the IMF on developing countries in the last two decades, does not appear in the above package. Why? This omission is hard to explain.

In his critique of the IMF, namely in its handling of Russia's transition to a market economy, Stiglitz repeatedly points out that although the structural adjustment program imposed on Russia included a package, like the above, composed of many items, only a few of these were prioritized. For example, the IMF pushed Russia to privatize very quickly: the faster the better. However, even though it formerly requested a “structural reform to encourage domestic competition”, this item, at the end of the day, was tossed in the corner and radically downplayed. The result was that a few Russians, within or close to government circles, virtually stole very valuable public

assets in the privatization spree, became millionaires and billionaires, and all this at a dramatic cost to ordinary Russian citizens and to the economic development of Russia. Furthermore, if good governance and strong institutions mean at least an independent media, here again the IMF was, according to Stiglitz, recklessly careless. What really mattered in the eyes of the IMF, the driving force and bulldozer of the transition, were the freeing of market forces, capital market liberalization and privatization. An independent media was considered such a secondary thing that the IMF stood silently by as the Russian leadership eliminated, one by one, all independent media. The result, according to Stiglitz: no one was there to criticize the corruption associated with privatization. The lesson here is simple: what matters is what you DO, not what you say.

Given the IMF's reputation in imposing structural adjustment programs on developing countries that have generally resulted in strong cuts in government expenditures in health, education and social safety nets, the insistence of the IMF on strong country-owned strategies to reduce poverty by promoting pro-poor policies comes as a surprise. Does it mean, as some argue, that the IMF has mended its ways and now wants to adopt a different course of action? Alternatively, does it merely mean that the IMF has not changed its policies and is simply using window dressing as a strategy? Moreover, given the usual undemocratic way with which the IMF deals with Third World countries, what exactly are "country-owned strategies"?

Soren Ambrose, Senior Policy Analyst with the 50 Years Is Enough Network⁵⁴, considers that the IMF's recent conversion to promoting strong pro-poor policies smacks of window dressing. He points out that the first version of the Heavily Indebted Poor Countries (HIPC) debt relief

⁵⁴ www.50years.org

initiative was unveiled in 1996, apparently in response to a very effective international campaign organized by Jubilee 2000.

“All right, said the IMF and World Bank, we'll do something to reduce the absurd levels of debt. They agreed, in short, that if a country that fell under specific poverty gauges had spent three years in full compliance with an IMF structural adjustment program and committed to a second (or third, or) program, it could negotiate a reduction in the debts claimed by the IMF, World Bank, regional development banks, and some bilateral aid agencies. Unfortunately the reduction is far too small, and the pace at which countries were approved was very slow. The "enhanced" version announced in '99 expands the amount of debt relief and the number of eligible countries, and, in response to Jubilee 2000 pressure, spurred the institutions to quickly move some 20 countries through the process. But even with the slightly more generous terms, many "beneficiaries" still pay more on debt service than they do on health and education. The 50 Years Is Enough Network views the HIPC initiative as a sophisticated system of bribery to keep countries which might otherwise default on their loans and band together to challenge the oppressive rules of today's global economy.”

In addition, Soren Ambrose has this to say about the Heavily Indebted Poor Countries (HIPC) debt relief initiative.

“In a stunningly Orwellian move, the IMF announced at the 1999 annual meeting that it was renaming the Enhanced Structural Adjustment Facility (ESAF) - the account from which lending for structural adjustment programs came - the Poverty Reduction and Growth Facility (PRGF). It was as if they chose precisely what structural adjustment doesn't do, and renamed it for those qualities. Under the new procedures, the IMF is to

cooperate more closely with the World Bank in setting up structural adjustment programs, with both institutions merely reviewing a "Poverty Reduction Strategy Paper" (PRSP) to be drafted by the borrowing government in conjunction with civil society organizations (trade unions, women's groups, development advocates, etc.), plus an adviser or two from the IMF and World Bank. Within a few months of the introduction of the new program, internal guidelines from the IMF emerged which very clearly explained that a PRSP would attract the requested funding only if it pledged adherence to the same macroeconomic principles that the IMF had always insisted on in ESAF programs. As one World Bank official acknowledged in an unguarded moment, "the PRSP is a matter of the people with the money telling the people without the money what they have to do to get the money." The role of civil society was envisioned as being that of gauging the level of poverty in the country, identifying what budget priorities should be for pledged poverty-reduction funds, and determining how successful poverty-reduction efforts would be. Since civil society groups had no expertise in economics, the IMF assumed that they would neither want nor deserve input on trade policy, tariffs, labor policy, investment laws, etc. In the countries that have gone through the PRSP process - Bolivia, Mauritania, Kenya, Tanzania, Zambia, Honduras, Mozambique, Nicaragua, Burkina Faso, Uganda - the public has indeed been completely excluded from these vital policy discussions. While the procedure has offered some organizations in some countries increased leverage in dealing with their governments, that influence has not extended beyond simple budgeting issues. The policies that people around the world have been attacking for the past 20 years— structural adjustment programs— are still not up for discussion."

The IMF's recommendation that rich countries open up their doors to all products originating from low-income countries is interesting. This is not presently the case. In fact, as Stiglitz points out, rich countries impose duties on agricultural goods and textiles originating from developing nations, and then use their immense economic power to force developing nations to open their doors wide open to the manufactured goods that they produce and export.

Also noteworthy is the IMF's insistence that rich countries increase their level of aid to developing countries. This is also a point made by numerous NGOs, Church groups, unions and academics. However, the fact that the United States, certainly one of the richest and certainly the most powerful military country in the world, has the worst record of all industrialized countries in this respect does not bode well. Actions speak louder than words. Furthermore, the fact that the United States, with about only 17 percent of the votes in the IMF, virtually controls this institution located in Washington, renders this IMF recommendation hollow and of little credibility.

Does globalization harm workers' interests in advanced countries?

The IMF recognizes that globalization creates anxiety among workers in rich countries. Those with high-skilled jobs are afraid that these jobs will move to low-wage countries. In addition, those with low-skilled jobs are worried that as these jobs shift to the developing countries, they will become unemployed. Nevertheless, the IMF argues that it would be wrong for governments in advanced countries to protect particular groups like low-wage workers and old industries by restricting trade or capital flows. This, they argue, would diminish trade and the benefits that accompany it and hurt the population at large. Instead of slowing down globalization, governments should assure that education and vocational training provide workers with the

opportunity to acquire the right skills for a changing dynamic economy. And they should manage “well-targeted social safety nets to assist people who are displaced” by globalization.

Are periodic crises an inevitable consequence of globalization?

In *Globalization and its Discontents*, you will recall that Stiglitz accuses the IMF of promoting a type of globalization that not only mismanages crises when they occur but also even contributes to their making. This was the case, in his view, in many countries such as Mexico, Argentina, Russia and the East Asian countries. That the IMF would feel the need to address the above question—does globalization produce crises?—is thus not surprising, especially in the wake of the East Asian crisis and its worldwide ramifications.

One would assume that all countries aim to achieve sustainable growth, low inflation and social progress. And the “evidence of the past 50 years”, asserts the IMF, “is that globalization contributes to these objectives in the long term.” Globalization does not produce crises, claims the IMF, nor reduce, as many argue, the national sovereignty of countries.

True enough admits the IMF, “volatile short-term capital flows can threaten macroeconomic stability” as the experience of recent years has shown. And the recent crises would not have developed as they did “without exposure to global capital markets”. However, the emerging countries affected by these crises could not “have achieved their impressive growth records without those financial flows”.

The lesson to draw from all this is not that globalization should be reduced but simply that governments and the private sector should adopt the appropriate policies and discipline to adjust to globalization. Firms that attempt to

implement price markups and workers who seek to obtain wage increases that render a country uncompetitive will be punished. Governments that do not implement sound economic policies will also suffer the consequences. International investors that invest in a country, even though this country lacks transparency and efficiency, can cause harm. Upon realizing their mistake, they may suddenly and brutally withdraw their capital, and the country will be destabilized.

This said, the IMF adds that the international community is responding to the crises that have occurred by attempting to strengthen the international monetary and financial system. “The broad aim is for markets to operate with more transparency, equity, and efficiency. The IMF has a central role in this process (...).”

Regarding the causes of the crises of the emerging economies, the IMF points to factors at the national level and the international one.

National factors: even though the countries involved had impressive records of economic performance, “they were not fully prepared to withstand the potential shocks that could come through the international markets. Macroeconomic stability, financial soundness, open economies, transparency, and good governance are all essential for countries participating in the global markets. Each of the countries came up short in one or more respects.”

International factors: investors were careless in appraising risks, regulators and supervisors in the major financial centers did not monitor developments carefully and not enough information was available for international investors. The result: the “herd behavior” of investors who suddenly pulled out of the emerging economies en masse.

Commentary

Once again, it is interesting to observe that the IMF treats the process of globalization as if there were only one type of globalization. We have seen that Stiglitz, for example, sees a certain type of globalization in a very positive light. For example, the type implemented by East Asia for years, when they developed a strong industrial policy, prioritized exports, invested massively in education and vocational training, and opened themselves up only very gradually to free trade and to capital market liberalization.

However, Stiglitz makes a scathing critique of the type of globalization pushed by the IMF, one where countries are invited (“forced”) to enter free trade in a brutal and rapid manner, to privatize rapidly, and to liberalize their capital markets nearly overnight. This type of globalization, Stiglitz insists, has ruined Russia, made its GDP drop abysmally in a very short period, and contributed to a soaring inequality of income. It has caused immense and irreparable damage to Indonesia.

The IMF refrains from entering into this heated debate on various types of globalization, and focuses instead on globalization in general. Then, as it does in the other sections of its brief, it defends the merits of globalization, acknowledging that it may produce short-term volatility and instability, but insists on its long-term benefits. When discussing the causes of the recent crises of the emerging economies—East Asia is certainly prominent on its mind—it refers to several causes, some national and some international. However, nowhere does it mention its own role in these crises, in managing them and perhaps even in contributing to them. The roots of these crises are identified as stemming essentially from the governments of the emerging economies themselves and from the lack of judgment in the private sector.

“In the East Asia crisis, the IMF and the U.S. Treasury quickly sought to blame the problems on the borrowing countries, and in particular on their lack of transparency” writes Stiglitz. However, in his opinion, transparency was not the heart of the matter. “If the East Asian countries were as “highly vulnerable” as the IMF and the U.S. Treasury claimed, it was a newfound vulnerability based not on a lack of transparency but on another familiar factor: the premature capital and financial market liberalization that the IMF had pushed on these countries”.⁵⁵

Conclusion

The IMF concludes its brief by stating that globalization has significantly improved the living conditions — particularly when measured by broader indicators of well being such as the Human Development Indicator — “in virtually all countries”. However, it admits that the strongest gains were made by the advanced, rich countries, and only some of the developing countries. While it is concerned about the fact that the income gap between high-income and low-income countries has grown wider, and about the number of the world’s citizens still in abject poverty, it argues that it would be a mistake to blame globalization for this. Indeed, the lack of globalization is what is pulling the poorest developing countries behind. Globalization contributes to growth, and thus can help reduce poverty. A strengthened international financial system, more trade and more aid: that is what the developing countries need to advance.

⁵⁵ *Globalization and Its Discontents*, p. 212-213.

ECLAC – Globalization and Development

The *Economic Commission for Latin America and the Caribbean* (ECLAC) produced a 354-page study on globalization for its 29th session, which took place in Brazilia, Brazil in May 2002. Fairly complex and technical, the study deals with globalization from a multidimensional perspective, and examines it first at the world level and then in greater depth from the viewpoint of Latin America and the Caribbean. I will not attempt to summarize its findings regarding the multidimensional aspects of globalization, but merely point out and discuss certain of its key economic aspects.

Globalization: a historical and multidimensional perspective

ECLAC recognizes that globalization takes place in an uneven playing field. The governments of developed countries and transnational corporations “exert the strongest influence, while developing-country governments and civil society organizations hold much less sway” (p. 17)

Its broad definition of globalization is very similar to that provided by the IMF. However, it does not accept the views of those who define globalization as “the only possible road to the full liberalization and integration of world markets, which is seen as the inevitable and desirable fate of all humankind.” In other words, it recognizes quite clearly that there are different types of globalization.

Indeed, ECLAC distinguishes three stages of globalization, each with its own characteristics:

- From 1870 to 1913, globalization “was marked by great capital and labour mobility, together with a trade boom which was the result of dramatically reduced transport costs rather than of free trade.”

- From 1945 to 1973, globalization was “characterized by a major effort to develop international institutions for financial and trade cooperation and by a significant expansion of trade in manufactures between developed countries”; by a great diversity of development models “and limitations on the mobility of capital and labor”.
- From 1974 to 2000, globalization was characterized by “the gradual spread of free trade, the growing presence on the international scene of transnational corporations operating as integrated production systems, the expansion and notable mobility of capital and a shift towards the standardization of development models. At the same time, restrictions on the movement of labour persisted.”

Both trade and production, says ECLAC, are becoming globalized. Producers increasingly orient their sales towards the world market and they increasingly break up the production process into different stages, each stage being allocated to a different country. Transnational corporations are the driving force in this process; “increased flows of trade and foreign direct investment go hand in hand with the growing influence” of these corporations.

Within the member countries of the European Union, labor is mobile. However, the fact that governments in the advanced countries impose strict limitations on the migration of unskilled workers from developing countries increases income disparities. Wealthy countries welcome skilled workers from developing poor countries but tend to exclude their unskilled workers. This produces a brain drain from developing countries. It also forces unskilled labor to seek irregular channels to migrate to industrialized countries, exposing it to abusive practices by traffickers and employers, and contributing to the lowering of wages of unskilled labor in the receiving countries.

ECLAC notes that globalization is negatively affecting the world environment, by encouraging the “overexploitation of certain natural resources, the underutilization of others and the transfer of ecological costs from major polluting countries” to developing countries, and in particular Latin America and the Caribbean. Unless appropriate national and international policies are adopted to address this problem, it will only increase in the future.

In a context of globalization, points out ECLAC, government authorities and political leaders are under pressure to win broad local support, “and, at the same time, to respect the rigid rules deriving from specific forms of globalization”. If the type of globalization that is being pushed is one where the State is forced to become small and weak and where the public sector must disintegrate to give way to mere market forces, then “it may be categorically stated that the promotion of democracy as a universal value is meaningless” (p.24).

Commentary

In its brief, the IMF recognized that the richest countries benefited the most from globalization. But it did not acknowledge that the power of these countries, and of the transnational corporations whose head offices are located there, is greater than that of the developing nations. Both ECLAC and Stiglitz make this unequal footing quite clear right from the start.

The IMF, you will recall, argues that the mobility of capital and labor is an important aspect of globalization, implying that this mobility is part and parcel of all globalization processes. ECLAC and Stiglitz take a very different approach. For example, ECLAC points out above that the first phase of globalization from 1870 to 1913 was one of protectionism, not free trade. Furthermore, it states that both the movement of capital and labor were limited from 1945 to 1973 and that in the last phase of globalization now

underway—1974-2000—restrictions on the movement of labor persisted.

The IMF, when speaking of the mobility of labor, comes up with a statistic that gives one the impression that this mobility is increasing. It notes that the proportion of the labor force that was foreign born in the world has doubled from 1965 to 1990. Not only does it not refer to the fact that globalization today means that governments in advanced countries strictly regulate migration from developing countries, but it even paints a very rosy picture of the situation. ECLAC is concerned by the fact that globalization in its present phase, by restricting labor mobility and biasing it against unskilled labor, increases wage gaps and produces a brain drain from the developing countries. The IMF states exactly the contrary: “the flow of migrants to advanced economies is likely to provide a means through which global wages converge” it argues; and it adds that there “is also the potential for skills to be transferred back to the developing countries and for wages in those countries to rise”.

Globalization does not weaken national sovereignty, asserts the IMF in its brief. ECLAC obviously does not agree; it argues that the type of globalization presently pushed ahead by those whose influence is determining—governments of advanced countries and transnational corporations—contributes to the weakening of the State and the public sector. Stiglitz, who repeats in his book that the IMF treats the governments of Third World countries with arrogance and very undemocratically forces them to adopt rapid free trade, privatization and capital market liberalization policies, agrees with ECLAC on this point.

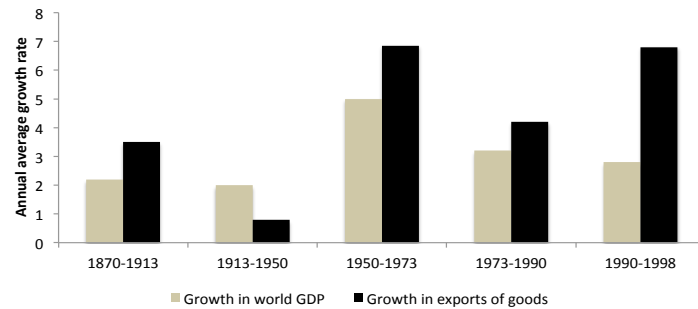
The economic dimensions of globalization

Free trade driving force of economic growth?

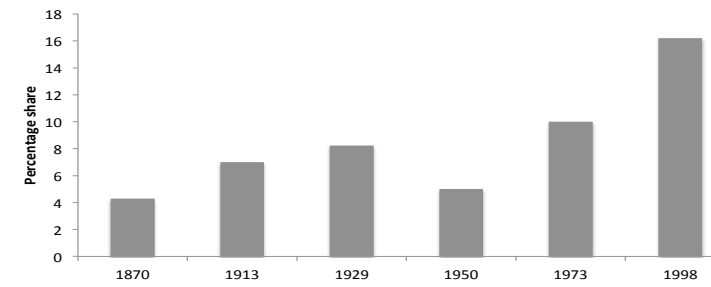
It is widely believed that the State practiced laissez-faire economic policies during the first phase of globalization

(1870-1913) and that free trade was “the primary engine of world economic growth” during this period. This, ECLAC argues, “is one of the great myths of history”. Not only did the State regulate the financial system and implement measures of worker protection and social security during this period, but it also imposed numerous restrictions on the free trade of goods. While England practiced free trade and imposed it on many of its colonies, “trade protectionism was the norm, or more specifically, the rule prevailing in all nations that maintained their tariff autonomy. Protectionism was the predominant practice in continental Europe, the United States,” Canada, Australia, and many Latin American countries. If international trade was growing during this period, it was primarily because of economic growth, not free trade (p. 31).

Figure 2.1 Trade & global output 19870-1998
A - Growth in world output & exports of goods



B - Ratio of exports to world GDP



Furthermore, it cannot be argued, pursues ECLAC, that free trade fuelled economic growth in the more recent phases of globalization. As shown in figure 2.1 above,⁵⁶ the relationship between trade and economic growth has been variable. World trade and world growth did accelerate simultaneously between 1950 and 1973, undoubtedly largely due to the moving away from the strong phase of protectionism which characterized the period 1913-1950, and world growth did decrease simultaneously with world trade from 1973 to 1990. However, the very rapid increase of world trade from 1990 to 2000 “**was not accompanied**” (emphasis not mine but that of ECLAC) by global economic growth (p. 32).

Strong state intervention with some protectionism: an impediment to growth in the developing countries? Some argue that the economies of the developing world did poorly when their governments regulated capital market flows, restricted trade and managed state-owned firms, but did well when they integrated into the global economy by liberalizing capital market flows, adopting free trade and privatizing. ECLAC argues that this analysis is not corroborated by historical evidence.

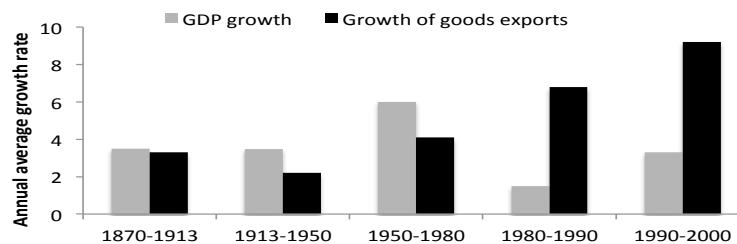
“In fact, the relative isolation of the developing countries in the second globalization phase (1945-1973) was accompanied by a general acceleration in the rate of economic growth throughout the developing world – for the first time in history – as well as reductions in some indicators of international inequality (between regions and countries).” (...) And “the most recent phase of globalization (1974 to 2000)” pursues ECLAC, “has been marked by increasing inequality at the international and national levels, even though, at the world level, this trend has been less pronounced than it was in the nineteenth

⁵⁶ Source: Angus Maddison, *The World Economy. A Millennial Perspective*, Paris, Organisation for Economic Cooperation and Development (OECD), 2001.

century and the first half of the twentieth thanks, undoubtedly, to the economic success of China and India” (p. 85).

ECLAC notes that in the developing world in general, with some notable exceptions, “the periods of greatest export-expansion have tended to coincide” with slow economic growth. And it adds that this is especially the case in Latin America and the Caribbean as shown in figure 2.4 below.⁵⁷

Figure 2.4
Trade and GDP in Latin America, 1870-1998



Why did the increase of exports not result in strong economic growth in Latin America and the Caribbean? Free trade was rapidly adopted in the region, but government macroeconomic policy was simply oriented to controlling inflation and the public deficit, points out ECLAC. Controlling inflation meant increasing interest rates, and this harmed economic growth. Reducing the public deficit meant cutting government expenditures, and this also contributed to the decrease of economic growth. Furthermore, the goods being exported were not the type that has a strong multiplier effect (such as, for example, hi-tech goods whose production is concentrated in developed countries).

⁵⁷ Source: Angus Maddison, *The World Economy. A Millennial Perspective*, Paris, Centro de Estudios de Desarrollo, Organisation for Economic Co-operation and Development (OECD), 2001.

The result was that the structure of the region's economy was split increasingly in two. On the one hand, "there are now many more 'world-class' firms, many of which are subsidiaries of transnational corporations". On the other hand, "a growing proportion of employment is concentrated in low-productivity informal-sector activities, which account for seven of every 10 new jobs created in Latin American urban areas in the last decade." (p. 46) Informal sector activities are generally poorly paid and very precarious jobs.

One of the consequences of this is that there has been "a structural deterioration in the economic growth/trade balance ratio" of Latin America and the Caribbean, a trend that one can see in virtually all developing countries and that "largely accounts for the fact that trade growth has not yet provided these countries with the expected economic growth". From 1950 to 1960, the annual average rate of growth of GDP in Latin America and the Caribbean was a little more than 5 percent, and the trade balance (value of exports minus the value of imports) as a percentage of GDP was approximately 0.3. From 1960 to 1970, the annual average rate of growth of GDP was nearly 6 percent and the trade balance as a percentage of GDP stood at about 0.7 percent. From 1990 to 2000, a period of rapid free-market globalization, the average annual rate of growth was just over 3 percent but the trade balance in percentage of the GDP was a negative 1.1 percent.

Commentary

We saw that in its brief, the IMF claimed that when countries globalized their economies, they did well and when they turned their backs to globalization, they did poorly. For example, the IMF argued that when Latin America implemented strong state interventions and certain forms of protectionism ("pursued inward-oriented policies") in the 1970s and 1980s, its economies declined. Afterwards, that is in the 1990s, it started implementing

outward-oriented policies — prioritizing exports, adopting free trade and liberalizing their capital markets. “As a result they are starting to reap the benefits,” concluded the IMF.

Obviously, ECLAC does not agree with the IMF on this major point. It argues that when the Third World pursued a type of globalization that was not export oriented and was inward-oriented or isolationist, more precisely in the second phase of globalization from 1945 to 1973, it experienced, for the first time in history, a “general rate of acceleration in the rate of economic growth”. Furthermore, it notes that the world experienced, during this time period, “reductions in some indicators of international inequality”.

Latin America embarked on an IMF free trade-privatization type of globalization in the 1990s. And the IMF, in its brief corrected in 2002, states that Latin America is “starting to reap the benefits” of this new orientation. In the light of the economic devastation recently suffered by Argentina, one of the IMF’s most faithful and illustrious disciples, one is left wondering to what benefits the IMF was referring. Indeed, the neoliberal globalization reform embraced by Latin America in recent years has backfired economically and socially, creating a very strong popular backlash. The recent election of Lula in Brazil, who calls into question neoliberalism, is a concrete manifestation of this.

Stiglitz in his book remarked that the IMF and the World Bank had undergone, starting in the 1980s, a neoliberal revamping. It is interesting to observe that ECLAC makes the same assertion: “New conditionalities grew up around these changes and generated, in practice, a new function which was not contemplated in the Bretton Woods accords, and which was undertaken jointly by the IMF and the World Bank from the 1980s on: the promotion of economic liberalization in the developing world, on the assumption that structural rigidities were caused by over-intervention on the part of the State. Like others before it, this new shift

in the responsibilities of the Bretton Woods agencies did not arise from an explicit negotiation; clearly, it was a response to the ideological conditions and power relationships that were prevalent at the global level” (p. 55).

Growing power of transnational corporations

In 1982, notes ECLAC, transnational corporations produced 5 percent of world GDP; by 1999 they were producing 10 percent. Already in the mid-1990s, two thirds of world trade in goods and non-factor services originated from transnational corporations. It is estimated that there are more than 60,000 transnational corporations in the world with nearly 800,000 foreign subsidiaries. The recent increase in foreign direct investments (FDI), noted previously by the IMF in its brief, originates primarily from these corporations. Developed countries are the ones that receive the bulk of FDI—82 percent in 2000. However, FDI directed to developing countries quadrupled in 2000 their average level in comparison with the period 1989-1994. “The primary recipients (of FDI),” notes ECLAC, “were Hong Kong, China and India in Asia, and Mexico, Brazil and Argentina in Latin America” (p. 43).

Transnational corporations are investing more and in ever more countries. In 1985, 15 countries, including 7 developing countries, received foreign direct investments of US\$ 10 billion; in 2000 50 countries, including 27 developing countries, received foreign direct investments of US\$ 10 billion. In 1985, 10 countries received FDI of more than US\$ 10 billion; in 2000, 33 received FDI of more than US\$ 10 billion.

However, ECLAC remarks that the head offices of 90 of the world’s largest transnational corporations, classified by the amount of their assets abroad, are located in the United States, the European Union and Japan. “In 1999, for the first time, three developing-country firms were among the world’s 100 largest (Hutchison Whampoa of Hong Kong,

Petróleos de Venezuela and CEMEX of Mexico). The 50 largest developing-country firms, the biggest of which are hardly comparable to the smallest of the 100 largest in the world, are scattered among 13 newly industrialized economies in Asia and Latin America. They include firms in Hong Kong, Venezuela, Mexico, Malaysia and the Republic of Korea” (p. 43).

Third world debt: a problem that persists

The Third World external debt has been so high in recent decades that one commonly refers to it as the Third World Debt crisis. ECLAC remarks that the “external indebtedness trends among developing countries have not been positive.” The external debt/GDP ratio has risen for all parts of the developing world compared to what it was prior to 1980, that is, before the outbreak of the Latin American debt crisis. However, in comparison to what it was in the mid- or late 1980s, the external debt/GDP ratio has fallen for certain regions, including Latin America and the Caribbean.

Even though the external debt/exports ratios have evolved in a more positive manner, “the problem appears more serious when the debt ratios of certain countries are compared to benchmarks indicating what are deemed to be manageable levels. On the basis of World Bank data on 84 developing countries for which information is available for the period 1980-2000, it can be determined that the number of countries with external debt/GDP ratios of less than 40% has fallen from 45 to 23 and that the number with external debt/exports ratios of less than 200% has fallen from 56 to 33” (p. 68-9)

Commentary

It is important to understand the meaning of the terms employed above. If a country has an external debt/exports ratio of 300 percent, it means that if it exports, in one year, goods and services worth US\$ 300 million, then its external

debt is US\$ 900 million. In other words, this country would have to use up all its revenues from exports for three consecutive years, just to pay back its debt. Given that a country needs money to import many goods and services that are absolutely essential for the economy, there is usually little left with which to pay back the external debt. Add to that the fact that the debt bears interest, and that a country has to pay back the capital plus the interest that accumulates over time, and you can understand the country's predicament.

The external debt/GDP ratio is another important measurement, as it relates the debt to the size of the economy. A debt can be very large in absolute terms, but if the GDP is also very large, then the weight of the debt on the economy is small. In Sub-Saharan Africa, the external debt/GDP ratio was about 70 percent in the late 1990s. Which means that the debt of these countries represented nearly 70 percent of all the goods and services that they produced in one year. If you have a debt of \$50,000 and your yearly income is \$35,000, then your debt/income ratio is 70 percent. In other words, using your entire salary for one year, you could only pay back 70 percent of your debt. Given that you must use most of your income to survive, little is therefore left to pay back your debt, and little is left to invest in your future. That is why highly indebted Third World countries are virtually deadlocked, and have no oxygen to breathe. They have trouble just surviving and cannot invest to improve their situation in the future.

ECLAC examines the situation of the 84 developing countries for which the World Bank provides data. In 1980, 45 of these 84 countries had external debt/GDP ratios of less than 40 percent. By the year 2000, only 23 of these 84 countries had external debt/GDP ratios of less than 40 percent. This means that the situation has seriously deteriorated. In 2000, 61 of the 84 countries had external debt/GDP ratios higher than 40 percent, compared to only

39 in 1980! In other words, the foreign debt of 61 countries represented more than 40 percent of all the goods and services that they were producing in one year!

ECLAC also examines the external debt/exports ratios of the same 84 developing countries and what it finds is equally disturbing. In 1980, 56 of the 84 countries had external debt/exports ratios of less than 200 percent. In other words, the remaining 28 countries would have to spend more than two years of their export revenues to pay back their debt. However, by 2000, only 33 countries now had external debt/exports ratios of less than 200 percent. In other words, the remaining 51 countries would have to spend more than two years of their export revenues to pay back their debt!

Inequality of income

ECLAC states that the “widening income gap between regions and countries in the world has been a feature of the world economy for the past two centuries,” and cites statistics very similar to those referred to by the IMF in its brief.

It then refers to a recent study⁵⁸, which measures the income gap not between countries and regions, but between the inhabitants of the world. This study found that international inequalities increased substantially from 1820 to 1910, remained stable from 1910 to 1960, and then started increasing significantly again. The stability of income distribution during the 1910-1960 period would be due to two factors. On the one hand, the emergence of the welfare state in Western Europe and other advanced countries such as the United States; on the other hand, the socialist revolutions in Central and Eastern Europe. During the third phase of globalization—1974-2000—the income gap

⁵⁸ Bourignon, François and C. Morrison (2002), “The size distribution of income among world citizens: 1820-1990”, *American Economic Review*, 2002.

widened both between countries and within countries. This, ECLAC views as “one of the hallmarks of the third phase of globalization” (p. 80).

Table 3.4 below – World trend in income inequality, 1975-1995 –⁵⁹ shows the growing income gap, in percentages of population, within countries from 1975 to 1995. During this period, 71.8 percent of the population of the industrialized countries lived in countries where there was growing income inequality, 1.2 percent lived in countries where income inequality was stable and 27 percent lived in countries where income inequality was decreasing. ECLAC emphasizes the fact that “this relatively widespread deterioration in income distribution did not occur in the developed world during the two earlier phases of the globalization process.”

Groups of Countries	Growing inequality	Stable inequality	Decreasing inequality	No identifiable trend
Industrialized Countries	71.8	1.2	27.0	0.0
Eastern Europe	98.1	0.0	0.0	1.9
Former Soviet Union	100.0	0.0	0.0	0.0
Latin America	83.8	0.0	11.4	4.8
South Asia & Middle East	1.4	70.2	14.4	14.0
East Asia	79.4	4.4	16.1	0.1
Africa	31.6	11.9	7.7	48.8
World	56.6	22.1	15.6	5.7

⁵⁹ Source: ECLAC, *Crece con estabilidad: el financiamiento del desarrollo en el nuevo contexto internacional*, Bogotá, D.C. Economic Commission for Latin America and the Caribbean (ECLAC) Alfaomega, 2001; on the basis of Giovanni Andrea Cornia, “Liberalization, Globalization and Income Distribution”, Working Paper, No. 157. Helsinki, United Nations University (UNU)/World Institute for Development Economics Research (WIDER), 1999.

The most pathetic case is obviously that of the Former Soviet Union; in that region 100 percent of the population lived in countries where income inequality was increasing. The next worse region is Eastern Europe; there 98 percent of the population lived in countries where income inequality was increasing.

ECLAC notes that in Latin America and the Caribbean, the region with the worst income gaps of the world, the situation has not been improving in the last decades. On the contrary, table 3.4 shows that 83.8 percent of Latin Americans lived in countries where income inequality was increasing and only 11.4 percent where the situation was improving. Statistics available for the period following 1995 do not show any improvement. One need only think, for example, about the devastation suffered from 2000 to 2003 by Argentina, where the rate of poverty skyrocketed so rapidly that more than half of the population now lives in poverty.

What factors explain this deterioration in Latin America? ECLAC mentions that the debt crisis in the 1980s had a devastating effect on the poorest sectors, but that when growth resumed after the crisis, the income of these sectors did not increase as much as that of the other sectors. ECLAC attributes the increase in income inequality to traditional factors, such as unequal distribution of wealth and unequal access to education. But it adds that new factors “are strongly influencing income inequality”, factors that are associated with the third phase of globalization—1974-2000— and with some of the national policy approaches that have accompanied it. Although ECLAC does not mention the word neoliberalism, it is obvious that that is precisely what it is referring to here.

The first new factor associated with neoliberalism: “the reduction in earned income as a proportion of total income and the simultaneous increase in business profits and financial returns”. In short, the share of profits in total

income is growing at the expense of the share of labor that is shrinking. If one recalls what ECLAC stated above, namely that in the last ten years, 70 percent of all new jobs created in Latin America were in the informal sector, this does not come as a surprise.

The second factor: economic liberalization has increased the wage gap between skilled and non-skilled labor, “especially between workers with and without a university education”. In other words, some win, but others, more numerous, loose.

Finally, ECLAC identifies, as the third factor associated with neoliberalism, the reduced capacity of the State in redistributing revenue. In other words the State’s role in correcting the inequality of income arising from market forces by progressive taxation, by the creation of a social safety net, and by a variety of other measures such as subsidies, is eroding.

International factors contributing to underdevelopment

The concept of “economic development” gained a prominent place on the international agenda ever since the Second World War, points out ECLAC. Debates about development have revolved around two schools of thought. The first sees development, or the lack thereof—underdevelopment—as resulting essentially from national factors and emphasizes the role played by individual effort. The second views underdevelopment as resulting mainly from international factors and emphasizes the lack of true equality of opportunity. ECLAC makes it clear that it has “traditionally aligned itself” with this second school of thought.

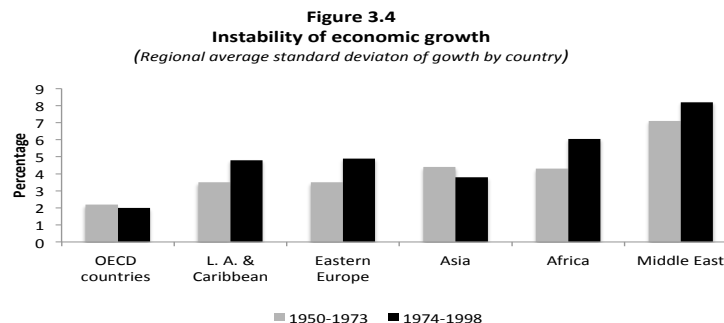
ECLAC sets forth three main international factors that, in its opinion, are contributing to underdevelopment.

1. *Technical progress is extremely concentrated in the developed countries.* All schools of thought recognize

that technical progress is a primary source of economic growth. But not only does technical progress occur, in the present international order, nearly exclusively in the advanced countries but, as Prebisch remarked as early as 1951, it flows to the developing countries only very slowly and irregularly. This means that the bulk of research and development (R&D) and also the production sectors linked to this R&D are concentrated in industrialized countries. These production sectors represent the most dynamic components of world trade, provide high profits and result in high innovation rents. Payment of these rents or royalties are increasingly protected by “strict regulations concerning intellectual property rights” (p. 86). Furthermore, economies of scale and external economies often result in an even greater concentration of development in the most industrialized countries.

The developing countries are left with the production of raw materials and with the “mature” industrial sectors—in other words the industrial sectors where the technology used is not new and therefore provides low profit margins. When the world economy experiences a slowdown, these two sectors are usually the hardest hit, as lower demand results in lower prices and lower profits. “The protectionist measures generated by developed countries are also concentrated in these two sets of sectors,” asserts ECLAC.

2. *Developing countries have a greater macroeconomic vulnerability to external shocks.* In other words, their economies are more at risk of being deeply affected by events occurring in the world market, and the means they have for dealing with these risks are meager and insufficient. Contrariwise, developed countries are less at risk, and when they are subjected to shocks originating from world markets, they have the means, or breathing space, to cope with these shocks.



ECLAC remarks that the vulnerability of developing nations is not new, but that it has increased because of the type of globalization that occurred from 1974 to 2000. This is illustrated in Figure 3.4 above.⁶⁰ Greater financial integration in the world market means that during a period of growth money can flow more easily into developing countries. Which can lead to even greater growth. But it also means, as we have seen in East Asia, that money can flow rapidly out of developing countries, transforming a mini-crisis into a major one. The financial markets in developing countries are too small and too weak to deal with this vulnerability. And world market forces oblige a developing country that is experiencing a mini-crisis to adopt austerity-based macroeconomic policies that accentuate the crisis and depress the economy even more. This factor, linked with the deterioration in the terms of trade of developing countries—having to pay higher prices for what is imported and obtaining lower prices for what is exported—, explains the greater instability of growth experienced by developing countries.

⁶⁰ Source: Cálculos de la CEPAL sobre la base de Angus Maddison, *The World Economy. A Millennial Perspective*, París, Centro de Estudios de Desarrollo, Organización de Cooperación y Desarrollo Económicos (OCDE), 2001.

Commentary

You will recall that the standard deviation measures variance. More precisely, it measures the average difference between the value obtained by one individual in a group and the mean (average score or value) of the whole group. If everyone had the same score on a test, the standard deviation would be 0. The higher the standard deviation, the higher the variance or spread between each individual score and the group average.

In figure 3.4, the regional average standard deviation of growth by country is illustrated. What does this mean? Let us take the bar graphs representing Latin America and the Caribbean. One bar graph represents the period 1950-1973. The other, to the right, represents the period 1974-1998. From 1950 to 1973, the regional average standard deviation of growth by country was nearly 4 percent. To obtain this measurement, one has to first calculate the standard deviation of growth for each country in the region. For example, a standard deviation for Chile of 5 percent would indicate that the average spread of economic growth in Chile (distance between the growth rate obtained in each year and the average rate of growth obtained in the whole period) was 5 percent. Once one has the standard deviation for each country in the region, one merely calculates the average standard deviation obtained for the whole group of countries in the region. The bar graph representing the period 1973 to 1998 shows that the average standard deviation of growth by country in Latin America and the Caribbean increased to approximately 5 percent, from 4 percent in the preceding period.

Notice that the group of industrialized countries has the smallest variance and that this variance has decreased between the two periods shown on the figure. In other words, the third phase of globalization rendered growth

there more stable. Asia, which has a higher variance, saw its variance also decrease between the two periods. But this measurement probably does not account for the steep drop in growth that occurred in East Asia as a result of the East Asian crisis. In all other regions of the world, the variance of growth is greater than that of the industrialized countries and has increased during the third phase of globalization.

Stiglitz's analysis is very similar to that of ECLAC. You will recall what Stiglitz says about the East Asian crisis. Under IMF pressure, East Asia liberalizes its financial and capital markets. More money flows in. Then a mini-crisis occurs when the exchange rate of certain East Asian countries falls substantially. This mini-crisis is transformed, nearly overnight, into a major and very damaging crisis, because of two factors. World financial markets, under the leadership of the IMF, pressure East Asia to implement economic policies that depress their economies even more. More precisely, they have to cut government expenses and increase interest rates. But this exacerbates the crisis. Investors panic and pull massive amounts of money out of East Asia. This causes immense damage to their economies.

Stiglitz also points out the difference between the breathing space that developed countries have and developing countries have relative to world market forces. If the IMF tells the United States government that it should increase interest rates to fight inflation, the government and the Federal Reserve can ignore this recommendation, and focus instead on job creation; world market forces do not punish the U.S. economy for not listening to the IMF. However, when developing countries are told by the IMF to increase their interest rates and cut their expenses, not doing so will unleash the immediate punishment of these countries by world market forces. Thus, at the very moment when a

*developing country would have to counter a mini-crisis by implementing an expansionary monetary and fiscal policy, it is forced, by the main representative of world market forces, the IMF, to do exactly the contrary.*⁶¹

ECLAC notes the increasing importance of currency transactions relative to international trade. In other words, more money is flowing in and out of countries for reasons other than financing trade. “The ratio of currency transactions to the value of international trade increased sharply: from 2:1 in 1973 to 10:1 in 1980 and 70:1 in 1995” notes ECLAC (p. 55).

3. *The third international factor that contributes to underdevelopment is the “contrast between the high degree of capital mobility and the limited international mobility of labour, especially among low-skilled workers (p. 90). Capital, which is concentrated in the developed countries, is increasingly allowed to move freely around the globe. Low-skilled labour, which is concentrated in developing countries, is forced to stay put and cannot move freely. Thus the gains of the owners of capital will increase at the disadvantage of low-skilled labour.*

In this context, ensuring the efficient operation of free market forces at a worldwide level—what many refer to as leveling the playing field—stacks the cards against developing nations. It may appear fair, insists ECLAC, to

⁶¹ Note added in 2017: this is precisely what has been happening to Greece in recent years; austerity measures imposed by the European Union – Germany in particular – and the IMF have backfired and plunged Greece into a deep recession. Notes Dimitris Konstantakopoulos (*The European Left and the Greek Tragedy*, Defend Democracy Press, 22 May 2017): “Greece, as a result of a program supposedly designed to help it, has seen a fall of 27% in its economic output, its GDP. This is more, in relative terms, than the material losses of France or Germany during the First World War. It is more than what we witnessed during the depression of 1929-33 in the USA or the crisis of the Weimar Republic in Germany. Greece is approaching ten years of continuous recession, which is probably an absolute record in history”.

implement free trade and competition by establishing common worldwide policies and standards. But as a matter of fact it is not. The policies and standards being extended to the world in the third phase of globalization are those of the industrialized countries, which basically set the globalization agenda. Developing countries often do not have the means to build up appropriate institutions to assure the implementation of these policies and standards. Furthermore, the benefits of adopting these policies and standards are disproportionately pocketed by developed countries. "Protection of intellectual property is the most conspicuous case," remarks ECLAC. "Regardless of its virtues in terms of creating incentives for world technological development, the benefits of protecting intellectual property rights accrue mainly to the developed countries, where the bulk of new technology is generated" (p. 90). The World Trade Organization contains rules regarding subsidies that favor advanced countries. Subsidies to agriculture, which these countries alone can afford, are permitted.

Commentary

You will recall that Stiglitz also argued that the rules of free trade were stacked against the developing nations. In fact, Stiglitz was much blunter than ECLAC, and accused the advanced countries, primarily the United States, of being very hypocritical. On the one hand, he said, they use their immense economic power to force poor countries to adopt free trade. On the other, they do not hesitate to maintain protective measures such as tariffs on those goods, typically agricultural and textile, in which the developing countries have a comparative advantage.

James Petras and Henry Veltmeyer - Globalization Unmasked

Globalization, according to Petras and Veltmeyer, has various meanings.

Some see it as an inevitable and irreversible process that reflects the unfolding, at the world level, of the scientific laws of economics. Globalization broadens the wings of supply and demand and free competition beyond the limits of national boundaries. Market forces, which operated up until now primarily at the level of each country, increasingly have, thanks to technical progress, the entire globe as their playing field. The benefits of ever larger markets, and of the greater specialization they render possible, increases quality, lowers prices and thus is leading to the greater good of all humanity.

Others also view globalization as an inevitable and irreversible process, but believe that it can follow not just one but very different paths. More precisely, they believe that globalization in its present form, in which mere market forces set the agenda, is mistaken and harmful. It is mistaken and harmful because it widens the gap between rich and poor both within and between countries and destroys the environment; because it weakens and erodes the power of national governments. Governments must therefore implement policies that will not reverse globalization, a process where markets are increasingly global, but take the measures necessary, by concerted international cooperation, to correct its shortcomings. Governments and multilateral organizations can and must redistribute income and protect the environment.

A third group sees globalization as a tool used by the rich to bestow on something that is not natural and inevitable but downright exploitative, the appearance of goodness, virtue and even inevitability. A powerful country, before invading

another country in order to control and benefit from its immense oil fields, will usually disguise this hard-to-admit intention by calling the invasion “Operation Just Cause”. And it will use its powerful mass media to publicize throughout the world its deep commitment to the global struggle against human rights violators. In a similar way, the rich, primarily the transnational corporations based in industrialized countries and the international financial organizations controlled by these countries, have popularized the term globalization. Globalization may sound neutral, purely technical and perhaps even positive as a term. However, it serves primarily to cover up the present phase of a dirty war that the rich are waging against the majority of people in the world.

Petras and Veltmeyer belong to this third group. It is for this reason that they have titled their book “Globalization Unmasked”. In their view, a more appropriate term to describe and understand what is presently happening in the world economy would be imperialism. Thirty years ago, the expression ‘imperialism’ was commonly used by leftist intellectuals—primarily Marxist political economists—to describe the workings of a capitalist system in which one elite class, those who owned the means of production, dominated and exploited the majority class in order to advance their own narrow self interests. In the wake of the downfall of socialism in the former Soviet Union and Eastern Europe at the end of the 1980s, most leftist intellectuals have largely abandoned the term imperialism. The elite class, as it rapidly increases its power in recent decades by concentrating ever more the ownership of the means of production, has managed to disguise this process by popularizing the term ‘globalization’. And most leftist intellectuals have merely accepted this new buzzword, at the very moment when the term imperialism has become more meaningful and useful for analysis than ever before.

In what follows, I will first explain the general views of Petras and Veltmeyer regarding globalization. Then I will set forth key aspects of their analysis of globalization as it has been evolving in Latin America.

Commentary

The IMF brief on globalization corresponds fairly closely to the description of the first meaning of globalization given by Petras and Veltmeyer, a process that merely extends competitive market forces to the world level and produces benefits for all of humanity. It also fits the philosophy of the World Trade Organization (WTO). One can find, on its website⁶², a short text which addresses ten myths that exist about the WTO. One such myth is that people believe that the WTO, by promoting free trade, destroys jobs and widens the gap between rich and poor. “While about 1.15 billion people are still in poverty,” points out the WTO, “research, such as by the World Bank, has shown that trade liberalization (free trade) since World War II has contributed to lifting billions of people out of poverty. The research has also shown that it is untrue to say that liberalization has increased inequality”. It is worth consulting this website.

The analysis of Stiglitz and that of ECLAC obviously fit the second meaning given to globalization. Stiglitz makes it clear that globalization, understood as the extension of market forces to the global level, can and has yielded many benefits for humanity. However, he argues that the path followed by globalization since the 1980s under the influence of multilateral institutions such as the World Bank, but especially the IMF, is very harmful, in that it

⁶² 10 common misunderstandings about the WTO. (http://www.cisp.org.ua/cisp/cisp_uk.nsf/35ebc50181cc490bc225753c00576fc0/f0be01bdca8a3011c225754a0065fde7?OpenDocument) consulted on August 4, 2003. When I retrieved this page again on 6 June 2017, I noticed that the term “myth” had been replaced by “misunderstanding”.

increases the gap between rich and poor and destroys jobs. While Stiglitz does not agree that there is a concerted plan by the world moneyed elite to crush developing countries, he does say that the policies pushed onto the developing nations by the IMF and the wealthy in advanced countries, mainly the United States, do not make economic sense when one thinks of the real interests of the majority of people in the world. However, he adds that they do make plenty of sense when viewed from the narrow interests of the moneyed elite. This is not class analysis, but it certainly suggests the possibility of such analysis. Stiglitz nurtures the hope that when the erroneous and ill-guided policies of the IMF are made public, the correct Keynesian policies, abandoned by the IMF in the 1980s, will be reinstated. We have seen that ECLAC, although it is more diplomatic and polite, adopts an analysis very similar to that of Stiglitz. The norms and standards imposed on developing nations in the present globalization process are those of the advanced countries, ECLAC asserts. The present globalization process yields benefits for these countries, which control virtually all the cutting-edge technology, and which can easily support the shocks of a liberalized global world because they have the fiscal breathing space to do so, but places the bulk of the disadvantages on the shoulders of developing nations.

Petras and Veltmeyer bring a totally new dimension to the analysis of globalization. Contrary to both Stiglitz and ECLAC, they do see a concerted plan or strategy behind the free market fundamentalism, or neoliberalism, adopted by the IMF and the World Bank in the 1980s. In other words, they argue that the present form of globalization is not “un accident de parcours”, a path mistakenly followed because of an intellectually flawed and misguided economic policy, but a well-thought out strategy adopted by the world moneyed elite. We will see, in the subsequent analysis, that Petras and Veltmeyer place no hope whatsoever in reforms

arising from the fact that the IMF, the World Bank and the U.S. Treasury, would suddenly become aware of their 'intellectual mistake'. Instead, they place their hope in a struggle arising from the awakening, and subsequent organizing, of people at the grassroots level, the increasing mass of discontents produced by globalization.

Globalization or imperialism?

Petras and Veltmeyer view globalization as a process masterminded by the world moneyed elite, a class “that includes a complex of some 37,000 transnational corporations (TNCs), the operating units of global capitalism, the bearers of capital and technology and the major agents of the new imperial order.” This imperial order also includes “a host of global strategic planning and policy forums such as the Group of Seven,⁶³ the Trilateral Commission⁶⁴ and the World Economic Forum⁶⁵; and the

⁶³ The G-7 groups the most advanced industrialised countries, forming a nucleus of world economic governance, and its composition reflects their relative economic power in the three major economic regions of the world: United States, Japan, Germany, France, Italy, United Kingdom and Canada. The 1997 Summit meeting in Denver (United States) marks a turning point in the history of the Group as it was much more a political rather than economic summit, dominated by the first formal involvement of Russia's President Boris Yeltsin. The G-7 Summit has effectively become a "Summit of the Eight". (Note added in 2017: Following Russia's annexation of Crimea in 2014, the G-7 has excluded Russia from the group.) To see a 3 min. video on what is the G-7: <https://www.youtube.com/watch?v=bJ-b53cN-SU>.

⁶⁴ The Trilateral Commission was formed in 1973 by private citizens of Japan, Europe (European Union countries), and North America (United States and Canada) to foster closer cooperation among these core democratic industrialized areas of the world with shared leadership responsibilities in the wider international system. Originally established for three years, our work has been renewed for successive triennia (three-year periods), most recently for a triennium to be completed in 2003. The members of the Trilateral Commission are about 350 distinguished leaders in business, media, academia, public service (excluding current national Cabinet Ministers), labor unions, and other non-governmental organizations from the three regions. (Source: <http://www.trilateral.org/>) To see a 4 min. video on what is the TC: <https://www.youtube.com/watch?v=B4GculhsShM>.

state apparatuses in countries at the centre of the system that have been restructured so as to serve and respond to the interests of global capital” (p. 12).

After providing a bird’s eye-view of the evolution of capitalism in the 19th and early 20th centuries, Petras and Veltmeyer recall that capitalist countries experienced strong economic growth in the decades following World War II. During this period, they point out that the state “in many instances was converted into the major agency of national development”. In other words, governments were nationalistic, protected domestic firms by trade tariffs, actively intervened to promote industrialization, created state-owned enterprises, set rules to control foreign direct investment (for example by making sure that FDI would produce numerous new jobs), developed social safety nets to protect workers and deepened and extended domestic markets “to incorporate sectors of the working class and direct producers”. Such welfare-state oriented policies

⁶⁵ The World Economic Forum is an independent organization committed to improving the state of the world. We embrace new challenges by developing initiatives that support our core principles and values, which are to:

- Provide a collaborative framework for world leaders to address global issues;
- Promote entrepreneurship in the global public interest;
- Maintain a non-partisan and independent position.

Funded by the membership fees of the 1,000 foremost global companies, the Forum works in partnership with: academia, government representatives, international organizations, labour leaders, media, non-governmental organizations and religious leaders.

Our strategic vision is to be a leader in identifying strategic issues and to provide a platform for decision-makers to effect constructive change.

The Forum facilitates dialogue between corporate, political, intellectual and other leaders on matters of global, regional, corporate and industry importance. We facilitate discussion, acting as a catalyst for the development of key strategic insights. (Source: <http://www.weforum.org>) To see a one min. non-critical video on what is the WEF: <https://www.youtube.com/watch?v=h3iuFkjCrew>. To see a 14 min. critical video:

<https://www.youtube.com/watch?v=PHig83EbJ14>.

allowed the growth and expansion of a fairly significant middle class in many countries.

Political factors, argue Petras and Veltmeyer, also explain the gains made by the working class during this post-World War II period. The Cold War was in full steam and capitalist countries had to cope with the specter of Communism. The struggle between the two opposing systems, one capitalist and the other socialist, meant that capitalists had to maintain workers happy lest they be tempted by an alternative system. “The growth of non-capitalist countries in Europe, Asia, Eastern Europe and Latin America and the growth of nationalist regimes in Africa forced the Western European and U.S. capitalist classes to compete for the allegiance of the working class by offering wage and welfare concessions” (p. 38).

However, two major series of factors, some economic and some political and ideological, substantially altered the situation and set the stage for the neoliberal globalization agenda which characterizes the last quarter of the 20th century.

Economic factors: By the end of the 1960s, capitalist countries started experiencing difficulties. Workers had been fighting for and often obtaining higher wages, “greater social benefits and better working conditions”. But with the stagnation of production and declining productivity, this trend eventually caused tensions of a class-conflict nature, as capitalist firms were experiencing a profit-crunch.

Political and ideological factors: The working class, in countries where it had been particularly militant and successful, suffered defeats from the mid 1960s to the 1970s through violent military action carried out to defend the interests of the moneyed elite. Petras and Veltmeyer provide a few examples: Brazil in 1964, Indonesia in 1966, and the many coups d’état in Latin America in the 1970s. In the late 1970s, China, with its “counter-revolution from within”,

started moving away from socialism. In the late 1980s, the USSR collapsed and along with Eastern Europe abandoned socialism and adopted capitalism. Many European social democrats and U.S. liberals converted to the neoliberal, free-market ideology. The Chilean coup d'Etat of 1973 was particularly important as it represented both the successful repression of the workers and the left and the pioneering of a radical neoliberal economic agenda.

“The early starters on the neoliberal road towards free market capitalism were found in Chile,” note Petras and Veltmeyer. “Exclusively a product of the military coup d'état, the neoliberal program of free market reforms were subsequently implemented by the Reagan (U.S.) and Thatcher regimes (United Kingdom). This is not to say that the TNCs and financial capital were not operating in the world market prior to these political regimes. It is to say that the globalizers had to share power and resources with local capital, trade unions and popular political forces. Henceforth the compromise between internal market development via the welfare state and the international flow of capital and commodity trade was ruptured either by political force, military dictatorship or executive decree within a minority electoral regime” (p. 43).

Encouraged by the victory of capitalism, the capitalist class could now turn to the business of addressing its profit-crunch problem by pushing ahead a neoliberal oriented globalization process. Petras and Veltmeyer view the following as key components in that process:

1. Transnational corporations (TNCs) relocated their labour-intensive operations in the search for cheaper labour. The reasoning is simple and clear: with cheaper labour, higher levels of profits can be restored. Furthermore, by moving some of its operations overseas, for example in low-wage maquiladora regions of developing countries, TNCs achieved another goal:

creating a downward pressure on wages and working conditions in the advanced countries. And when the workers in these countries complain about their decreasing living standards, the TNCs “sell the idea that the global market” is responsible for this, and that they too are its victims. From this process of relocation, a new international division of labour emerges which is characterized by the “growth of a new global production system based on the operations of TNCs and their affiliates, estimated by the United Nations Conference on Trade and Development (UNCTAD) in 1994 to number some 206,000.” Already in 1980, the top 500 TNCs in the world were estimated by UNCTAD to have an annual turnover of more than \$3 trillion U.S., “equivalent to almost 30 percent of gross world production and an estimated 70 percent of international trade” (p. 15).⁶⁶

2. Restrictions on the flow of capital between countries were removed. This opened the door to new profit opportunities and contributed to the rapid

⁶⁶ Established in 1964, the United Nations Conference on Trade and Development (UNCTAD):

- Aims at the development-friendly integration of developing countries into the world economy.
- Is the focal point within the United Nations for the integrated treatment of trade and development and the interrelated issues in the areas of finance, technology, investment and sustainable development.
- Is a forum for intergovernmental discussions and deliberations, supported by discussions with experts and exchanges of experience, and aimed at consensus building.
- Undertakes research, policy analysis and data collection in order to provide substantive inputs for the discussions of experts and government representatives. .
- In co-operation with other organizations and donor countries, provides technical assistance tailored to the needs of the developing countries, with special attention being paid to the needs of the least developed countries, and countries with economies in transition. (Source: <http://www.unctad.org/>) To see 3 min. 2016 video on what UNCTAD does: https://www.youtube.com/watch?v=m9RefmVf_6M.

internationalization of capital. This includes both investment capital—money invested to expand production and trade—and speculative capital—money flowing from country to country in the search of obtaining speculative profits, for example profits arising from buying a currency cheap and reselling it when its value rises.

a) Just as ECLAC noted in its study, Petras and Veltmeyer point out the rapid increase in the flow of speculative capital flows relative to investment capital flows. “From the mid-1970s to the early 1990s the daily turnover of the foreign-exchange markets climbed from \$1 billion to \$1.2 trillion a day, close to twenty times the value of daily trade in goods and services” (p. 15).

b) Certain banks located in advanced countries also embarked on an immense loan- spree to Third World governments. Overseas loans by these banks were \$2 billion in 1972 and peaked at \$90 billion (58 billion for Latin America alone) in 1981. The Third World debt crisis of the early 1980s put a damper on these loans; they fell to \$50 billion in 1995.

c) In the late 1980s, the portion of direct foreign investment (FDI) to developing countries became the main component in the total flow of new capital extended to these countries. In 1990 the flow of FDI to Latin America and Asia, the two regions of the world that received the bulk of foreign investment capital, “was valued at \$2.6 billion, less than a twentieth of the international loans made that year. By 1995 the flow of FDI to Latin America had increased to \$20.9 billion, more than 25 percent of the total loans extended to these two regions and close to one-half the official transfers” (p. 16). According to UNCTAD, developing countries received \$80 billion in FDI in 1993, an amount equal to the total level of FDI in the world in 1986. The sharp

increase in FDI to developing countries would be the result of higher expected rates of profit on the one hand, and, on the other, the privatization trend pushed onto developing nations, as we have seen earlier, by the IMF structural adjustment programmes.

3. An internationally integrated production system was created and implemented which radically reduced the costs of and increased the speed of transportation and communication. In the hands of the TNCs, this new technology “generated profound changes in labour markets and class structures throughout the world” and radically reduced jobs.
4. The moneyed elite waged a worldwide war against labour, rendering it more flexible, more precarious and more economical. Unions were weakened, thus reducing the capacity of workers to organize in order to defend their wages and working conditions. “Since the widespread implementation of neoliberal programs of structural adjustment in the 1980s”, point out Petras and Veltmeyer, “the share of labour in national income has been drastically reduced”. For example, the share of labour in national income was reduced “from 48 percent to 38 percent in Chile, 41 percent to 25 percent in Argentina and 38 percent to 27 percent in Mexico.” In Latin America, these programs have increased income and wealth disparities that “were already the worst in the world” (p. 17).

UNCTAD estimates that at the end of 1994 there were “up to 120 million workers” officially unemployed in the world and another 700 million seriously underemployed, “eking out a bare existence in what the International Labour Organization defines as the unstructured informal sector”. In 1996 the informal sector represented over 50 percent of the developing world’s labour force” (p. 17).

5. The capitalist state was modified to serve the interests of the “transnational capitalist class”. Many theoreticians view the present situation as one in which the power of national governments is eroding as a consequence of globalization. While Petras and Veltmeyer agree that the power of most states in determining the orientation of national economies is diminishing and shifting increasingly to international organizations and transnational corporations that are unaccountable to common citizens, they argue that this shift is the clear outcome of the decision of certain states. A distinct set of nation-states, they argue, “are dominant, namely the advanced capitalist, or imperialist, states of North America, Europe and Asia.” These states have never intervened “with more vigour and consequence in shaping economic exchanges and investment at the local, national and international level”. These states have set the agenda of globalization. One cannot understand the deepening involvement of multinational corporations and banks without the prior political, economic and often military intervention of these states. One cannot understand the expansion of the market in the former USSR, Eastern Europe, China and the former socialist-oriented Third World countries “without acknowledging the vital political role of the imperial nations-states, particularly the U.S., in fuelling an arms race and subsidizing cultural and religious propaganda” (p.54).

Given this imperialist-country driven reduction of the state, transnational corporations (TNCs) can wield with ever-greater liberty their very coercive practices. “The overt threat of TNCs to move capital, close factories and fire workers significantly undermines free debate and the democratic legislative process. The corporate gun pointed at the heads of workers and legislators precludes democratic politics” (p. 71).

6. Petras and Veltmeyer view the present phase of neoliberal globalization as the extension and radicalization of the New World Order founded in 1944 by the major capitalist countries with the creation of the IMF, the World Bank, and the General Agreement on Tariffs and Trade (GATT). The purpose of the GATT was to foster the free international trade of goods. When it was transformed in 1994 into the World Trade Organization (WTO), “the political representatives of imperial capital” moved their globalization project forward. Now not only goods, but also services would soon be able to move freely across boundaries, opening up yet new profit opportunities for the TNCs. There still remained obstacles to the free flow of capital across nations; the Multilateral Agreement on Investments (MAI) was designed to address this problem. The MAI, a project negotiated in secret by the Organisation for Economic Co-operation and Development,⁶⁷ described by Petras and Veltmeyer as “the club of the world’s richest and most powerful capitalist nations”, was discovered and thanks to a remarkably strong international popular campaign, abandoned.

The authors cite two studies published in 1997 by the South Centre (see box above) that are very critical of the neoliberal agenda pushed forward by these multilateral institutions. One study⁶⁸ concludes that globalization “is proceeding largely for the benefit of the dynamic and

⁶⁷ The OECD groups 34 member countries sharing a commitment to democratic government and the market economy. With active relationships with some 70 other countries, NGOs and civil society, it has a global reach. Best known for its publications and its statistics, its work covers economic and social issues from macroeconomics, to trade, education, development and science and innovation. (Source: <http://www.oecd.org/>) To see a 2 min. video on what is the OECD https://www.youtube.com/watch?v=_YF51mpd0AI.

⁶⁸ South Letter 3-4, p. 29

powerful countries.” The other⁶⁹ notes that “the worldwide implementation of liberalization, deregulation and privatization measures since the mid-1980s has resulted in a significant deterioration of socio-economic conditions for a large part of the world’s population and a widening of the North-South gap in market-generated wealth and income. In addition, these measures have seriously eroded the capacity of developing countries to pursue and advance their national interests, not to mention to control their own destiny” (p. 18)

In order to justify their choice of the term imperialism, instead of globalization, to describe what is presently happening in the world economy, Petras and Veltmeyer compare and contrast the two terms.

The concept of globalization, they point out, “argues for the interdependence of nations, the shared nature of their economies, the mutuality of their interests and the shared benefits of their exchanges.

Imperialism, in contrast, emphasizes the domination and exploitation of less-developed states and labouring classes by imperial states, multinational corporations and banks” (p. 29-30).

An examination of the facts, they contend, reveals the shallowness and inappropriateness of the term globalization and the pertinence and relevance of the term imperialism. Within the international financial agencies and other world bodies, it is clear that the imperial countries wield decisive influence; the other countries have to toe the line. When one examines profits, royalties, rents and interest payments, it is clear that the process is not one of shared benefits and interdependence; these flow systematically and

⁶⁹ *Foreign Direct Investment, Development and the New Global Economic Policy*. Geneva.

disproportionately from the developing world to the advanced countries.

Technology and market forces are not the driving force of capital and trade flows, as the notion of globalization would suggest. This driving force lies “in the transnational corporations, supported by international financial institutions, whose personnel are appointed by the imperial states”. These corporations control technology and market forces.

“Data covering long- and short-term flows of incomes at world, national and class levels consistently show an increase of inequalities between imperial states and dominated states, investors and workers, agro-exporters and peasants” (p. 30). The most globalized countries, for example the U.S., are the ones where one finds the largest gap between the income of CEOs and ordinary workers. “CEOs in Europe (where globalization is less advanced) who have 40:1 salary ratio to workers are described as ‘underpaid’ or ‘behind the times’ by *Forbes* because they are far below the 240:1 ratio of U.S. CEOs” (p. 56). The same one-directional and asymmetrical pattern is obvious when one examines military power and intelligence operations. “The flow of intervention is unidirectional, from the imperial centre to the dominated countries” (p. 31).

Petras and Veltmeyer affirm that “the most striking refutation of globalization theory”—an increasingly interdependent and prosperous world—“is found in the contrast between the relative prosperity of capitalism in the U.S. and Europe and the collapse or depression of economies in the rest of the world.

The crises in Asia, Latin America, the former USSR, etc. were fuelled by pressures from the Euro-American powers, which encouraged liberalization, deregulation and indebtedness. Today U.S. and European TNCs benefit via cheap buyouts of banks and corporations, exploit low-wage

labour and exercise greater control over trade and macroeconomic policies. It is a strange concept of ‘globalization’ that describes pillage and profit in the same breath as interdependence and stateless corporations. The great concentrations of profits and interest accrue to the accounts of TNCs and banks headquartered in the U.S. and Europe” (p. 66).

Impact of globalization

Those who describe what is presently happening in the world economy as globalization commonly paint a very rosy and optimistic picture of the future: a world of “high-powered technology that operates through global markets to produce quality goods and deliver advanced services that are consumed by growing multitudes”.

The reality, argue Petras and Veltmeyer, is totally different. Social conditions are worsening and becoming just as bad as those that existed in the 19th century. Health care all over the world is becoming more precarious; the services one obtains increasingly depend on the size of one’s pocketbook.

In the United States where, as it was previously mentioned, globalization is very advanced, more than 60 million people have no or inadequate health care and “over ten million children are not covered”. Job insecurity is increasing; the power of managers to hire and fire at will, to subcontract part-time and temporary work is expanding to such an extent that conditions are starting to resemble those described by Charles Dickens. “Impoverished families are forced to work at below-subsistence, minimum wage jobs or go hungry. More workers work longer hours today than they did in the 1970s. Retirement age is reaching nearly seventy years old. Employers no longer provide pension plans. Private employers for private gain employ prison labour on a large scale. The number of children in orphanages is

growing, as is the number of children living in poverty. Inequalities approach or surpass 19th-century levels. (...)

The future for most of the young generation looks insecure and fearful both in Europe and North America, and for good reason. It will be the first generation since World War II that will be downwardly mobile” (p. 45).

Globalization affects the majority of people negatively, both in advanced countries and in the Third World. Argentina has an unemployment rate of 18 percent, and Brazil of 15 percent. It is weakening, and in many countries wiping out, the middle class. In Eastern Europe and the former Soviet Union, living standards have fallen between 30 to 80 percent since the transition to neoliberal capitalism began in the late 1980s. Mexico, a model country from the point of view of the IMF, “has seen wage-earning income levels plummet to 30 percent of their levels a decade and a half earlier” (p. 51).

U.S. leading imperial power

Petras and Veltmeyer not only insist that the term globalization masks the unfolding of imperialism, a stage in the evolution of capitalism; they also provide evidence pointing to the clear dominance of U.S. corporations in this ever more accentuated imperialism.

Beginning in the 1970s, it has been common for corporate journalists, investment bankers and academics to refer to the end of Third World dependency, to the emerging economies in Asia, Latin America, the Middle East and Africa. Today, these assertions sound hollow. Of the 500 leading corporations in the world, only 26, or 5 percent originate from the Third World. In fact, because of economic crises and privatization, “many of these companies have been taken over by U.S. or European capital and they are in effect subsidiaries of the giants of the Euro-American Empire” (p. 63).

On January 28, 1999 the Financial Times reported a survey of the world's biggest corporations based on market capitalization (total dollar value of all outstanding shares). The U. S. accounted for 244 of them, Japan 46 and Germany 23. For all of Europe, the total was only 173. It is clear that Japan's power has been declining rapidly to the benefit of the U.S. Japan had 71 of the biggest corporations in 1998, and only 46 one year later. In sharp contrast, the United States had 222 in 1998 and 244 one year later. In subsequent years, this trend was accentuated, as U.S. transnationals were buying out Japanese firms, as well as Korean, Thai and other enterprises. Europe, not Japan, remains the main competitor of the U.S.

A look at the top 25 corporations in the world, those whose market capitalization exceeds \$86 billion, reveals that the concentration of U.S. economic power is even clearer: "over 70 percent are U.S., 26 are European and 4 percent are Japanese". An examination of the top 100 corporations reveals that 61 percent are U.S., 33 percent are European and only 2 percent are Japanese. "To the degree that the TNCs control the world economy, it is largely the U.S. that has re-emerged as the overwhelmingly dominant power," argue Petras and Veltmeyer. "Insofar as the very largest companies are the leading forces in eliminating smaller companies through mergers and acquisitions, we can expect the U.S.-based TNCs to play a major role in the process of concentration and centralization of capital" (p. 62-3).

U.S. corporations experienced their worst decline in global power from the mid-1970s to the mid-1980s. However, they possessed, according to Petras and Veltmeyer, six strategic advantages that allowed them to regain world supremacy in the following years.

1. U.S. corporations control U.S. policy making to a degree that would be unimaginable in Europe. The two political parties that monopolize the country, the

Republicans and the Democrats, see eye to eye, together with the Presidency and the Federal Reserve (the U.S. Central Bank) on the primacy of promoting overseas expansion.

2. U.S. trade unions represent only about 10 percent of the private sector labour force. Also and more importantly, they are totally dependent on the Democrats and the Republicans and cooperate readily with corporations in maintaining labour market flexibility. Labour leaders cooperate with companies that fire workers, reduce social benefits and implement pro-management work rules. They force workers to accept technological change and job reclassifications to a far greater degree than would be possible in Europe where unions are more powerful and more influenced by progressive forces.
3. U.S. corporations benefit from the lowest corporate taxes in the world. While these taxes account for only 10 percent of federal revenues, income taxes on wages account for 47 percent. U.S. corporations pay less for the health coverage of workers; the U.S. has the “highest percentage of workers without health coverage of any of the industrial and semi-industrial countries”.
4. The U.S. can finance the country’s huge current account deficit by simply issuing dollars. This privilege, which comes from the fact that the U.S. dollar is the major currency used throughout the world for market transactions, is unique. No other country has this advantage.
5. “The U.S. Treasury Department officials are the most influential members of the IMF and the World Bank”. They are thus capable of “enforcing economic policies that increase the vulnerability of rival countries and facilitate U.S. corporate takeover by lowering barriers to U.S. financial investment invasions” (p. 64).

6. Through the combined effort of many agencies—CIA, Pentagon, Commerce, and Treasury— the U.S. intervened very aggressively, both politically and militarily, in expanding its economic power. More precisely, it undermined the Japanese economy, seized assets in Asia and Latin America and retained its influence in Europe via NATO. This paved the way for large-scale mergers and overseas expansion.

Imperialism and Latin America

As mentioned earlier, economic growth was particularly strong in capitalist countries in the decades immediately following World War II. At the same time the Cold War was very influential in this period and the existence and expansion of socialism to several Third World countries exercised constant pressure on capitalist countries. The result was that governments in capitalist countries gave in more easily to workers' demands and intervened fairly actively to protect and orient national economies. The combination of these factors, according to Petras and Veltmeyer, led to the creation of the welfare state and the expansion of the middle class.

In Latin America, the period preceding the coup d'état in Chile in 1973 was one of economic growth, nationalism and fairly strong government intervention, described by many as populist policies. Some key sectors were nationalized. The unionization of workers was extended. Agrarian reforms were carried out. National firms were protected by stiff tariffs. Transnational firms were not allowed to repatriate all of their profits; they were forced to re-invest a certain proportion in the country from which it came. Such nationalism and such policies, argue Petras and Veltmeyer, "limited the depth and scope of U.S. imperialism and blocked its hegemony".

A few examples:

- In the 1930s and 1940s the President of Mexico nationalized U.S. petroleum interests; governments in Brazil, Argentina and Chile promoted their national industry by imposing strong trade barriers such as tariffs, “initiating a widespread movement towards the nationalization of strategic industries in the region”.
- President Arbenz in Guatemala expropriated the land owned by a large U.S. corporation, United Fruit, and redistributed it among landless peasants. This provoked a CIA led coup against his administration.
- Bolivia experienced a radical nationalist revolution in 1952.
- In 1959, Cuba, under the leadership of Fidel Castro and Che Guevara, ousted the U.S. backed dictator, Batista, and initiated a socialist revolution.
- A wave of populist, nationalist and democratic regimes emerged throughout Latin America in the 1960s and 1970s. For example, the Popular Unity, under the leadership of Salvador Allende, was elected in Chile in 1973. Workers’ gains there were such that under his regime their share of national income represented nearly 60 percent.

The military coup in Chile represented the first major step in reversing the balance of power between workers and popular forces, on the one hand, and the capitalist class, especially its transnational component, on the other. Local moneyed elites joined hands with transnationals, and their imperialistic governments, in overthrowing, generally in brutal violence, the democratic regimes that had given priority to workers and landless peasants. Radical neoliberal free-market economic reforms were implemented. Under the Pinochet regime in Chile, the labour market was rendered so flexible that the share of income received by

workers plummeted in 1989 to 19 percent, “one of the lowest in the world”.

Petras and Veltmeyer refute categorically the claim of “the ideologues of neoliberalism” that “the free market has become the dominant model in Latin America because of the failures of statism,” or socialism. “The free market emerged in Latin America precisely in reaction against the success of social reform and was imposed on the basis of violent political intervention” (p. 77). They refer to the U.S. backed military interventions to overthrow democratic governments in Argentina, Brazil, Uruguay and Chile. “Newly installed dictators, supported by the international financial institutions, then proceeded to dismantle social and protectionist barriers, denationalize the industrial and banking sectors, and privatize public assets. Free market policies were enforced by draconian regimes that killed thousands, jailed and tortured tens of thousands and forced millions into exile. Political linkages between the TNCs, Latin American transnational capitalists and the state were strengthened, while U.S. hegemonic aspirations became a reality” (p. 77).

There is vast statistical evidence, assert Petras and Veltmeyer, that the elite class represented by transnationals, both Latin American and U.S., “benefited enormously from U.S. hegemony” in Latin America from 1974 to 2000, the period described by ECLAC as the third phase of globalization.

Interest payments on debt. In the 1970s, U.S. banks extended huge loans to governments and the private sector in Latin America. At the moment of the debt crisis in 1982, these loans amounted to \$257 billion. Even though the crisis resulted in a drastic reduction of private loans, the accumulated external debt in Latin America increased to \$452 billion by 1990, and \$698 billion by 1998. This increase occurred despite the fact that Latin America during

the decade of the 1980s was making annual interest payments of \$170 billion. U.S. banks received interest payments of \$67.5 billion from Latin America in 1995. Over the course of the decade of the 1980s they received well over \$600 billion, “a figure equivalent to around 30 percent of total export earnings generated over the same period, at enormous economic and social cost” (p. 78-9). Even though the Latin American external debt is now deemed manageable, most countries are still in a situation, point out Petras and Veltmeyer, where their debt represents more than 50 percent of export earnings, a situation defined as critical by the World Bank.

Foreign direct investments (FDI). Foreign direct investments became the major component of capital flows to Latin America in the 1990s. While bank loans accounted for 82 percent of capital flows to the region from 1978 to 1981, they only accounted for 32 percent from 1990 to 1993. Equity investments to Latin America—both portfolio and direct—represented 60 percent of total capital flows to the region by 2000. Over the course of the 1990s, the flow of direct investment to Latin America increased by nearly 600 percent, far surpassing the 223 percent worldwide increase of foreign direct investment. Brazil, Mexico and Argentina accounted for 62 percent of this FDI.

Most of this foreign direct investment, point out Petras and Veltmeyer, was used “to purchase the assets of privatized public enterprises and financially troubled “private” enterprises in the region, with little capital formation involved. Together, such acquisitions account for 68-75 percent of all FDI in the region” (p.80).

By 1999, more than 33 of the top 100 Latin American corporations had been taken over by foreign investors, mostly American. According to the U.S. Department of Commerce, the average annual rate of profit produced by U.S. direct investments in Latin America from 1993 to 1997

was 12 percent. ECLAC however estimates this average annual profit to be from 22 to 34 percent over the same time period. Petras and Veltmeyer argue that this significantly high rate of profit is underestimated, as much profit “is unreported or disguised through transfer-pricing” and because it is calculated after deductions for taxes, liabilities held by parent corporations, insurance and license fees and royalty payments to the same” (p. 81). ECLAC estimates that U.S. transnational corporations repatriated \$157 billion from Latin America from 1996 to 1998 alone. (To discover what is transfer pricing and how it can be used to disguise profits, see paragraph and table below; or watch this 7-minute video posted by Khan Academy on 8 October 2012: <https://www.youtube.com/watch?v=TLSYwkWCizA&feature=youtu.be>)

WHAT IS TRANSFER PRICING?

“Transfer prices⁷⁰ are the prices charged on intrafirm [intracorporate] trade in goods, business services and/or intangibles; i.e. trade between affiliated businesses. Transfer prices are set for internal reasons [motivate managers, monitor affiliate performance] and external reasons [taxes and tariffs]. Transfer prices can be based on market prices or not based on market prices [i.e. could be based on cost plus, or negotiated between the affiliates]. About two thirds of multinational enterprises (MNEs) say they use non-market based transfer pricing methods.”

“Transfer price manipulation [TPM] -- as distinct from transfer pricing -- is the over or under invoicing of transfer prices so as to avoid or evade government regulations and

⁷⁰The following three paragraphs and accompanying enclosed table are a direct quote from <http://wehner.tamu.edu/mgmt.www/mgmt.667/667-Fall-2001/timetable/eden-tp-lecture-notes-2001.pdf> (Note added in 2017: This source, first consulted in July 2003, no longer seems to be available on the Internet).

policies [e.g. reduce tax payments]. That is, TPM is the deliberate setting of transfer prices either too high or too low so as to avoid government regulations. TPM must occur relative to some benchmark - you must be too high or too low relative to something else. In this case, "too high or too low" refers to the transfer price that would have been set by unrelated parties engaged in the same transaction (the arm's length price)."

"What are the government regulations that could lead a multinational enterprise to engage in transfer price manipulation? The enclosed table illustrates some of the external motivations that MNEs have to manipulate transfer prices. These include: differentials in corporate income tax rates between countries, restrictions on remitting foreign exchange, customs duties, and so on."

Government Regulation	Motivation for Transfer Price Manipulation
Ad valorem (% of value) tariffs on imported goods	Undervoice to avoid paying customs duties
Differences in corporate income taxes between countries	Shift tax deductions (expenses) to the high-tax country and taxable items (revenues) to the low-tax country so as to minimize total tax paid to the two countries
Host government foreign exchange restrictions	If can't directly remit profits to MNE parent because of host country FOREX restrictions, overinvoice exports from the foreign affiliate as an alternative method to shift profits out of the country
Host country requires the MNE to share ownership with a host country (joint venture)	This means profits are shared with a foreign firm, in effect, putting a tax on MNE profits in the host country. The MNE may use transfer price manipulation to shift profits out of the host country

Royalties and license fees. As we have seen, ECLAC noted in its study on globalization that advanced countries were

increasingly protecting intellectual property rights in trade negotiations given that they monopolize discoveries in cutting-edge technology. Petras and Veltmeyer emphasize the fact that the United States in recent years has substantially increased the payments it receives from Latin America in the form of royalty and license fees. From 1982 to 1992 royalty and license fees payments to the U.S. from Latin America totaled \$1.3 billion. However, as shown below in Table 6 they exceeded one billion dollars per year throughout the 1990s. This, note Petras and Veltmeyer, not only represents “a growing charge made annually by parent corporations in the U.S. against the operations of their affiliates in Latin America” (...) “but they allow parent companies to lower their rate of declared profits in the host country” (p. 82). In other words, the Latin American affiliates declare the royalty and license fees they have to pay to the parent company as a cost, and thus the profit of these affiliates ‘appears’ to be lower.

Table 6. Royalty and license fees payments to the U.S. from Latin America (Billion U.S.\$, average annual payment)⁷¹

Years	1985-90	1991-93	1994-5	1996	1997
Average payment	\$0.9	\$1.1	\$1.6	\$1.4	\$1.7

Commodity Trade. Petras and Veltmeyer argue that Latin America represents a very important card in U.S. global strategy. For one thing, nearly 25 percent of all U.S. exports are directed to Latin America. Also and more importantly, Latin America is the only region in the world that provides the U.S. with a significant current account surplus. “Without this surplus, the U.S. foreign accounts deficit would be significantly greater, the dollar would be weaker and the

⁷¹ Source: UNCTAD 1998: 268; U.S. Dept. Of Commerce, BEA, “U.S. Direct Investment Abroad: Capital Flows,” 1994, 1999.

role of the U.S. as the world's premium banker would be much more problematic" (p. 82).

While Latin America has become a major source of profit for imperial countries, mainly the U.S., it has been weakened substantially by embarking on a process of "globalization" that has led it to specialize in certain lines of production that reflect its factor endowments. More precisely, Latin America increased its dependence on a few primary products and thus lost in the last few years an estimated 25 percent of its potential export earnings. For example, a rapid decline in the world price of copper, oil and coffee in March 1999 wreaked havoc in the region and considerably dampened the prospects for future growth. Mexico and Venezuela, Petras and Veltmeyer note, have increased their dependence on oil exports to the U.S. Declining oil prices have been good news to the U.S. economy but have resulted in declining revenues for Mexico and Venezuela, and this in turn has led to a substantial decline in living standards.

Deterioration of Latin American economies

According to Petras and Veltmeyer, the general economic situation in Latin America and the living conditions of most of the people have deteriorated substantially from 1980 to 1999. In the decade of the 1980s, the average annual growth in Gross National Product (GNP) per person was negative; more precisely a drop of 0.9 percent per year. In 1990, GNP per person dropped by 2.2 percent, but averaged an annual 1.34 percent increase from 1990 to 1998 (p. 84).

The entire period 1980-1999 was one of "stagnation punctuated by systemic crises and costly bailouts that further weakened the basic productive structures of the economy". In the 1980s, deeply indebted Latin America paid out massive amounts of money to foreign banks, mostly U.S. The structural adjustment programs imposed by

the IMF opened up the economies to a flood of cheap imports, loosened controls over capital flows and resulted in a wave of takeovers and privatizations. Capital did flow into the region and economic growth occurred, but the promised land of the neoliberal ideologues was short-lived.

“However, shortly after “recovery” would be announced, a trigger event would lead to an assault on the national currency and the central bank’s reserves; capital flight estimated to reach magnitudes well in excess of new capital inflows; and the onset of crisis, deepening stagnation and growing un- and underemployment” (p. 84). To correct the crisis and attract new capital to a deteriorating economy, interest rates were allowed to increase. But this pushed the exchange rate too high, encouraged even more imports and led to the bankruptcy of thousands of local enterprises. “In this connection”, remark Petras and Veltmeyer, “it is estimated that 38,000 medium-sized enterprises in Argentina operated by the petite bourgeoisie over the 1990s either went bankrupt or were saddled with crippling debt. In Mexico this development has resulted in the formation of an organization of bank-indebted producers—El Barzón⁷²—that has amassed in excess of 750,000 members” (p. 84-5).

In order to survive in a situation of chronic stagnation and crises, Latin American capitalists “periodically engaged in a direct assault on the working class, attacking its organizational and negotiating capacity”. Encouraged by the World Bank, governments in the region engaged in labour reforms intended to render labour more flexible and thus more profitable for corporations. It became easier for these to fire workers and to replace full time workers by part-time casual labour. The power of unions was reduced. State-legislated benefits that allowed labour to participate in productivity gains were rolled back. So much so, as a matter

⁷² If you are fluent in Spanish, you may want to visit their website:
<http://www.elbarzon.org/>

of fact, that over the course of the 1980s and 1990s, even though labour was responsible for most of the gains in productivity, its share of national income plummeted. The worst case, already mentioned, was that of Chile where labour saw its share of national income move from 60 percent under Allende to about 19 percent in 1989 at the end of the Pinochet dictatorship. For all of Latin America the share of wages in national income dropped from 40 percent to 20 percent.

Over the course of the 1980s and 1990s the purchasing power of wage earners also dropped and income disparities increased. Workers in Argentina and Venezuela were still making lower wages in 2000 than they were in 1970. Workers in Mexico have also suffered substantial declines in purchasing power. In Brazil, the top ten percent of income earners make 45 times more than the bottom ten percent. In Argentina, income disparities soared. In 1975, the top 20 percent of income earners made 8 times more than the bottom 20 percent. In 1991 the top 20 percent made 16 times more and, by 1997, 25 times more! ECLAC estimates that the rate of poverty in Latin America in the 1980s increased from 35 percent of the total population to 41 percent. In the first half of the 1990s, the incidence of poverty was reduced in eight of the twelve countries that ECLAC examined. “However, a closer look at the statistics suggest either sleight of hand or outright obfuscation and lies—poverty was reduced by redefining the poverty line according to the World Bank’s base measure of \$1 a day” note Petras and Veltmeyer. “By other, more reasonable measures related to the capacity of the population to meet its basic needs, the rate of poverty has continued to climb to up to 60 percent of all households by some estimates” (p. 86). And even with the new measure of poverty, the rate started increasing again for the region in the second half of the 1990s.

A minority of rich, and the others...

Petras and Veltmeyer argue that the neoliberal orientated globalization process, which they believe should be more appropriately called imperialism, has produced a world where the middle class has withered away. On one side there is a rich minority, and on the other side there are the others, virtually all poor. Below, their vivid portrayal of the situation:

“Today, 15-20 percent of Latin Americans share a “First World” lifestyle: they send their kids to private school; belong to private country clubs where they swim, play tennis and do aerobic exercises; get facelifts at private clinics; travel in luxury cars on private toll roads; and communicate via computer, fax and private courier service. They live in gated communities protected by private police. They frequently vacation and shop in New York, Miami, London or Paris. Their children attend overseas universities. They enjoy easy access to influential politicians, media moguls, celebrities and business consultants. They are usually fluent in English and have most of their savings in overseas accounts or in dollar-denominated local paper. They form part of the international circuit of the new imperial system. (...)”

“The rest of the population lives in a totally different world. Cuts in social spending and the elimination of basic food subsidies have pushed peasants towards malnutrition and hunger. Large-scale redundancy of factory workers and their entry into the informal sector means a subsistence existence and dependence on the extended family, community-based charities and solidarity (soup kitchens) for survival. Slashed public health and education budgets result in increasing payments and deteriorating services. Cuts in funds for maintenance of water, sewage and other public services have resulted in a resurgence of infectious diseases. Declining living standards measured in income

and living conditions is the reality for two-thirds or more of the population.” (p. 88-9).

Reform or revolution?

Petras and Veltmeyer acknowledge that in recent years “voices within the imperial consensus have begun to question the workings of a neoliberal-oriented globalization process. Intellectuals, business leaders and politicians are openly speaking of the need to “bring the state back in”. In other words, to reverse the trend of the last two decades during which the power of the state was increasingly eroded. The model of a free market economy is accepted, but it must be reformed.

Privatizations can be beneficial, they argue, but they must be transparent and not consist in the selling off at below-market prices of state assets to cronies. Some have argued for controls of capital movements between countries that would limit speculative investment and encourage productive investment. Others have insisted on the need for governments to soften the blows of the market by implementing job training programs, poverty reduction strategies and self-help programs. Still others propose that an agrarian bank be created to finance small and medium producers on the verge of bankruptcy because of the influx of cheap imports resulting from free trade.

However, Petras and Veltmeyer place little hope in such reforms as they identify the roots of the deepening crises experienced in Latin America *within the very structure of the free market model itself*. More precisely, the roots lie, in their opinion, in the present neoliberal oriented globalization, which reflects the battle being waged by the moneyed elite to restore profits by weakening the working class.

Nor do they place much hope in the thousands of non-governmental organizations (NGOs) that have literally been

proliferating in the last few years. The vast majority of NGOs, argue Petras and Veltmeyer, are made up of former leftists who have recycled into the neoliberal system because it offers them some benefits. NGOs more often than not depend on money originating from governments, and these assure that all projects conform to the neoliberal agenda. By implementing such projects in the Third World, NGOs are thus merely putting Band Aids on the massive suffering caused by a neoliberal imperialist system. Instead of attacking head on the system that produces massive poverty and increasing inequality of income, they are in fact rendering this system more feasible.

Instead, Petras and Veltmeyer place their hope in the extra-parliamentary opposition that is growing in Latin America.

“New socio-political movements like the Zapatista Army of National Liberation (EZLN) in Mexico, the Movement of Landless Peasants (MST) in Brazil, FARC in Columbia, and peasant-Indian movements in Ecuador, Bolivia and Paraguay are openly challenging neoliberal regimes and their imperialist backers. Although their tactics vary from large-scale land occupations to guerrilla armies and a wide gamut of other mass actions in between, all these movements have called for the socialization of strategic sectors of the economy, far-reaching land redistribution and the reduction of overseas debt and other transfers (p. 88-9).”

In Brazil, they point out, the MST, which unifies urban and rural workers in a nation-wide struggle against neoliberalism, has organized hundreds of land occupations covering twenty-four states and has settled 500,000 families. In Columbia, FARC, which is also leading an anti-neoliberal struggle, controls half of all rural municipalities. It has an army of 15,000 peasants and the support of nearly 1,000,000 people. In Argentina, Brazil and Mexico, rank-

and-file industrial workers are contesting state-run unions and organizing class-based unions.

What is needed, conclude Petras and Veltmeyer, “is to turn sectorial movements into national political formations capable of turning regional struggles into social revolutions”. Anti-imperialist regimes must be formed “that can begin the reconstruction of the domestic market, regain control over the essential levers of the economy, redistribute wealth and create a participatory form of democracy to replace the elite-driven, foreign-based electoral systems that describe themselves as democracies” (p. 90).

Commentary

There are many similarities, but also some differences, between the views of Petras and Veltmeyer, of ECLAC and Stiglitz:

- *All view the IMF and the World Bank as key players in a globalization process characterized, in the last quarter of the 20th century, by neoliberalism or free market fundamentalism.*
- *All consider that the most advanced and industrialized countries in the world, especially the United States, have a determining and disproportionate influence over the globalization process.*
- *All view the present phase of globalization—mid 1970s to the present—as contributing to an increase in income inequality, both within and between countries. The statistics mentioned to substantiate this are abundant.*
- *All view the benefits of the present phase of globalization accruing primarily to the advanced countries and in particular to the moneyed elite in these countries.*

** ECLAC points out the advantages held by the advanced countries in technology, in stable economic growth, in trade, and in the capacity to implement*

efficient macroeconomic policies, backed by money, when shocks linked to the world economy do occur. At the same time, it shows the disadvantages of developing countries in these same fields: they are systematically deprived of the cutting edge technology which does so much to boost economic growth and profits, and are limited to the production of primary goods or manufactured goods requiring older (mature) technology, two categories of goods most affected by oversupply and thus more prone to sharp price reductions; they therefore experience a more unstable economic growth and are more deeply affected by shocks linked to the world economy; they do not have the freedom, nor the monetary leeway, to implement appropriate macroeconomic policies to address crisis situations when these occur; they have to adopt free trade rules that grant privileges to those countries rich enough to subsidize agriculture. But ECLAC also points out that the present phase of globalization is creating a dual society, where those who have access to education benefit more, even in developing countries, and those who have less access benefit less. In Latin America, it says, there are those who are associated with the transnationals and who can often improve their lot considerably, and then there are the masses of others. In the last ten years, it points out that 7 out of every 10 new jobs being created in Latin America were in the low-paying and precarious informal sector.

** Stiglitz makes it clear that the benefits of globalization as it is now practiced accrue precisely to the moneyed elite within the advanced countries and to the moneyed elite in developing countries who also benefit, for example, by purchasing public assets at substantially lower-than-market prices or even obtaining them via corruption. His analysis of the East*

Asian Crisis and of Russia's transition to a market economy is very striking in this respect. Nevertheless, Stiglitz does not view neoliberal-oriented globalization as part of a conscious strategy to exploit weaker countries but rather as an ill-conceived and erroneous economic policy. He favours free trade, capital market liberalization and privatization. But not in a shock treatment manner. In a gradualist one, where government plays a key role, redistributing income, creating jobs as they are lost because of liberalization, letting go of protectionism only as the national economy is strong enough to cope with liberalization in a constructive manner. Yes to floating exchange rates, but only slowly, as the national economy can digest it. Not faster. Obviously, Stiglitz is struggling with the notion of common good and how best to attain it. He does not agree with socialist fundamentalism, where the State, as in the former Soviet Union, proceeds to massive nationalization and seeks to replace market mechanisms. But nor does he agree with market fundamentalism or neoliberalism. As many others before him, he suggests the eventual creation of a world government. In the meantime, he thinks that governments should collaborate, through international organizations, to orient globalization in a manner conducive to increasing the level of well being of the majority of people in the world.

** Petras and Veltmeyer, contrariwise, assert clearly that neoliberal globalization is indeed a strategy on the part of the moneyed elite, in particular the transnational organizations and the wealthiest states that are home to their head offices, to restore profits by weakening labour, both in rich and poor countries. This strategy includes neoliberal policies, but also includes, in many Third World countries, repression and military intervention. Their analysis focuses*

primarily on the social classes within capitalism, and the ongoing struggle between workers and capitalists. They are clearly against the present trend towards privatization, however transparent the process may be. They do not want globalization, which they view as another word for capitalism in its contemporary imperialistic phase, to continue, even in a reformed manner. They want it to eventually disappear, under the impetus of grassroots organizations and participatory democracy. They condemn the role played by the great majority of NGOs, which, in their opinion, instead of clearly opposing neoliberal globalization or imperialism, simply accept to be its accomplices in alleviating the suffering it systematically creates. They believe that state firms, especially in important and strategic sectors of the economy, should be re-established so that the state could have more economic leverage to carry out its all-important responsibility in assuring that the basic needs of all citizens are met.

- *On several occasions in his book, Stiglitz refers proudly to the economic achievements of the Clinton administration for which he worked. However, Petras and Veltmeyer have this to say about that administration: “Despite the self-laudatory posture adopted by Clinton, the U.S. wallows at a level of growth that barely keeps up with population increase” (p. 40, in their book).*
- *The IMF argues that the mobility of capital and labor is an important aspect of globalization, implying that this mobility is part and parcel of all globalization processes. ECLAC and Stiglitz take a very different approach. For example, ECLAC points out that the first phase of globalization from 1870 to 1913 was one of protectionism, not free trade. Furthermore, it states that the movement of both capital and labor were limited*

from 1945 to 1973 and that in the last phase of globalization now underway—1974-2000—restrictions on the movement of labor persisted. The IMF, when speaking of the mobility of labor, emphasizes the possibility for skills to be transferred to developing countries and for wages there to increase. ECLAC emphasizes, contrariwise, the fact that given the restrictions on labor mobility imposed by the advanced countries and that are biased against unskilled labour, a brain drain from the developing countries is occurring and that low wage maquiladoras are flourishing in those countries.

- *Globalization does not weaken national sovereignty, asserts the IMF. ECLAC obviously does not agree; it argues that the type of globalization presently pushed ahead by those whose influence is determining—governments of advanced countries and transnational corporations—contributes to the weakening of the State and the public sector. Stiglitz, who repeats in his book that the IMF treats the governments of Third World countries with arrogance and forces them to adopt rapid free trade, privatization and capital market liberalization policies, agrees with ECLAC on this point.*

The sharpest differences are between the IMF on the one hand, and the other three schools of thought - Petras and Veltmeyer, Stiglitz and ECLAC – on the other:

- *The IMF fails to distinguish between different types of globalization; the others do make this distinction. ECLAC and Stiglitz, in particular, call into question the present and latest phase of globalization and acknowledge the benefits that can and do come from other forms of globalization. Petras and Veltmeyer criticize the different phases of globalization, viewing these as different chapters in the class conflict between workers and capitalists. However, they also*

acknowledge that in the period following World War II until the 1970s, workers were able to make gains.

- *The IMF views globalization as generally beneficial, even though it admits that there can be problems sometimes. It identifies correlations showing that countries that globalize do better than those that do not. The others view globalization in its present IMF-bulldozing phase as very problematic. They find correlations showing that the present phase of globalization is rendering the living and working conditions of the many worse, not better. The contrast of views reaches a climax when the IMF argues that Latin America, when it implemented inward-oriented policies (in other words a type of protectionism), did poorly economically and now that it is recently adopting outward-oriented (in other words neoliberal or free market) policies, it is starting to do better. ECLAC disagrees and argues exactly the contrary.*
- *The IMF emphasizes the fact that foreign direct investments (FDI) to developing countries have been increasing in the 1990s. With more FDI, they argue, more technology will be transferred to developing countries and this will impact positively on their economies. ECLAC, quoting Prebisch, argues that the technological transfer to Third World countries tends to be very slow and irregular. It also points out that the recent strengthening of intellectual property clauses in trade agreements clearly benefits advanced countries.*
- *The IMF acknowledges the fact that income disparities, both within and between countries, have been growing with globalization. However, in sharp contrast to the others it does not establish a link of causality between globalization and rising inequality. In other words, income disparity, for the IMF, does not come from globalization. Instead, the IMF cites very long-term*

statistics showing improvement in the condition of developing nations when using broader approaches than mere income indicators. ECLAC makes it quite clear that deepening income inequalities are one of the hallmarks of the third phase of globalization from 1974 to 2000.

This said, one can see certain similarities, however thin, between all four points of view. By recently calling on governments to collaborate with the IMF in tackling head on the problem of poverty, and by developing special programs for the most highly indebted countries, the IMF, at least in theory, seems to be listening to its critics, and therefore reducing the differences between itself and these critics. The IMF admits that globalization can cause job losses, but argues, as do Stiglitz and ECLAC, that governments should develop job-training programs for those workers who lose their jobs. We have seen, however, that according to some critics the poverty reduction programs and the IMF initiatives for the highly indebted countries are mere window dressing and public relations strategies on the part of this powerful institution.

Understanding Backlash Against Globalization

Brief Remarks on Nature of Globalization

The term globalization has become very common in recent years but its definition remains unclear.

Most people associate globalization with the changes that occurred in the world in the 1980s with the onset of free market fundamentalism – also known as neoliberalism. And most people also believe that neoliberal globalization was pioneered by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States, even though, as a matter of fact, the first radical neoliberal revolution took place in Augusto Pinochet's Chile following the violent overthrow of Salvador Allende in 1973.

Historically speaking, globalization is definitely not new. If defined as the spreading of free markets to ever new spheres of economic activity and to ever more nations, one could argue that globalization's intellectual father is none other than Adam Smith, one of the greatest economists of all times. And if defined as the 1980s-initiated global spreading of markets in a context of free trade, rapid and profound technological change, and neoliberal deregulation, one could argue that globalization's intellectual father is the University of Chicago economist, Milton Friedman.

Historical Roots of Neoliberal Globalization

Let us therefore review the theoretical contribution first of Adam Smith, and then of Milton Friedman.

Adam Smith

Writing in the second half of the 18th century, Smith argued that the secret of a nation's wealth lies in the naked forces of supply and demand. Wealth, Smith recognized, is concentrated in the hands of the few who, because of a

deeply ingrained natural tendency, are forever striving for more material possessions. Although he conceded that this propensity, examined in a moral light, appears less than noble, he maintained that God in his wisdom had organized things in the world in such a way as to allow selfishness and greed to produce the greater good of all in society. From an apparent evil flows not only justice and harmony, he claimed, but rapid economic growth.

Just how does this work? Smith first provided us with part of an answer in a philosophical treatise published in 1759. The master (the expression he used for capitalist) can pursue his own satisfactions and whims, he said, but his stomach is no larger than that of the meanest peasant:

“The rest he is obliged to distribute among those who prepare, in the nicest manner, that little which he himself makes use of, among those who fit up the palace in which this little is to be consumed, among those who provide and keep in order all the different baubles and trinkets which are employed in the economy of greatness; all of whom thus derive from his luxury and caprice their share of the necessities of life and justice. (...) *Capitalists consume little more than the poor; and in spite of their natural selfishness and rapacity, though they mean only their own convenience, though the sole end which they propose from the labors of all the thousands whom they employ be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessities of life which would have been made had the earth been divided into equal portions among all its inhabitants; and thus, without intending it, without knowing it, they advance the interest of the society, and afford means to the multiplication of the species. When providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have*

*been left out in the partition. These last, too, enjoy their share of all that it produces.”*⁷³

Wealth, then, although very unequally divided by Divine Providence, ends up being shared by all, according to Smith, because of the very selfishness and rapacity of the masters who own it. The latter, although motivated by ‘vain and insatiable desires’, are somehow and quite unknowingly led by an ‘invisible hand’ – Smith admired Isaac Newton and believed that the invisible hand in the realm of economics resembled the law of gravity in the world of physics – to create jobs for the poor, to provide them with the necessities of life and even justice.

Some thirty years later, in *The Wealth of Nations* (1789), a book that is considered by many as the bible of economics, Smith made his thinking more articulate and explicit.

Pursuing profits is what a market economy is all about, he noted. When a butcher sells you meat, he does not do it because he wants to help you or because he likes you. His primary motive is self-interest, profit. But how can he make profits by selling meat? To do so he must compete with other butchers who are also trying to sell you meat. If he is more efficient than his competitors, his costs will be lower and thus his profits higher. Efficiency is rewarded and inefficiency punished, continued Smith, not by some great king but by something both very simple and impersonal: sheer market forces.

What makes for efficiency, according to Smith, is the existence of markets. A market exists when people produce things not for their own personal consumption but for that of others. The bigger the market for a product, the more one can produce. The more one can produce, the more the

⁷³ *Theories of Moral Sentiments*, Reprints of Economic Classics, Augustus M. Kelley, Publishers, New York, 1966, First published in 1759, p.264-265 (italics are mine).

process of production can be divided into separate, clearly specialized tasks. As the labor process is broken into neatly defined tasks, workers performing these tasks develop greater dexterity and speed; repeating the same unique task over and over again obviously improves skill. Furthermore, once tasks are broken down into distinct and simple steps, some of these can be carried out with the help of machinery.

By allowing for increased specialization, markets thus favor improved productivity: more goods can be produced using fewer resources, the most obvious of these being labor itself. With less and less labor, more and more goods can be produced.

The profit-hungry capitalist must seek to constantly improve the efficiency of the production process. If he or she succeeds, he or she becomes wealthier. But the consumer also gains from this in two ways: first as a worker, then as a consumer. As a worker: the capitalist who succeeds can expand and thus needs more labor: jobs are created. As a consumer: the capitalist who is more efficient can sell at lower prices than his competitors and people pay less for their products. In fact, all of society gains because the forces of competition will push all competitors to adopt the lower price and, in order to stay in the ball game, to eventually become as efficient as the leader.

This logic leads one to perceive wealth and income inequality not as a problem but rather as a solution. The wealthy are not obstacles to progress and jobs but their very creators. It also leads one to perceive the ever spreading of markets as a positive evolution. A market may spread from a small town to include many towns. It may spread from one region to include many regions. It may even spread from one country to include many countries, nay the entire globe. The bigger the better. It also leads one to perceive the pursuit of individual gain, the effort to satisfy those insatiable desires, in a very positive light. Living thus

appears as a rat race, a constant struggle against your neighbor. Survival of the fittest.

This worldview also leads one to conceive the role of government as a passive, somewhat secondary one. The heart and motor of economic activity lies in individuals, especially the wealthy. At the very most the government should provide law and order; markets cannot function if private property is not protected, especially that of those who have so much that the poor majority may be tempted to have recourse to stealing. Other than that, governments should keep their noses out of economic matters, or, to use the French expression now become classic: *laissez-faire*. In other words, they should practice free trade.

“No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have done; and it is no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord,” writes Smith.⁷⁴

“The sovereign (in other words the government) is completely discharged from a duty . . . for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of society,”⁷⁵

Despite his philosophy in which radical individual economic freedom appears as the driving motor of the economy, Smith did make certain qualifications. For example, he pointed out that unhampered specialization

⁷⁴ Adam Smith, *The Wealth of Nations*, 1982, p. 475.

⁷⁵ Adam Smith, *The Wealth of Nations*, New York, Modern Library n.d., p. 651; cited in George P. Brockway, *The End of Economic Man*, Cornelia & Michael Bessie Books, New York, 1991, p. 6.

could one day produce workers so enslaved in the performance of a limited and simple mechanical task that their minds would become numb, weak, and alienated.

Smith also worried, on occasion, about the excessive power of the capitalists (masters) who often cooperate to limit the freedom of the market in order to increase their profits. The workers, on the other hand, are not allowed by law to form unions. In any case, should they go on strike they are so poor, argued Smith, that they would not be able to survive for more than a matter of days. The sheer need to stay alive would force them back to work. What follows are Smith's own words (I replaced "masters" by "capitalists"):

"As soon as the land of any country has all become private property the landlords, like all men, love to reap where they never sowed, and demand a rent even for its natural produce. (...) The capitalists, being fewer in number, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workers. We have no acts of parliament against combining to lower the price of work but many against combining to raise it. In all such disputes the capitalists can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks, which they have already acquired. Many workmen could not subsist a week. Capitalists are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labor above their actual rate. To violate this combination is everywhere a most unpopular action and a sort of reproach to a capitalist among his neighbors and equals. We seldom, indeed, hear of this combination because it is the usual, and one may say the natural state of things, which nobody ever hears of. Capitalists, too, sometimes enter into particular

combinations to sink the wages of labor below this rate.”⁷⁶

Milton Friedman’s philosophy

The worldview of Milton Friedman, a very influential economist who received the Nobel Prize in economics in 1976, resembles that of Smith. In *Capitalism and Freedom*⁷⁷, a book written in 1962 – Keynesianism and government intervention were then so popular that they were considered mainstream economics –, Friedman points out two major dangers facing the United States. The first danger is fairly obvious: it is that of communism and socialism which, in the 1960s, were spreading in the world. The second danger is more subtle but, for this very reason, all the more threatening: it is the increasing encroachment of the government in economic matters, an encroachment which, in Friedman’s mind, poses two problems. More government intervention means less individual freedom, and it also results in less economic efficiency and slower economic growth.

If the first danger does call for powerful state intervention – military expenditures are necessary to fight communism – the second one, the main issue addressed by the book, calls for drastic cuts in the size and role of government. The economy should be left alone to free, unregulated competition. The ideal government policy is therefore one of laissez-faire. Or, put another way, the least government is the best government. National governments should shift as much responsibility as they can to local and municipal governments and the latter should shift as much responsibility as they can onto individual shoulders. The worst economic policy is one where governments stick their noses everywhere. Keynesianism is bad because it

⁷⁶ Adam Smith, *The Wealth of Nations*, 1982, p. 152 and p. 74-5. Smith does not use the word capitalist, but rather master. I made this modification to facilitate the reader’s understanding.

⁷⁷ Chicago: University of Chicago Press, 1962.

recommends strong government intervention and socialism is horrible because it pushes such intervention to the extreme of trying to directly manage the entire economy.

Heart of economic ills: government intervention

What are the kinds of government intervention that Friedman is worried about? Price controls and subsidies; obstacles to free trade such as quotas and tariffs; nationalization or in other words creating state-owned firms; public schools, pensions, and health systems; minimum wage laws that are generous and public social services that are universal in their coverage.

Price controls, in his view, create inefficiencies because they distort markets. If the government sets a price high to protect the producer, the latter tends to produce easier and fatter profits; with time, he becomes government-dependent and not competitive. If the government sets a price low to protect consumers, firms find their profit margins falling and tend to lower production; shortages are experienced, and sometimes black markets are created where producers sell at extremely high prices.

Tariffs and quotas create inefficiencies, according to Friedman, for similar reasons. When a government protects a local or domestic firm by slapping a tariff or imposing a quota on foreign produced goods, it eventually makes for local and domestic firms that are lazy, not competitive and government-dependent. Consumers get ripped off in the end because they pay higher prices than they should.

A similar reasoning applies in the case of subsidies. Governments say they provide subsidies to certain firms to encourage them to invest in a particularly underdeveloped region or to help a new firm get off to a good start or yet again to protect them from fierce foreign competitors. But what usually happens, argues Friedman, is that firms get accustomed to such subsidies. Instead of dying if the market

so dictates, inefficient firms can thus survive for years. The result? The public purse, in other words the taxpayer, gets ripped off and consumers have to pay higher than necessary prices for their goods, inefficiency becoming the rule.

Nationalizing a firm, creating state-owned firms can only lead to negative results, according to Friedman's philosophy, because no one can be more efficient than the individual entrepreneur who owns and operates his or her own firm. When the state owns a firm, public managers of such firms, who are not subjected to the discipline of the market, tend to become bureaucratic, negligent and wasteful. Since any deficit is automatically made up by the public purse and the danger of bankruptcy is next to nil, inefficiency becomes the rule, not the exception. In sharp contrast, a privately owned firm cannot afford this luxury. If it is not competitive, market forces will eliminate it. Staying alive and keeping up to top efficiency is one and the same thing.

That government takes over schools, hospitals, health care services and even social programs or pension funds, automatically leads to unnecessary inefficiencies, in his view, for exactly the same reason. Nationalizations create large and wasteful bureaucracies, and so do public schools, public hospitals, and government-run social programs. Free schooling is not necessarily a good thing, Friedman argues, because an individual should be held responsible for investing in his or her own formation and assuming the full cost thereof: otherwise, once the market discipline dwindles, so does efficiency.

Unions and minimum-wage laws create problems

Friedman's criticism also targeted government-set minimum wage laws. Theoretically, a government sets a minimum wage to protect workers who might otherwise be paid too little. But what happens, says Friedman, is that minimum

wage laws increase a firm's costs of production and therefore eat into its profits. Firms therefore tend to lower production and hire fewer workers. The result? Greater unemployment and more economic hardship than if wages were allowed to be set by sheer market forces. Furthermore, firms will tend to shy away from a country or a state where minimum wages are higher. After all, they are in business for profits.

If government intervention in economic affairs is undesirable — except in those rare areas where private enterprise can clearly not assume the task, such as national defense —, Friedman also views all institutions that limit the range of an individual's choice as undesirable. Labor unions, in his view, distort the labor market. By organizing into large groups and developing powerful federations, unions artificially drive wages, working conditions and fringe benefits at higher than free market levels, thus undercutting profits and discouraging investments.

Theoretically, this line of thinking should logically lead Friedman to oppose firms that are oligopolies or monopolistic. But in *Capitalism and Freedom*, he argues that unionism, since the beginning of the 20th century has been constantly increasing and causing market distortions, whereas there has been no trend towards monopoly and excessive market power during this same time period among firms. The threat, for Friedman, lies in unions and not in big, ever larger and ever-more powerful firms.

Inflation the culprit, not unemployment

In terms of macroeconomic policy, in other words policy aimed at issues such as unemployment and inflation, Friedman's views are ultra clear. Unemployment is not the problem; it should be allowed to attain whatever its natural level happens to be. 'Don't worry', is the slogan. The labor market will do its thing! In his view, governments make a

big mistake by attempting to create jobs by implementing Keynesian-inspired schemes. Inflation, on the other hand, is considered very important and maintaining it low should be prioritized. To do so, governments should let their Central Bank act independently and the latter's top priority should be keeping a tight lid on the growth of the money supply in order to avoid inflation at all costs. In other words, the Central Bank should not hesitate to raise interest rates in order to fight inflation.

In a nutshell, the view of Friedman is similar to that of Smith in that both adhere very strongly to free markets as the most efficient driving force of the economy. In some ways, however, Friedman's faith in the free market surpasses that of Smith's. The latter noted, as we have seen, that the power relation is clearly tilted in favor of the capitalists who often cooperate in limiting competition to obtain excessive market power. Workers, on the other hand, because Parliament does not allow them to unionize and because they are so poor that they could not survive should they go on strike, have no real power. Friedman, in a very different context it is true, worries that unions are becoming too powerful and argues that capitalist firms, in sharp contrast, are not dangerously concentrating power in their private hands. Smith expresses concerns about the alienation of workers possibly resulting from an ever-increasing specialization of the labor process. Friedman expresses no such concerns.

The economic philosophy of both Adam Smith, and to a greater extent of Milton Friedman, is mirrored in the ideology adopted by the CEOs of most of today's transnational corporations. For example, Percy Barnevik, President of the ABB Industrial Group, made the following comment in his address to the annual meeting of Assea Brown Boveri in 1996:

"I would define globalization as the freedom for my group

of companies to invest where it wants, when it wants, to produce what it wants, to buy and sell where it wants, and support the fewest restrictions possible coming from labour laws and social conventions”.⁷⁸

Such total freedom – globalization as defined by Boveri – was granted to multinationals in Chile following the violent overthrow of Salvador Allende in 1973. However, such freedom meant, for Chileans, a dictatorship that lasted nearly 17 years, one that tortured (some 40,000), killed (more than 3,000), and deprived people of freedom of association, freedom of speech, and freedom to belong to a political party and vote. Such freedom – “the fewest restrictions possible coming from labour laws and social conventions” – meant the elimination of the Central Única de los Trabajadores (CUT: the federation of unions representing the vast majority of workers), the over-exploitation of natural resources, and a much touted economic miracle in which wealth and inequality are among the highest in the world.

Colonialism, slavery, and climate change: a part of globalization

Colonialism, slavery and climate change, which are closely linked to the industrial revolution and the rapid expansion of markets, can certainly be considered a fundamental aspect of globalization.

In chapter 12 of *This Changes Everything: Climate vs. Capitalism*,⁷⁹ Naomi Klein points out that the wealthy industrialized countries – the North – have grossly exploited the developing countries – the South – in three distinct ways: through colonialism, the slave trade and climate change. The North colonized the South, it created the slave trade and it is, historically speaking, by far the largest

⁷⁸ [Wikiquote](#), consulted on 6 April 2017.

⁷⁹ Penguin Random House, 2014.

polluter, a pollution that negatively affects primarily the South and now threatens the very survival of the human species. Thus it has three huge historical debts, debts that so far it has always chosen to ignore and dismiss. Given that these three debts are deeply interrelated – it is the same attitude that leads one to treat nations as inferior, workers as throwaway objects and the environment as a mere input to be exploited and dominated – it is urgent that they now be addressed.

Klein refers to Eric Williams, the first prime minister of Trinidad, who “famously argued that profits from slavery directly subsidized the growth of industrialization in England, a process we now know led inextricably to climate change”. And she points out that this argument was given added weight in 2013 when a database “on the identities and finances of British slave-owners in the mid-nineteenth century” was released by researchers at University College London. The research illustrates that when the British Parliament abolished “slavery in its colonies in 1833, it pledged to compensate British slave owners for the loss of human property—a backward form of reparations for the perpetrators of slavery, not its victims”. The amount paid out was enormous, some 20 million pounds. According to the *Independent*, which Klein cites, this “*represented a staggering 40 percent of the Treasury’s annual spending budget and, in today’s terms, calculated as wage values, equates to around 16.5 billion pounds.*”⁸⁰ A significant portion of this money was invested in “coal-powered infrastructure of the now roaring Industrial Revolution—from factories to railways to steamships. These, in turn, were the tools that took colonialism to a markedly more rapacious stage, with the scars still felt today,” notes Klein.

⁸⁰ *Legacies of British Slave-ownership*, University College London; Sanchez Manning, “Britain’s Colonial Shame: Slave-owners Given Huge Payouts After Abolition”, *Independent*, February 24, 2013.

There is obviously a moral imperative for the North to acknowledge and make reparations for its debts to the South. However, in the case of the climate debt, there is more than a moral obligation. The North must do it simply “because our collective survival depends on it”.

How is this possible when “rich countries are crying poor and slashing social services for their own people”, as well as diminishing its aid to developing countries? They could start by “erasing the foreign debts currently owed by developing countries in exchange for climate action” and “loosening green energy patents and transferring the associated technological know-how”, says Klein. And they could take the money needed, not primarily from regular taxpayers but from “the corporations most responsible for driving this crisis”, applying the “polluter-pays measures already discussed”.

The North can pay its climate debt and at the same time, save the planet. Also address the roots of colonialism and slavery. All this tied together. Thanks to the steam engine, coal and oil, the North got rich on the back of the poor countries via colonialism and slavery. Now that the South is industrializing, especially in Asia, it would be wrong to ask it to sacrifice more than the North to save the planet. In India, for example, there are still 300 million without electricity! In the last two centuries the North exploited the South in many ways, and *in particular by polluting* the sky so much that the South is now facing the following dilemma: providing for the basic needs of its very poor by exploiting coal and oil, or simply not meeting these basic needs. It is the duty of the North to provide the South with money and clean technology so that it can both address basic needs and save the planet.

Trump moving in the right direction?

On Tuesday 28 March 2017 President Trump, “in a sweeping new **executive order**, (...) ordered his Cabinet (...) to start demolishing a wide array of Obama-era policies on global warming — including emissions rules for power plants, limits on methane leaks, a moratorium on federal coal leasing, and the use of the social cost of carbon to guide government actions.”⁸¹ When signing the executive order, Trump stated:

“My administration is putting an end to the war on coal. We're going to have clean coal -- really clean coal. With today's executive action, I am taking historic steps to lift the restrictions on American energy, to reverse government intrusion, and to cancel job-killing regulations. (Applause.) And, by the way, regulations not only in this industry, but in every industry. We're doing them by the thousands, every industry.”⁸²

Just a few days before Trump's executive order [BBC reported](#) that in 2016, according to a new study, “there was a 48% fall in planned coal units (in the world), with a 62% drop in construction starts. (...) Between 2006 and 2016, India and China together accounted for 85% of the coal plants built around the world.”

“But according to the *Boom and Bust 2017 report*, put together by Greenpeace, the Sierra Club and CoalSwarm, there has been a huge swing away from coal in these two countries in just 12 months.”

“It's not normal to see construction frozen at scores of locations, but central authorities in China and bankers in India have come to recognize overbuilding of coal plants as

⁸¹ Trump's big new executive order to tear up Obama's climate policies, explained, Vox, 28 March 2017.

⁸² [Remarks by President Trump at Signing of Executive Order to Create Energy Independence](#), From the Press Office of the White House.

a major waste of resources. However abrupt, the shift from fossil fuels to clean sources in the power sector is a positive one for health, climate security, and jobs. And by all indications, the shift is unstoppable.”

“The study comes as other groups analyze the potential for investments in coal to become stranded assets if governments continue to restrict CO2 emissions. The International Energy Agency (IEA) says that hundreds of billions of dollars could be at risk.”

“The decline in new coal plants in Asian countries is truly dramatic, and shows how a perfect storm of factors is simply making coal a bad investment,” said Paul Massara, now of North Star Solar but a former CEO of RWE npower.”⁸³

⁸³ Plans for coal-fired power plants drop by almost half in 2016, by Matt McGrath, BBC News, 22 March 2017.

Stiglitz and globalization in 2017

As we have discussed earlier, Stiglitz, soon after quitting his job as chief economic advisor and senior vice president of the World Bank in 2000, published a scathing criticism of globalization in *Globalization and Its Discontents*. In this book he basically argued that the type of globalization being imposed on developing countries by the IMF and the World Bank – neoliberalism or free market fundamentalism – was an utter failure. Instead of improving the lives of those living in developing countries, globalization was doing the exact contrary and creating ever more discontents.

In 2016 Stiglitz published an article – Globalization and its New Discontents – in which he argues that globalization is now an utter failure in the developed, wealthy countries, and this also because of neoliberalism or free market fundamentalism.⁸⁴ And in this article he refers to his new book – *Rewriting the Rules of the American Economy* (2015) – in which he sets forth the policies he believes are necessary to address the situation of the mass of new discontents of globalization in the United States, policies many of which should also be implemented worldwide.

Before analyzing some of the key points in the latter article and book, I would like to turn to Stiglitz's fascinating conference on globalization that was posted on YouTube on 4 January 2013.⁸⁵ A conference that both recalls and complements many of Stiglitz's ideas presented in the first part of my book.

Stiglitz' 2013 conference

The neoliberal type of globalization – radical elimination of trade barriers, free flow of short term speculative capital, privatization, shrinking of public sector – promoted, and in

⁸⁴ Globalization and its New Discontents, Project Syndicate, 5 August 2016.

⁸⁵ Stiglitz on globalization, why globalization fails?, consulted on 7 April 2017.

fact even imposed on developing countries by the World Bank and the IMF did not work, comments Stiglitz. In fact, it hurt them considerably and even made the poorest people in the poorest countries worse off.

If China and India managed to benefit from globalization it is because they refused the Washington Consensus, or neoliberalism. They opened up to foreign investment – China, for example, has been the largest recipient of foreign investment of all developing countries – but maintained controls on short-term speculative capital flows, which can often have a very destabilizing effect. They adopted free trade only very gradually and carefully and made sure that jobs were being created as fast as they were being destroyed. While China lifted out of poverty more than 300 million of its citizens over a twenty-year period, growth in the 1990s in Latin America, where neoliberal globalization was radically implemented, was just over half what it had been in the 1960s and 1970s. Not surprisingly, poverty there remained very high.

Globalization is also about the movement of ideas and inventions, pursues Stiglitz. When improvements are made in health and pharmaceutical products, these, when shared, can make a huge difference. Unfortunately economic globalization has too often actually prevented such sharing from taking place. In the last Uruguay Round of multilateral trade negotiations completed in 1994, intellectual property rights were strengthened. While this is excellent to protect and stimulate those who invent pharmaceutical products – they are generally located in wealthy countries – it makes it more difficult, and often even impossible, for those living in poor countries to have access to life saving medicine.

The example given by Stiglitz: while the cost of the pharmaceutical product that can save the life of an Aid victim in the United States is about \$10,000 per year, producing one year's worth of this product only costs \$300.

And the generics for this medicine are even cheaper to produce. Thus when the African countries accepted to sign the Uruguay Round deal they were actually signing a death warrant for millions of their citizens, given that the latter, even if the most affected by Aids in the world, are much too poor to pay for a medicine that costs \$10,000 per year.

“The trade ministers do not understand intellectual property. I know that for a fact because I was working at the White House at the time that the Uruguay Round was being negotiated. Both the Office of Science and Technology Policy and the Council of Economic Advisors thought that the intellectual property provision of the Uruguay Round was bad. We thought it was bad for American science, we thought it was bad for global science and we thought it was bad for developing countries. But our view is not what won the day. It was the view of the pharmaceutical industry and of the entertainment industry that thought that the stronger the intellectual property rights, the better. We knew that wasn't true. We knew that excessively strong intellectual property rights would not only reduce welfare by reducing access to life saving medicine, may not only lower welfare because of monopolization, but also result in a slower pace of innovation. Because the most important input into innovation and research is access to other ideas. And if you make those ideas less accessible by excessively strong intellectual property rights, you actually slow the pace of innovation. The trade ministers didn't understand this.” (...)

“Let us consider another issue: social security, old age pensions. This has been one of the major advances in most of the countries of the world. The provision of insurance for elderly people so they don't live in poverty. It's been the most important anti-poverty program all over the world. It used to be that large fractions of the population over 65 lived in poverty. Today in the United States relatively few live in poverty and it's because of social security. It has

been a very successful program. It is actually a very efficiently run program. The administrative costs of the US security program are much lower than any comparable private insurance company. It's very consumer responsive. We've done studies that have looked at consumer satisfaction – how quickly do they respond to telephone enquiries, and how accurately, etc. – and they are among the most highly rated institutions, private or public, in America. The Clinton administration fought very hard against the privatization of social security. The Bush administration tried to engage in partial privatization of social security. There was a democratic debate and the result of that democratic debate in the United States was a vast, overwhelming opposition to privatization of social security. People realized that privatization of old age pensions would increase their insecurity. They realized privatization would increase the number of people in poverty. They realized it would increase transactions costs. Wall Street would benefit because they would be administering these funds. What is essentially a cost to the rest of society is an income for Wall Street. So they were very supportive of the idea but the rest of America realized the costs were enormous so it would result in huge deficits, an estimated one to two trillion dollars in the first ten years alone. And yet, in the developing countries, the IMF and the US treasury pushed for the privatization of social security and old age pensions. The results were disastrous. For instance Argentina had a crisis in the beginning of this decade. Many people blamed the huge government deficit. In fact the deficit was only 3 percent, smaller than the US deficit is today. But more telling, almost the entire deficit was the result of the privatization of social security that the IMF had pushed. (...) Now if there had been a democratic debate in Argentina that most likely would not have happened. But that's not what happened. Argentina was told that in order to obtain a loan, the condition was that they had to privatize

social security.”

The existing trade deals generally protect, with binding rules, the rights of multinational corporations to make profits but not those of governments to save and protect the environment. With NAFTA corporations have more rights than people. If an environmental law hurts profits, governments must compensate corporations. Here again, points out Stiglitz, the basic democratic rights of ordinary people are ignored. The rights to clean air should predominate, not those of corporations to make profits.

In my opinion, says Stiglitz, there is one single reason why globalization is failing. It is because economic globalization has been outpacing political globalization. Economic globalization makes us more interdependent. That means we should be acting in a more coordinated way.

Nation states learned over time that for a market economy or capitalism to work, governments must impose regulations to protect the environment, workers, and investors. Without regulations, firms will have no incentive to protect the environment. Without regulations in the workplace they will often abuse of workers. And without regulations in the financial markets, they will often publish false numbers, as the directors of Enron did a few years ago in order to pocket millions of dollars, this at the expense of thousands of other stockholders.

Presently, however, we do not have global governance. Instead we have a democratic deficit at a global level. This deficit originates from the fact that corporate interests have the upper hand and that international institutions such as the IMF and the World Bank reflect power and wealth, not democracy.

It's not just people in poor countries who are suffering from this democratic deficit. It's also poor people in rich countries. Most of the subsidies given by governments go to

big corporations and only benefit a minority. Most farm subsidies, for example, go to big farmers; few go to small ones. And the United States is not the only guilty party: farm subsidies in Europe and in Japan are even higher.

Forty percent of the people in the world make less than \$2 per day while thanks to farm subsidies the average cow in Europe receives an average of \$2 dollars per day. Thus it is better to be a cow in Europe than an average person in the developing world, concludes Stiglitz.

Globalization and its new discontents

In the article Globalization and its New Discontents⁸⁶ Stiglitz points out that globalization is now experiencing growing opposition by people not only in the emerging markets and developing countries but also “by tens of millions in the advanced countries” such as the United States and Europe.

And why is this so? Because large “segments of the population in advanced countries have not been doing well: in the U.S., the bottom 90% has endured income stagnation for a third of a century. Median income for full-time male workers is actually lower in real (inflation-adjusted) terms than it was 42 years ago. At the bottom, real wages are comparable to their level 60 years ago.”

The situation is such, he pursues, that life expectancy among segments of white Americans, as shown by the economists Anne Case and Angus Deaton, is now declining.

Stiglitz cites the famous elephant curve developed by Branko Milanovic, and to which we referred at the very beginning of this book. The big winners of globalization in terms of income from 1988 to 2008 “were the global 1%, the world’s plutocrats, but also the middle class in newly

⁸⁶ Project Syndicate, 5 August 2016. Retrieved 7 April 2017.

emerging economies. Among the big losers – those who gained little or nothing – were those at the bottom and the middle and working classes in the advanced countries.”

Because the type of globalization pushed by mainstream politicians has been such an utter failure, trust and confidence in the “establishment” have been deeply undermined. “And governments’ offers of generous bailouts for the banks that had brought on the 2008 financial crisis, while leaving ordinary citizens largely to fend for themselves, reinforced the view that this failure was not merely a matter of economic misjudgments.”

While acknowledging that technological innovation is also part of the problem, Stiglitz squarely lays the blame on the neoliberal policies implemented by advanced countries:

Advanced countries “pushed for policies that restructured markets in ways that increased inequality and undermined overall economic performance; growth actually slowed as the rules of the game were rewritten to advance the interests of banks and corporations – the rich and powerful – at the expense of everyone else. Workers’ bargaining power was weakened; in the U.S., at least, competition laws didn’t keep up with the times; and existing laws were inadequately enforced. Financialization continued apace and corporate governance worsened.”

Rewriting the Rules of the American Economy

In his 2015 book *Rewriting the Rules of the American Economy*,⁸⁷ Stiglitz basically does two things: he points out the neoliberal economic policies and rules that slowed economic growth and increased inequality in the United States, thus leading tens of millions of Americans to oppose globalization; and he proposes new economic policies and

⁸⁷ *An Agenda for Growth and Shared Prosperity*, with Nell Abernathy, Adam Hersh, Susan Holmberg, and Mike Konczal, A Roosevelt Institute book, W. W. Norton & Company, New York – London.

rules so that the American economy can return to a path of growth and shared prosperity.

His book represents a scathing and remarkably well-documented attack of neoliberalism, and presents a bold Keynesian-inspired proposal to reverse it. Let us examine some of its essential points.

Negative impact of neoliberalism in the U.S.

In the last decades the American government opted for free market fundamentalist policies. It deregulated industries such as finance, airlines, railroads, telecommunications, natural gas, and trucking. It strengthened intellectual property rights and organized Medicare in such a way that the government could not use “its bulk purchasing power to negotiate lower costs of medicines for senior citizens and people under 65 with certain disabilities.” And it also practiced sole source contracting – Stiglitz gives the example of the multibillion-dollar contract granted to Halliburton at the beginning of the Iraq war. All this increased the monopoly market power of certain firms.

Rapid technological change also contributed to the growing power of certain firms, especially in a context in which rules, instead of being updated to cope with such change, were simply weakened and/or eliminated. Stiglitz mentions Uber, Airbnb, Lending Club, Facebook, Google and Apple, companies whose innovations, combined with network externalities and increasing returns to scale, profoundly disrupted the way markets – labor, land and capital – work. Given that “it costs essentially nothing for Google or Facebook to supply one additional advertisement to users or for Apple to supply one additional iTunes download”, monopoly profits can be huge. And when such companies use tax and regulatory loopholes to escape rules meant to protect worker rights, health and safety, the common good is placed on the backburner.

To make matters worse, during this same time period the U.S. signed free trade agreements that prioritized the right of corporations to make profits and grossly neglected both workers and the environment. Such a race to the bottom meant that American workers were increasingly exposed to firms that threatened to move abroad if they did not accept lower wages and poorer working conditions. It meant that many lost their jobs because of imports. Stiglitz cites David Autor and co-authors whose study shows that imports from China, “explained 25 percent of lost manufacturing jobs in the 1990s and 2000s, with those jobs being lost much faster than they were replaced”.⁸⁸ It meant that intellectual property rights, exaggeratedly strengthened by trade deals, weakened competition from generic drugs, thus depriving multitudes from life-saving medicines and even impeding innovation. It also meant that goods could enter the U.S. without having to respect environmental standards, and that corporations could sue governments for lost profits, even when the latter resulted from regulations protecting the environment.

Such excessive market power, notes Stiglitz, reduces equity, welfare and efficiency. By allowing firms to make monopoly profits – also known as “rents” – such power leads to slower growth, higher than necessary prices, ridiculously high marketing and sales expenditures, and fat lobbying budgets. For example, health care firms spent more than 100 million in 2010 lobbying against Obamacare, and finance and real estate firms spent billions against the Dodd Frank act, a bill designed to correct the deregulation of the financial markets that led to the crisis of 2008.

The financial sector represents a blatant example of excessive market power. Deregulation, which eliminated the

⁸⁸ The China Syndrome: Local Labor Market Effects of Import Competition in the United States, 2013, *American Economic Review* 103(6): 2121-2168, quoted by Stiglitz, Appendix, footnote 37.

separation of commercial and investment banking and removed ceilings on deposit rates and prohibitions on loan shark interest rates, resulted in massive concentration of power. “Since the 1970s the concentration, scale, and scope of the largest banks have grown significantly and rapidly, with the share of industry assets held by the top five banks growing from 17% to 52%,” points out Stiglitz.⁸⁹ And such concentration and power sharply increased the share of financial services in the economy. The latter made up 7.3 percent of GDP in 2014 compared to only 2.8 percent in the 1970s. It also increased the share of profits generated by the financial sector: “Between 1950 and 1980 the financial sector generated between 10 and 20% of total corporate profits; financial sector profits rose to 26% of total by the end of the 1980s, held this level on average during the 1990s expansion, and then rose to a peak 46% in 2001 and averaged 32% in the 2000s expansion before the Great Recession.”⁹⁰ And the salaries of those working in finance also skyrocketed: in 1980 the average wage in finance was at the same level as that in the nonfinancial sector, and by 2006 it was 72 percent higher! In 1979, finance professionals represented 7.7 percent of the top 1 percent; in 2005 they represented 13.9 percent – an increase of 80 percent.⁹¹ Such an evolution, Stiglitz insists by citing empirical studies, can never be explained by skills alone!

⁸⁹ Stiglitz provides three sources here. One of them is a book that he wrote with Bruce Greenwald in 2003: *Towards a New Paradigm in Monetary Economics*, Cambridge, UK: Cambridge University Press, The Current Rules, footnote 23.

⁹⁰ In The Current Rules, footnote 26 Stiglitz says that he drew these statistics from: *Value Added by Private Industries: Finance, Insurance, Real Estate, Rental, and Leasing: Finance and Insurance as a Percentage of GDP*, a document he retrieved on 8 May 2015).

⁹¹ Bakija, Jon, Adam Cole, and Bradley T. Heim. 2012. *Jobs and Income Growth of Top Earners and the Causes of Changing Income Inequality: Evidence from U.S. Tax Return Data*. Williams College and U.S. Department of Treasury Office of Tax Analysis, quoted in Stiglitz, The Current Rules, footnote 28.

Not only were some financial rules eliminated and others not updated to deal with new financial instruments such as derivatives, but even the few remaining rules were not properly enforced; the neoliberal-minded federal regulators appointed did not believe in regulation and often “overruled state-level regulations”. “They let the financial markets write their own rules as they expanded into securities that packaged mortgages”, notes Stiglitz.

It is thus not surprising that it is the deregulated financial sector that triggered the 2008 crisis. Nor that this crisis revealed, “systemic predatory lending, fraud, and discrimination, aimed at taking advantage of lower income borrowers”. An example of such fraud: the manipulation of the Libor rate that provided higher profits to banks at the cost of consumers.

Stiglitz criticizes the exorbitant fees charged by banks for ATM, normal savings and checking accounts, and by credit and debit card companies and asset managers. Such high fees simply reflect, “the greater ability to exploit others”. Rapid technological change should have lowered these fees. That they are so high merely reflects monopoly power.

Such monopoly power also explains why, quite astonishingly, the cost of credit in the U.S. has increased since World War II. Stiglitz quotes a 2014 study by Thomas Philippon, which shows that the average cost of supplying one dollar of credit to the economy was only 1.6 cents at the end of World War II compared to 2.4 cents in 2011.⁹² This, given the huge technological-cost-cutting change that has occurred in that time period, makes no sense at all!

⁹² Has the U.S. Finance Industry Become Less Efficient? On the Theory and Measurement of Financial Intermediation, Cambridge, MA: National Bureau of Economic Research.

Changes in federal tax policy and antitrust and securities law also contributed to excessive market power. Stiglitz mentions the 1982 Supreme Court decision to eliminate Illinois' antitakeover law, a decision that also "overturned similar laws in other states", and the relaxing of antitrust legislation by the Reagan administration. He mentions the weakening of insider trading rules in the 1980s by the Securities and Exchange Commission, and a 1993 change in the tax code by Congress that tilted "compensation toward stock options".

What precise change tilted compensation toward stock options? In 1993 Congress, under President Bill Clinton, changed the tax code with the intention of limiting the amount of compensation that companies could deduct for their executives (at the time there was no limit on this amount). The change consisted in reducing the amount deductible for executive compensation to \$1 million. The deductibility of all compensation beyond \$1 million would be tied to performance goals. In other words, a CEO's pay would only be allowed to surpass \$1 million (for purposes of deductibility) if the performance of the corporation he or she was directing improved.⁹³

To make the change more acceptable to corporations, however, one exception was made: *compensation in the form of stock options would automatically be considered as proof of good performance.*

This latter loophole produced the exact contrary of what the 1993 change in the tax code intended. The ratio of the average annual income of CEOs to workers literally

⁹³ Some of this information comes from Steven Balsam, Taxes and executive compensation, Economic Policy Institute, 14 August, 2012, Retrieved 8 May 2017.

skyrocketed! In 1965 it was 20 to 1 and by 2013 it had reached an amazing 295 to 1!⁹⁴

While the overturning of antitrust laws led to “a rash of takeovers” that reduced competition, the tilting of CEO compensation toward stock options provided CEOs with “an incentive to manipulate stock prices by using company money to buy back shares in order to drive the price higher” and “to engage in ‘creative accounting’ to increase short-term profits.” This gave rise to a shareholder revolution based on short-termism. “Before the 1980s, a firm that borrowed a dollar would, on average, invest 40 cents more.” After the 1980s firms started borrowing not to invest but primarily for “shareholder payouts” which, points out Stiglitz, nearly doubled. Between World War II and the neoliberal shareholder revolution, “nonfinancial corporations distributed an average 18 percent of profits to shareholders”; in the year preceding “the September 2008 financial collapse, corporations spent on average 107 percent of profits buying their own shares and paying dividends”. And this trend continued even after the crisis; in 2014 “nonfinancial corporations in the U.S. distributed 70 percent of pre-tax corporate profits paying shareholders in the form of stock buybacks and dividends”.

Faithful to the neoliberal philosophy whose roots go back to Adam Smith – let the rich get ever richer, their wealth will grow the economy and part of it will always trickle down to everyone else – the federal government in the 1980s also radically cut top marginal tax rates and reduced the progressivity of the tax code. In 1963 the top marginal tax rate was 91 percent; in “the 1980s it was reduced from 70 percent to 28 percent, and has stayed below 40 percent ever

⁹⁴ Alyssa Davis and Lawrence Mishel, CEO Pay Continues to Rise as Typical Workers Are Paid Less, Economic Policy Institute, 12 June 2014, quoted in Stiglitz, *The Current Rules*, footnote 51.

since”.⁹⁵ Furthermore, two other provisions of the capital gains tax were designed to clearly favor the wealthy: 1) if one buys and holds a stock, one is not taxed on this stock until it is actually sold; which means that one can hold on to a stock for several years without paying a penny in capital gains; 2) if one bequeaths one’s stocks at death, the person inheriting them only has to pay taxes “on the capital gains that have occurred since the asset was passed on” to him or her. In other words, “the capital gains earned during the lifetime of those making bequests never get taxed”.

Stiglitz quotes a study by Thomas Piketty, Emmanuel Saez, and Stefanie Stantcheva that shows that trickle-down economics simply does not work. Countries that had cut their highest marginal tax rates the most had not boosted “growth in per capita income”. What they had boosted in so doing, however, was inequality: “most had the largest increase in pre-tax inequality”!⁹⁶

And he quotes another study, this time by researchers at the IMF, that shows that, “across countries, redistribution (in other words taxing the wealthy more and making transfers to the poor and less well off), outside of some extremes, has no relationship with economic growth. If anything, a number of redistributive policies can lower net inequality and drive more durable growth”.⁹⁷

One of the tenets of neoliberalism, as we have seen in our discussion of Milton Friedman above, is that a country’s

⁹⁵ U.S. Individual Income Tax: Personal Exemptions and Lowest and Highest Tax Bracket

Tax Rates and Tax Base for Regular Tax, Tax Years 1913-2015, Tax Policy Center, 2015, quoted in Stiglitz, *The Current Rules*, footnote 66. Donald Trump promises to reduce corporate taxes to 15%. This, he says, will create jobs and boost the economy!

⁹⁶ Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities, The National Bureau of Economic Research, November 2011, *The Current Rules*, footnote 79.

⁹⁷ Andrew Berg, Charalambos G Tsangarides, and Jonathan David Ostry, Redistribution, Inequality, and Growth, IMF, 17 February 2014.

Central Bank should be completely independent of the government and should set as its priority the struggle against inflation. This is what the IMF consistently imposed on developing nations, and this is also one of the reasons for which Stiglitz criticized the IMF and eventually quit his job as chief economist at the World Bank. When working as chief economic advisor of Bill Clinton, he had resisted, as noted earlier, IMF pressure to increase interest rates in the U.S., because he felt that it was more important to prioritize the struggle against unemployment.

In “Rewriting the Rules”, Stiglitz revisits this theme and again emphatically asserts the importance of prioritizing the struggle against unemployment. Even though the Federal Reserve has a dual mandate – price stability and full employment – he accuses it of having prioritized the former and neglected the latter in the last decades. Given that high unemployment negatively affects primarily the lowest income earners and does, “lasting damage to productivity, equity, and opportunity”, he considers this to have been a big mistake.

Another basic tenet of neoliberalism is that unions, by granting workers an excessive market power over wages and working conditions, are harmful and should thus be weakened. This was clearly suggested, as discussed above, by Milton Friedman in his 1962 *Capitalism and Freedom*.

Stiglitz argues that since the late 1970s the neoliberal revolution led to the weakening of unions and labor rights. The voice of workers, which was already weaker in the U.S. than in other advanced economies, was made even weaker by what he describes as a “sustained political attack”.

And he points out key elements of this sustained political attack on labor:

- The U.S. National Labor Rights Act (NLRA) provides workers with much weaker protection than

in other advanced countries. For example, when workers go on strike, the company has the right to hire “scabs” to replace them, and this indefinitely. And striking workers are “reinstated only at the employer’s discretion”. To address this and other weaknesses, a motion was presented in Congress – “the Labor Reform Act of 1977” – but it was defeated thanks to a surge in lobbying efforts by powerful corporations and their mushrooming political action committees. The effects of this defeat are still being felt by labor today, says Stiglitz.

- Furthermore, even this very weak protection offered by the NLRA is further weakened by poor enforcement. Stiglitz quotes a 2009 study that “found violations in roughly half of 1,000 private-sector attempts” at union certification. Among these violations one finds threats, “to cut wages, close plants, and fire workers”.⁹⁸
- Outsourcing and franchising have deeply altered the “wage-employment relationship” and are often used as a legal ruse to circumvent “labor regulations and taxes”. Many workers, for example, are deemed to be working for a subcontractor but the contracting company is really the one setting “the terms and conditions of their work”. However, the NLRA has failed to revamp its rules to protect such workers who now represent an increasing portion of the workforce.
- A recent Supreme Court ruling – *Harris v. Quinn*⁹⁹ – “allowed workers to opt out of union dues in all

⁹⁸ Bernhardt, Annette, et alia, Broken Laws, Unprotected Workers : Violations of Employment and Labor Laws in America’s Cities, New York, National Employment Law Project, quoted in Stiglitz, *The Current Rules*, footnote 114.

⁹⁹ See “The War on Workers”, by Cynthia Estlund and William E. Forbath, 2 July 2014, New York Times.

states, thereby making it more difficult for unions to collect contributions for representing worker interests”.

- “Right to work” laws were passed in Wisconsin, Michigan and Indiana and there are campaigns to expand them elsewhere.

In this context it is not surprising that the rate of unionization in the U.S. has plummeted. It was 30 percent in 1960, 20 percent in 1984 and only 11.1 percent in 2014. Nor is it surprising that there has been a historical “decoupling of labor productivity and hourly compensation” in the U.S. “Over the 40 years between 1970 and 2013, productivity grew 161 percent while compensation rose only 19 percent”.¹⁰⁰ The labor share of total income in the U.S. dropped significantly in the last 30 years. In 1980 it was 85.3 percent, and by 2011 only 78.5 percent. And “when one separates from total labor income the portion accruing to the 1% wealthiest in the U.S., the drop is even more startling. In 2011 the labor income of the remaining 99% of Americans represented only 63% of total income.”¹⁰¹ Such a drastic weakening goes a long way in explaining the diminished political clout of workers and the “sinking floor of labor standards”,

And Stiglitz goes on to describe what he means by “sinking floor of labor standards”:

¹⁰⁰ The State of Working America, Cumulative change in total economy productivity and real hourly compensation of production/nonsupervisory workers, 1948–2015, Economic Policy Institute, quoted in Stiglitz, *The Current Rules*, footnote 109.

¹⁰¹ Josh Bivens, and Lawrence Mishel, The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes, *Journal of Economic Perspectives*, 20 June 2013, Volume 27 (3) : pp. 57-78, quoted in Stiglitz, *Appendix*, footnote 8.

- Only 33 percent “of the bottom quartile of workers receive paid sick days and only 41% have access to retirement benefits of any kind”.¹⁰²
- “With no public health care option and no mandate for employers to provide it, the United States has the lowest health care coverage rate in all OECD nations although the Affordable Care Act has led to some improvements.”¹⁰³
- In the last 40 years the federal government “allowed inflation to eat into overtime protections” and George W. Bush changed the rules reducing the number of workers who have the right to overtime pay. “As a result the share of full-time salaried workers receiving overtime benefits fell to just 8% in 2014 from 33% in 1980.”¹⁰⁴
- From 1968 to 2014 the federal minimum wage has lost nearly 25 percent of its value. The inflation-adjusted value of this wage was \$9.54 per hour in 1968 and only \$7.25 per hour in 2014.¹⁰⁵ This translates into an increasing number of people who, though working full time – Stiglitz adds that the average middle class family actually worked an additional 14 full-time weeks per year in 2007 compared to 1979 –¹⁰⁶ simply do not earn enough

¹⁰² The State of Working America, 2012, Share of workers with paid leave, by wage group, 2011, Economic Policy Institute, quoted in Stiglitz, The Current Rules, footnote 121.

¹⁰³ Coverage for Health Care, Society at a Glance 2014, OECD Social Indicators, pp. 130-131, quoted in Stiglitz, The Current Rules, footnote 122.

¹⁰⁴ Brendan Duke, 25 June 2014, America’s Incredible Shrinking Overtime Rights Need an Update, Washington, DC: Center for American Progress, quoted in Stiglitz, The Current Rules, footnote 123.

¹⁰⁵ David Cooper, 14 April 2015, Given the Economy’s Growth, the Federal Minimum Wage Could Be Significantly Higher, Washington, DC: Economic Policy Institute, quoted in Stiglitz, The Current Rules, footnote 124.

¹⁰⁶ Economic Policy Institute, Annual hours worked by married men and women age 25–54 with children, by income group, selected years, 1979–2010, The State

“to provide even a basic standard of living”. It also translates into the federal government having to spend “nearly \$153 billion per year from 2009 to 2011 on Medicaid, the Children’s Health Insurance Program, food stamps, and Temporary Assistance for Needy Families”.¹⁰⁷

- Not only has inflation-adjusted overtime pay and minimum wage been allowed to fall considerably; even the number of government inspectors has been radically reduced. “Between 1980 and 2007, despite more than a 50% increase in the workforce, the United States cut the number of minimum wage and overtime inspectors by 31%.” In such circumstances, the findings of a 2008 study are not surprising: a survey “of 4,000 low-wage workers in three cities found that 26% received less than the federal minimum-wage and 76% did not receive overtime pay to which they were legally entitled”.¹⁰⁸
- Even though the official rate of unemployment is low – it was then 5.3 percent – Stiglitz points out that, “millions remain trapped in disguised unemployment and part-time employment”. Should one include those working part time involuntarily and those who “want a job but are not actively

of Working America, 2012, quoted in Stiglitz, Appendix, footnote 3. Another sign of the sinking floor of labor standards: increasing volatility of pay. Patricia Cohen reports in the New York Times of 31 May 2017 – Steady Jobs, With Pay and Hours That Are Anything But – that since the 1970s, according to “Jonathan Morduch, a director of the U.S. Financial Diaries project, an in-depth study of 235 low- and moderate-income households”, (...) “steady work that pays a predictable and living wage has become increasingly difficult to find”.

¹⁰⁷ Stiglitz quotes a 2015 study by Ken Jacobs, Ian Perry and Jenifer MacGillvary, of the UC Berkeley Labor Center, The High Public Cost of Low Wages, quoted in Stiglitz, The Current Rules, footnote 125.

¹⁰⁸ Bernhardt, Annette, et alia, Broken Laws, Unprotected Workers : Violations of Employment and Labor Laws in America’s Cities, New York, National Employment Law Project, quoted in Stiglitz, The Current Rules, footnote 127.

looking for work”, the rate of unemployment would climb to 10 percent. Furthermore, “80 percent of the job growth we do see is in low-wage service and retail employment.” (Preface)

- Stiglitz also mentions the 11.2 million undocumented immigrants in the U.S. – more than 5 percent of the entire workforce – who are relegated to the shadows and thus are “vulnerable to exploitation beyond the reach of labor laws”.

Striking similarity between Stiglitz and Petras

There is a striking resemblance between the description provided above by Stiglitz of the deterioration of wages and working conditions in the U.S. caused by neoliberalism and that provided by Petras and Veltmeyer in *Globalization Unmasked*. Petras and Veltmeyer assert, as noted earlier:

“In the United States where (...) globalization is very advanced, more than 60 million people have no or inadequate health care and “over ten million children are not covered”.

“Job insecurity is increasing; the power of managers to hire and fire at will, to subcontract part-time and temporary work is expanding to such an extent that conditions are starting to resemble those described by Charles Dickens.

“Impoverished families are forced to work at below-subsistence, minimum wage jobs or go hungry.

“More workers work longer hours today than they did in the 1970s. Retirement age is reaching nearly seventy years old. Employers no longer provide pension plans. Private employers for private gain employ prison labour on a large scale. The number of children in orphanages is growing, as is the number of children living in poverty. Inequalities approach or surpass 19th-century levels. (...)”

In discussing Naomi Klein above, I argued that colonization, slavery and climate change represented fundamental characteristics of globalization. In *Rewriting the Rules* Stiglitz argues that racial discrimination, open and legal in the 19th and first half of the 20th century and still present – “de facto” – today is a “clear driver of economic inequality in the United States.” African-Americans and Latinos in the U.S. suffer radical discrimination in terms of education, housing, jobs, policing and criminal justice, and access to credit. Addressing such inequality, especially in a country whose population will become majority-minority by 2050, is a must both morally and to promote the “economic performance of the United States in an increasingly globally competitive world”.

A few of the very disturbing facts mentioned by Stiglitz:

- “Currently 2.3 million Americans overall are behind bars, more than 1% of all adults; the incarceration rate has tripled in recent decades and is higher in absolute terms than even China’s prison population.”¹⁰⁹ Such mass incarceration, which mainly affects people of color, “has serious consequences for economic equality as people miss out on opportunities to build human capital and face discrimination in hiring upon their release.”
- “Thirty percent of African-American children, 28 percent of native American children, and 23 percent

¹⁰⁹ Michelle Alexander, 2011, *The New Jim Crow*, Ohio State Journal of Criminal Law 9(1): 7-26, quoted in Stiglitz, *The Current Rules*, footnote 144. The Economist (27 May 2017) notes - America’s prisons are failing. Here’s how to make them work – that the U.S. “incarceration rate rose fivefold between 1970 and 2008. Relative to its population, it now locks up seven times as many people as France, 11 times as many as the Netherlands and 15 times as many as Japan.”

- of Latino children live in high poverty areas - compared to just 4 percent of white children.”¹¹⁰
- “African-Americans make up 42.5% of students in high poverty elementary and secondary schools, despite accounting for less than 16% of the overall student population.”¹¹¹
 - Because of higher unemployment rates and lower wages – resulting from mass incarceration of and labor market discrimination against people of color – “most African-American men are in no better of a position relative to white man than they were in the late 1960s.”¹¹²
 - Several banks refuse to lend in neighborhoods heavily populated by African-Americans – a practice known as ‘redlining’.

Besides neoliberal policies and racial discrimination, Stiglitz notes one last factor that fosters inequality and hampers growth: structural discrimination against women. And he clearly documents this discrimination and its negative impact. Some of the facts he sets forth:

- Studies reveal that the sharp increase of women’s labor participation rate in the U.S. from 1955 to 1999 boosted real GDP growth by nearly 20 percent.¹¹³ However, because of persisting “gender discrimination in the workplace, as well as factors such as a lack of paid sick and family leave and the

¹¹⁰ The Annie E. Casey Foundation, 2014, Kids Count: Data Book State Trends in Child Well-Being, The Current Rules, quoted in Stiglitz, footnote 154.

¹¹¹ Data First, What is the Poverty Level of Our School(s)?, Center for Public Education, quoted in Stiglitz, The Current Rules, footnote 155.

¹¹² Derek Neal and Armin Rick, 2013, The Prison Boom & the Lack of Black Progress after Smith & Welch, Chicago, IL: University of Chicago Becker Friedman Institute, quoted in Stiglitz, The Current Rules, footnote 168.

¹¹³ Council of Economic Advisors, 2014, Nine Facts About American Families and Work, Washington, DC: Executive Office of the President, quoted in Stiglitz, The Current Rules, footnote 170.

unavailability of affordable childcare”, women’s labor participation rate in the U.S. declined “from 77 percent to 74 percent for prime-age workers” from 1999 to 2014.¹¹⁴ This, in sharp contrast to other most advanced countries where this rate continued increasing.

- While representing less than half of the workforce women “comprise two-thirds of the nearly 20 million low-wage workers”.
- When John F. Kennedy signed the Equal Pay Act in 1963 women were earning “59 cents for every dollar paid to their male counterparts”. In 2014 women were still earning only approximately 78 cents for every dollar paid to their male counterparts.

New rules to reduce inequality and boost growth

Having outlined the problems facing the U.S. economy Stiglitz now proposes a global plan to solve them. And he warns us that the new rules comprised in this plan must all be implemented; a piecemeal approach – implementing just a few – would simply not work.

As explained above, the father of neoliberalism Milton Friedman believed that the most subtle and deepest danger facing the U.S. economy was the increasing encroachment of the state in people’s lives and in the economy. A government constantly creating new rules to monitor the economy such as laws designed to promote and protect unionization, and anti-trust and consumer protection laws; a government getting ever more involved in public education, health, housing, and pensions, and which forgets that private enterprise always knows best when it comes to being

¹¹⁴ Federal Reserve Bank of St. Louis, 2015, [Civilian Labor Force Participation Rate – Women](#), FRED Economic Database, quoted in Stiglitz, The Current Rules, footnote 171.

rigorous and efficient; a government that feels it is important to protect people through subsidies, welfare and unemployment insurance programs and minimum wage laws; a government that takes away from the wealthy through high taxes and transfers some of this wealth to the poor, thus forgetting the profound truth exposed by one of the greatest economists of all times, Adam Smith: the wealthy are the most dynamic and job-creating force in the economy, and thus hurting them is harming growth, and decreasing general welfare... And even preventing the very poor from obtaining their just portion of wealth that automatically trickles down to them through the invisible hand!

In the last forty years neoliberal policies similar to those recommended by Friedman were implemented in the U.S. Taxes affecting the wealthy were radically cut. The labor market was rendered more flexible by eliminating many government-imposed rules: the number of those eligible for overtime was radically reduced, and inflation-adjusted overtime pay and minimum wages were allowed to plummet; the number of minimum wage and overtime pay inspectors was also radically cut and the rate of unionization fell sharply – following a sustained political attack supported by big corporations. Free trade agreements were signed, agreements secretly negotiated outside of public scrutiny and that strengthened the rights of corporations while weakening those of both labor and the environment. Finance was deregulated and anti-trust laws were weakened. This resulted in a wave of mergers, short-termism, market manipulation and blatant fraud, and skyrocketing income and profits in the financial sector.

Stiglitz boldly states that neoliberalism failed to deliver. It was supposed to grow the economy and the wealth of the rich was supposed to trickle down to all others. As a matter of fact it hampered growth, produced obscene inequality –

ever more wealth trickling up to the rich one percent –, wiped out a huge portion of the middle class and created a situation in which many, though working full time, can simply not make ends meet anymore.¹¹⁵

The global plan – or new sets of rules – proposed by Stiglitz represents the exact opposite of neoliberalism.

Neoliberalism views government intervention in the economy in a negative light, private enterprise representing efficiency and rigor, and government representing inefficient bureaucracy and red tape. It views government-imposed rules as obstacles blocking the healthy interplay of market forces, and preventing the 'invisible hand' from doing its thing.

In sharp contrast, Stiglitz views government intervention in a positive light. Government, in his opinion, should play a key role in protecting both workers and the environment and fostering full employment. It should intervene to ensure that all have access to affordable health services, education, housing, banking services, and pensions. And this, not only by setting rules constraining and orienting private enterprise but also by playing a key role as a major player in certain markets. It should intervene to right the wrongs of historical racial and gender discrimination, an intervention that, while ethically correct, also boosts economic growth.

What follows are the key elements in this global plan.

¹¹⁵ In a 2 May 2017 article in the National Review – Trump: Off to a good start – Conrad Black, while not mentioning growing inequality, documents the slowing down of the American economy in recent decades: “GDP growth declined from 4.5 percent annually in the last six Reagan years, to 3.9 percent in the last six Clinton years (as the current-account deficit and the housing bubble ballooned), to 2 percent in the George W. Bush years, to 1 percent in the Obama years. If per capita GDP had increased in the first 15 years of this new century as it had in the years between 1945 and 2000, families and individuals in the United States would be 20 percent wealthier than they are.”

Weaken intellectual property rights and restore the public good. When negotiating free trade agreements, with the active participation of firms but not that of ordinary citizens, the U.S. government yielded to pressure from some industries – especially the pharmaceutical, software, and entertainment – and included provisions granting corporations excessively strong intellectual property rights. It also created mechanisms that allowed corporations to sue governments when certain regulations reduced their profits abroad, even when such regulation was intended to protect health, the environment, consumer safety, and workers. This meant that life-saving medicines and renewable energy technologies were denied to people. It meant that it became easier for corporations “to move production offshore”, and “harder for trading partner countries to raise their own standards”.

Stiglitz proposes that all trade agreements should include very high standards “for the global economy – be they in labor rights or environmental, consumer, and public health protections” – and that any firm wanting to trade with the U.S. would have to be “audited and certified by a credible, independent third party such as the International Labor Organization”. He also proposes to weaken intellectual property rights and gives as an example of a timely and positive government intervention the 1984 Hatch-Waxman Act that “made lower-cost generic drugs leap to 86% of all drugs dispensed in pharmacies and healthcare facilities from 19% at the time of the bill.”¹¹⁶

Control health care cost by allowing government bargaining. In the United States drug companies were allowed to consolidate and expand thus reducing competition and raising prices. Furthermore, the U.S. government intentionally limited its capacity to negotiate

¹¹⁶ U.S. Government Accountability Office, 2012, Research on Savings from Generic Drug Use, quoted in Stiglitz, *Rewriting the Rules*, footnote 1.

lower drug prices. For example, the 2003 Medicare part D expansion forbids the U.S. government from negotiating with drug companies for lower bulk purchase prices. The exception is the U.S. Department of Veterans Affairs that can negotiate such bulk prices and thus obtains “40% lower prices for prescription drugs than typical market prices”.¹¹⁷ Stiglitz argues that this bulk price type of negotiation should be expanded to cover all purchases made under public health insurance plans. “U.S. healthcare costs are the highest in the world – we spend more (both absolutely and as a percentage of GDP) than any other country, and yet outcomes are disappointing, far poorer than many countries that spend significantly less”.¹¹⁸

Bankruptcy rules should be changed to favor ordinary citizens; presently they favor banks. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 strengthened the bargaining power of banks in cases of bankruptcy while not circumscribing practices like predatory lending or usurious interest rates that ultimately lead to situations where a large numbers of Americans became over-indebted. This act must be amended to correct the imbalance. Furthermore, present U.S. bankruptcy laws prioritize repayment on derivatives, these nontransparent financial products from which the banks make so much money and which contributed so much to the 2008 financial crisis. The government has also made the immense \$1 trillion student debt¹¹⁹ more difficult to pay back than the loans taken to buy a yacht. Simply reversing these changes

¹¹⁷ Congressional Budget Office, 2007, Prescription Drug Pricing in the Private Sector, CBO Paper Pub. No. 2703, Washington, DC: The Congress of the United States, quoted in Stiglitz, Rewriting the Rules, footnote 4.

¹¹⁸ Dana P. Goldman and Elizabeth A. McGlynn, 2005, U.S. Health Care: Facts About Cost, Access, and Quality, Santa Monica, CA : RAND Corporation, quoted in Stiglitz, Rewriting The Rules, footnote 3.

¹¹⁹ Rohit Chopra, 2013, Student Debt Swells, Federal Loans Now Top a Trillion, Consumer Financial Protection Bureau, quoted in Stiglitz, The Current Rules, footnote 70.

would be a start in restoring balance.

Presently the financial sector is serving itself; reforms should force it to serve the public good. As previously mentioned, Stiglitz argues that the financial sector is out for itself instead of fulfilling what should be its primary function, providing funds for investments and job creation. The Dodd Frank Act, which was passed by the Obama administration in 2010 in the wake of the 2008 crisis, represented a first step to correct the situation. However, Stiglitz argues that it did not go far enough and “did not change the structure of the dysfunctional system.” In order to change this structure, or, as he puts it, “fix the financial sector”, he proposes the following measures:

1. **Ending “too big to fail”.** Stiglitz sees two basic problems with banks: one, some are simply *too big* to fail; two, some are simply *too interconnected* to fail. Being too big or too interconnected to fail simply means that their bankruptcy would cause such immense harm to the entire economy that governments would basically be forced to bail them out. Aware of this fact, banks are led to take excessive risks to increase profits, knowing full well that should something negative happen, government bailout money will always be there. Which is precisely what happened in the 2008 financial crisis. To avoid such occurrences, Stiglitz argues that the “Financial Stability Oversight Council should systematically assess large, systemically risky financial firms with an additional capital surcharge above what regulators currently assess under the Basil Accords in order to make failure less likely and more manageable.” In other words, such banks should be forced to hold a greater capital reserve than other banks. This greater reserve would render them more prudent in their risk taking and protect

taxpayers “from the costs of failed institutions”. Furthermore, banks incapable of producing “living wills” – a financial report that shows exactly how a bank would handle bankruptcy properly, without causing massive costs to the rest of the economy – should be “broken up along business lines and by size so that potential failures can be better managed. In addition, living wills and their analysis should be made public.”

2. **Regulate the shadow banking sector and end offshore banking.** The shadow banking system flourished under neoliberal deregulation. It represents non-bank financial institutions, which offer services similar to traditional commercial banks, but are not subjected to normal financial regulations. These “include money market funds, insurance companies like AIG, and even automakers”, institutions “that engage in lending by trading bonds and securities, often by bundling them through a process called securitization.” Even though shadow banking, with its “opaque activities and non-arms length lending”, played a key role in the 2008 financial crisis and had to be bailed out given its importance, it remains insufficiently regulated and continues growing. Much of its activity, Stiglitz claims, “is motivated not by greater efficiency but simply to circumvent regulations designed to ensure the stability and efficiency of the financial system.” Two things are required here: one, the Securities and Exchange Commission (SEC) should apply strict and clear rules to the shadow banking sector; two, the government's role in acting as a lender of last resort for these institutions needs to be clarified. Presently it is so ambiguous that it encourages them to take excessive risks. There also needs to be “re-examination of the extent to which

shadow banks and offshore financial centers are simply used to end-run the regulations designed to ensure a safe and sound financial system.”

3. **Bring transparency to all financial markets.** Stiglitz argues that people are often getting ripped off because of opaque activities in asset management such as uncompetitive and often undisclosed fees. This is particularly true of private equity funds and hedge funds, which “are a driving source of financial sector growth, profits in that sector, and the income share of the top 1%.”¹²⁰ The Dodd Frank Act partly addressed this problem by requiring private equity to register with the SEC. “Congress should expand the SEC's mission, and require private equity and hedge funds to disclose holdings, returns, and fee structures. The SEC should provide additional regulatory scrutiny and investor advice on these deals. This will formalize the regulation, making it similar to mutual fund regulations; the competition that will follow from this price transparency will help reduce financial rents.”
4. **Reduce credit and debit card fees.** Stiglitz asserts that credit and debit card companies are presently charging excessive fees. With today's technology it should be possible to enable the transfer of money from an individual's bank account to that of a merchant from whom he or she is making a purchase at only a fraction of one percent. The high fees – often 1 to 3% or more – “credit and debit card companies charge merchants do not reflect the cost of services provided but rather a monopoly rent on the country's networked payments infrastructure.”

¹²⁰ Robin Greenwood and David Scharfstein, 2013, *The Growth of Finance*, *Journal of Economic Perspectives* 27(2): 3-28, quoted in Stiglitz, *Rewriting the Rules*, footnote 11.

Stiglitz acknowledges that the Federal Reserve, to which the Dodd Frank Bill gave the responsibility of lowering the excessive fees that debit card companies charge merchants, did lower them. But he says that they did not lower them enough. And he adds that the excessive fees of credit card companies should also be forced down.

5. **Enforce rules with stricter penalties.** Having rules is one thing; enforcing them is another. In the last decade, “there's been a shift away from strict criminal enforcement of financial regulation”. Not only are there virtually no cases going to court but the SEC and Justice Department also usually let debit and credit card companies off the hook by settling with so-called “deferred prosecution agreements”. Under such agreements, “the parties regularly don't admit to any wrongdoing, or even pay penalties commensurate to their benefits. No individual is held directly accountable. The fines that are paid come from shareholders and are tax-deductible; the perpetrators of the offenses aren't necessarily punished or made to give back the compensation they received as a reward for the extra profits generated by their illegal activities.”¹²¹ Such a soft approach must be abandoned; it simply does not work. Penalties should be stricter, they should be implemented and not watered down, and individuals should be held accountable.
6. **Reform Federal Reserve governance.** Stiglitz argues that the “leadership at the Federal Reserve is too often influenced by large financial interests rather than by small lenders and borrowers.” Instead of acting for the public interest, it appears to be

¹²¹ Brandon L. Garrett, 2014, Too Big to Jail, Cambridge, MA: Belknap Press, quoted in Stiglitz, Rewriting the Rules, footnote 13.

acting for large financial interests. That the Federal Reserve, following the 2008 crisis, “appeared unwilling to disclose many details of what it, together with the Treasury, had done”, certainly raises a red flag. Especially when “among the beneficiaries of the largesse were the institutions whose executives had served on the committee in selecting the head of the New York Fed.” And when, “numerous reports raised questions about the appropriateness of Fed actions, many of which reflected de facto subsidies, of enormous proportions, to certain institutions.” Strict rules must be applied to ensure that the Fed carries out its public function properly, and that no conflicts of interest are involved. To this end, Stiglitz proposes that “employees and members of all the regional boards of the Fed should be required to disclose all potential conflicts of interest; individuals with such conflicts of interest should be precluded from employment or membership; and members should be held to a revolving door agreement that prevents working for the financial industry for sometime after their term of service”.

Incentivize long-term corporate management

To put an end to short-termism Stiglitz proposes the following measures:

1. **Restructuring CEO pay.** As mentioned previously, when the compensation of CEOs is tilted toward stock options this encourages short-termism and paves the way for creative accounting and growing inequality. The present tax code establishes a \$1 million cap on the deductibility of executive compensation but makes an exception for performance pay, automatically classifying stock options granted to CEOs as performance pay. This

loophole should be simply eliminated. And there needs to be more transparency required of firms. The total value of executive compensation for each corporation is often “buried in the complexities of stock option issuance and only disclosed in hard to interpret footnotes.” The SEC should oblige firms to report this compensation in clear and simple language and shareholders should have a say in determining it. Stiglitz suggests another possible measure: pegging “corporate tax rates to the ratio of CEO pay to median worker pay (or even the minimum pay).”

2. **Enact a financial transactions tax.** A financial transactions tax was first proposed by John Maynard Keynes in 1936, and re-proposed by James Tobin in the 1970s. Now Stiglitz proposes that Congress tame financial markets by imposing such a tax. Those who hold on to stocks for long periods would not be affected, but those who indulge in frequent short-term trades would. Besides raising considerable government revenue such a tax would foster stability and longer-term productive investment.¹²²
3. **Empower long-term stakeholders.** Presently the tax code in the United States allows taxpayers to get a tax benefit on so-called long-term capital gains even though they hold an asset for just one year. Given that the gains for the economy of such a privilege are dubious whereas “there are clear costs of short term speculation and the myopic short-termism to which it gives rise”, the government should impose surtax on short-term capital gains. Stiglitz also proposes that workers be given a say in

¹²² Stiglitz quotes his own 1989 article, Using Tax Policy to Curb Speculative Short-term Trading, *Journal of Financial Services Research* 3(2/3): 101-115, *The New Rules*, footnote 16.

corporate governance, “specifically by including a representative of employees on the corporate board” and that retirement accounts be managed in a manner that prioritizes “long-term value, good labor policies, and sound environmental policies”.

Rebalance the tax code. The neoliberalism implemented in the United States in the last 35 years, “prioritized tax cuts and subsidies focused on those at the top, placing a greater tax burden on the rest and causing neglect of critical public investments.” To correct this imbalance Stiglitz proposes the following measures:

1. **Raise the top marginal rate.** In the United States sales and payroll taxes are regressive and the tax code clearly favors the wealthy. One example among many: the latter enjoy a “mortgage deduction on second or third homes”. The tax code must be revamped and its progressivity restored. Stiglitz gives the following striking example: “for an extra \$50,000 taxed on every \$1 million of the wealthy individuals income, the United States could make all public college education free and fund universal pre-kindergarten.”¹²³
2. **Enact a “Fair Tax”.** Stiglitz starts by recalling that a billionaire like Warren Buffet admits to paying a lower tax rate than his own secretary. The fact that capital gains and dividends, nearly exclusively in the hands of the wealthy, are given preferential treatment whereas most American workers pay “full federal tax rates on their labor income” goes a long

¹²³ Stiglitz points out that this results from his own calculation of projected universal pre-K costs and 2012 postsecondary spending and intuition data from Scott A. Ginder and Janice E. Kelly-Reid, 2013, Enrollment in Postsecondary Institutions, Fall 2012; Financial Statistics, Fiscal Year 2012; Graduation Rates, Selected Cohorts, 2004-2009; and Employees in Postsecondary Institutions, Fall 2012, The New Rules, footnote 24.

way in explaining this simple and scandalous fact. Stiglitz proposes the following to correct this gross inequity: 1) all income, whether originating from labor or capital, should be taxed at the same rate; 2) one exception: those making short-term capital gains should be taxed at a higher rate; 3) the privilege of not having to pay a capital gains tax until the stock is actually sold should be eliminated: all "capital gains should be taxed as they are accrued"; 4) the privilege enjoyed by the wealthy thanks to the so-called "step up in basis at death" should be ended. As explained previously, it allows the wealthy to avoid all capital gains taxes on what they bequeath to their children at death.

3. **Encourage U.S. investment by taxing corporations on global income.** With the present tax code, U.S. corporations need only pay taxes on those profits that are repatriated. This actually encourages them to keep profits abroad instead of investing them in the U.S. Arguing, as some do, that the government should tax corporations only on activities that take place in the U.S. would do nothing to address this problem; in fact, it would make it worse. The solution that Stiglitz proposes: 1) replace the present transfer price system with one in which firms are taxed "on their global income in a fair and comprehensive way, apportioning those profits to the U.S. on the basis of the economic activity – including sales, production, and research – that occurs here;" 2) "establish a complementary minimum tax on all global income - for example, requiring U.S. corporations to pay 10-15% on global profits – with a tax credit for taxes paid to other jurisdictions. In doing so, the corporate tax should eliminate differences in marginal effective tax rates between domestic and offshore investment, and be

set above a revenue-neutral level. The resulting tax structure would virtually eliminate incentives to move production abroad for tax purposes.”

4. **Enact pro-growth, pro-equality tax policies.** Stiglitz is critical of agricultural subsidies because they mostly go to rich farms and a small number of monopoly agribusiness processing companies. Quite logically he now proposes eliminating such subsidies. He also denounces, as previously noted, a type of corporate welfare in which the government adopts a “non-competitive bidding process for the sale or lease of government owned natural resources or for the purchase of armaments or prescription drugs under public programs.” Such sole source bidding, he says, should be abandoned. And he argues that the government should intervene to curb economic activities that are harmful, for example by taxing pollution and carbon emissions.

Growing the middle

It is not enough, argues Stiglitz, to curb the excessive market power of the wealthy and to prevent such power from harming the economy and slowing it down. Policies to make the economy grow must also be implemented. He suggests four of them:

Make full employment goal. In order to address the ills of an economy marked by growing inequality and slow growth, Stiglitz, in a typically Keynesian fashion, proposes the use of monetary and fiscal policy in order to reach full employment.

In *Globalization and Its Discontents* Stiglitz criticized the IMF for imposing on developing nations a type of monetary policy that prioritizes the control of inflation while putting job creation on the backburner. And in *Rewriting the Rules*, as we have seen above, he accuses the Federal Reserve,

which has the dual mandate of controlling inflation and promoting employment, of having prioritized the former while ignoring the latter. He now quite logically proposes that the Federal Reserve prioritize the struggle against unemployment and be more tolerant of inflation.

Unemployment, he argues by drawing from several empirical studies, does huge and lasting damage to the economy, and is particularly devastating for low-wage and minority workers. The Federal Reserve should avoid focusing just on short-term interest rates and pay more attention to employment and economic stability. It should also take strong actions against predatory lending – not doing so led to the exploitation of consumers and the mortgage crisis of 2008 – and ensure that the credit system is working properly. In this way, credit will be granted to those who need it and not only to the very wealthy, and economic activity and job creation encouraged.

When competition originating from abroad resulted in deindustrialization and devastated cities like Baltimore, Gary, and Detroit, the U.S. government did not have to sit there with its arms crossed. It could have done what many others have done: make massive public investments to cope with these problems and set the foundation for a future more prosperous shared economy. Massive public investments in education, technology and infrastructure are particularly called for when interest rates are very low, a considerable amount of idle money is piling up in corporations, and a country is experiencing slow growth and has plenty of excess capacity. They are particularly urgent when a country's infrastructure is also falling behind that of other countries,¹²⁴ when “roads and energy and telecommunication systems” are so neglected that it becomes more “costly to do business and for people to go

¹²⁴ Klaus Schwab and Xavier Sala-i-Martin, 2014, The Global Competitiveness Report 2014-2015, quoted in Stiglitz, *The New Rules*, footnote 34.

about their daily lives, and leads to more wasted time and more environmental degradation”¹²⁵, and when existing infrastructure systems are “unequally distributed, leaving distinct areas and communities segregated from the rest of society and without the opportunities that connecting affords”. Stiglitz proposes a 10-year global plan that would, possibly using public infrastructure banks, “provide investments in air, rail, and road transportation; public transit; ports and inland waterways; water and energy; and telecommunications and the Internet.” Such an investment, estimated by some at about \$4 trillion,¹²⁶ “would yield dividends in the form of more productive businesses, millions of new jobs, and sustainable management of our energy and environmental resources.”

Expand access to public transportation. Public transit primarily serves ordinary middle class and/or low-wage citizens. In the U.S. it is literally crumbling, mainly because of a tax system that favors the wealthy. Huge public investments in public transit must be made. A federal highway administration report “estimates that it would be necessary to invest \$24.5 billion over the next 10 years.”¹²⁷

Empower workers. Stiglitz argues that the weakening of American wages does not primarily result from globalization and technological change, but rather from legal and institutional frameworks that are typical of the

¹²⁵ National Economic Council and the President’s Council of Economic Advisors, 2014, *An Economic Analysis of Transportation Infrastructure Investment*, Washington, DC: The White House, quoted in Stiglitz, *The New Rules*, footnote 35.

¹²⁶ Damon Silvers, Eric Harris Bernstein, and Dominic Russel, November 16, 2016, *Transformative Infrastructure Investment and American Competitiveness*, New York: Roosevelt Institute, quoted in Stiglitz, *The New Rules*, footnote 36 (the report was then only forthcoming, but Stiglitz already knew about it).

¹²⁷ Federal Highway Administration, 2014, *2013 Status of the Nation’s Highways, Bridges, and Transit : Conditions & Performance*, U.S. Department of Transportation, Federal Highway Administration, quoted in Stiglitz, *The New Rules*, footnote 38.

U.S. To restore the voice of workers, he proposes the following measures:

1. **Strengthen the right to bargain.** Presently the National Labour Relations Act (NLRA) makes it very hard for workers to unionize and is very permissive when employers aggressively prevent such efforts. For example, “companies seeking to prevent unionization can retaliate by firing workers; if an NLRA violation is found, the employer merely has to reinstate the worker and pay back wages. As if this sanction is not small enough, it is made even more insignificant by the fact that a ruling like this can take more than three years”. The NLRA must impose stricter penalties “to deter illegal intimidation tactics by anti-union employers”. It must also be reformed to reflect the changing nature of the work place. Today, “corporations like Walmart employ a host of personnel through outsourcing and subcontracting, thus bearing little responsibility for the employment relationship. Legal scholars have envisioned new models for defining the employer-employee relationship that would establish clear lines of responsibility within the modern fissured work place.”¹²⁸
2. **Have government set the standards.** Perhaps it is difficult “to reverse wages and working conditions” by simply passing and then forcing new legislation. However, governments could follow the example of Los Angeles, which decided to “grant public contracts only to corporations that meet high labour standards and possess strong anti-discrimination/pro-inclusionary hiring practices.” Federal, state, local, and municipal governments

¹²⁸ Mitchell Hartman, 2014, Labor wins two rulings, Walmart vows to fight back, Marketplace, quoted in Stiglitz, The New Rules, footnote 40.

could oblige contracting agencies to, “provide a living wage, safe working conditions, and opportunities for advancement”, and “to submit to regular inspections to ensure compliance. This would not only improve conditions within contracting firms, but - through competition for workers and contracts - across entire industries.”

3. **Increase funding for enforcement and raise penalties for violating labour standards.** The Wage and Hour Division of the Department of Labour, which is responsible for “enforcing minimum wage and overtime protections”, is insufficiently funded, and the penalties it imposes are ridiculously weak. Since 1980, even though the US workforce doubled, this division “has seen a third of its inspectors disappear”.
4. **Raise the minimum wage.** Not only has the minimum wage not been properly enforced in recent decades, but its inflation-adjusted value, as mentioned earlier, has also been allowed to plummet. Stiglitz thus proposes “to raise the federal minimum-wage immediately and to push toward living wages at the state and local level capable of rewarding the dignity of work.” He also proposes that “the pitifully lower minimum for tipped workers” be raised “to the same floor that applies for all other workers”.
5. **Raise the income threshold for mandatory overtime.** “The New Deal's Fair Labour Standards Act requires that workers who work more than 40 hours a week get overtime pay, at a rate of 150% of their regularly hourly wage.” As there are many exemptions to this rule for certain categories of workers, the Department of Labour issues a base level of coverage “that establishes an income

threshold under which any employee must be paid for overtime.” Because this threshold has not been properly adjusted for inflation over the years, the number of workers receiving overtime dropped drastically: in 1975, 47 percent received overtime and in 2013 only 11 percent did.¹²⁹

Expand access to labour markets and opportunities for advancement. The American workforce “predominately consists of women and people of color”. However this group faces both individual and structural biases. “Structural racism enforced through an uncountable network of rules and policies including poor public investment in minority communities, aggressive policing, and historical exclusion prevents people of color from accessing opportunities for work and economic success. A similar web of power and rules prevent women from achieving full equality in the workforce.” To correct these biases Stiglitz proposes the following measures:

1. **Reform the criminal justice system to reduce incarceration rates.** The U.S. incarcerates a higher percentage of its population than any other nation in the world. And the cost of this, in both human and economic terms, is tremendous. More than 1% of all adults, and 2.3% of all African-Americans are in prison. Not only is it very expensive to keep a person in prison - more than \$31,000 per year per inmate - but the inmates, once released, face “lower wages, annual employment, and annual earnings”.¹³⁰

¹²⁹ Heidi Shierholz, It's time to update overtime pay rules, 9 July 2014, Economic Policy Institute, quoted in Stiglitz, The New Rules, footnotes 45 and 46.

¹³⁰ Christian Henrichson and Ruth Delaney, 2012, The Price of Prison : What Incarceration Costs Taxpayers, New York, NY: Vera Institute of Justice, Center on Sentencing and Corrections ; Amanda Geller, Irwin Garfinkel an Bruce Western, 2006, The Effects of Incarceration on Employment and Wages : An

In 2010 it was found “that African-Americans and Latinos accounted for 69.8% of mandatory minimum sentences.” Stiglitz proposes that 1) Congress “move to reduce the burden ex-felon’s face when searching for jobs by expunging certain records after a set amount of time;” 2) and “allow judges the ability to waive mandatory minimums”; 3) the Department of Justice “focus on encouraging alternatives to incarceration, investigating possible best practices that can be adopted at the federal and state levels;” 4) the government increase public defence spending to allow people of color and Latinos to have easy and more equitable access to quality legal representation, “and improve effectiveness through regular attorney and social worker training.”

2. **Reform immigration law by providing a pathway to citizenship.** Stiglitz argues that the federal government should make it easier for new migrants to come to the U.S. and bring the undocumented migrants “out of the shadows” by providing them with “a pathway to citizenship”. He suggests three immediate steps that could be taken: 1) “normalize the legal status of families working, learning, and serving in America” and stop deporting and imprisoning “all but violent criminals”; 2) Congress should make sure that “all labour laws extend to all people working in America, irrespective of their documentation status”; 3) the Department of Labor should coordinate with the U.S. Immigration and Customs Enforcement “to ensure that unscrupulous employers cannot easily threaten workers with the prospect of deportation by calling in worksite

Analysis of the Fragile Families Survey, Princeton, NJ : Princeton University Center of Research on Child Wellbeing, quoted in Stiglitz, *The New Rules*, footnote 48.

raids”.¹³¹

3. **Legislate paid sick leave.** Nearly 40% of the American workforce presently doesn't have access to paid sick days. Federal legislation should aim toward universal coverage.
4. **Legislate paid family leave.** Stiglitz points out that even though many studies show that investing in paid family leaves provides benefits for child development, and increases the female labour force participation rate, which in turn boosts productivity, the U.S. does not have “nationwide legislation in place to support paid parental leave for new parents.” He recommends making family leave universally available for both mothers and fathers and protecting the jobs of pregnant mothers. “Many OECD countries guarantee up to 52 weeks of paid parental leave, with guarantees in place for both mothers and fathers.”¹³²
5. **Subsidize childcare.** Provisions for childcare lag in the U.S. compared to those of other advanced countries. As these provisions close the achievement gap for children, improve the labour participation rate of women, and their earnings, contributing to increased global productivity in the economy, they should be implemented. Congress, asserts Stiglitz, “should start by expanding the most effective existing state and federal programs.”

¹³¹ Rebecca Smith and Eunice Hyunhye Cho, How Immigration Reform Can Stop Retaliation and Advance Labor Rights, February 2013, New York, NY: The National Employment Law Project, quoted in Stiglitz, *The New Rules*, footnote 53.

¹³² Rebecca Ray, A Detailed Look at Parental Leave Policies in 21 OECD Countries, September 2008, Washington, DC: Center for Economic Policy Research, quoted in Stiglitz, *The New Rules*, footnote 56.

6. **Promote pay equity.** As noted above women in 1963 were earning “59 cents for every dollar paid to their male counterparts” and by 2014 they were still earning only approximately 78 cents for every dollar paid to their male counterparts. African-American and Latina women in 2014 were earning “an average of just 64 percent and 56 percent of white male wages”.¹³³
7. **Protect women’s access to reproductive health services.** Stiglitz argues that investing in family planning provides an amazing return on investment. In 2010 every dollar invested in this saved taxpayers \$7.09. The only federal program dedicated to providing affordable family planning services has been underfunded for decades.

Expand Economic Security and Opportunity. Presently most families in the U.S. cannot afford to educate their children, obtain a stable home, save something in case of emergency, and retire at a reasonable age. To address this problem Stiglitz proposes the following measures:

1. **Invest in early childhood through child benefits, home visiting, and pre-K.** Stiglitz cites many studies that show that investing in early childhood, especially to help children born in poor homes, can make a huge difference and break “the cycle of inter-generational poverty”. He therefore proposes an investment agenda that would provide “children from birth to age five” with “maternal, infant, and early childhood home visiting programs, (and) pre-K”. He also suggests that “a monthly tax free stipend (be) paid to families with children under 18 to help

¹³³ National Women’s Law Center, Closing the Wage Gap is Crucial for Women of Color and Their Families, 2015, NWLC Fact Sheet, 50 Years & Counting: The Unfinished Business of Achieving Fair Pay, 2013, quoted in Stiglitz, The New Rules, footnote 61.

offset part of the cost of raising kids.”

2. Increase access to higher education through more public financing, restructuring student loans, and increasing the scrutiny of for profit schools.

Under neoliberalism the U.S. has reduced public support for higher education and there has been a sharp increase in for profit educational institutions. The performance of the latter leaves to be desired: “Studies show that those at for-profit schools do poorly compared to those at community colleges. Completion rates are poor, as is success in getting a job.”¹³⁴ Student debt has skyrocketed: “\$1 trillion is outstanding in student loans.”¹³⁵ As this “has undermined our ability to educate the workforce,” the federal government should invest massively in higher education, argues Stiglitz. We should build on Obama's “recent free community college plan but go well beyond it. We should recognize that our major research universities educate our young people and produce research that fuels innovations that drive business and change the way we live. These are natural complementary goods, and joining these two activities together is one of the reasons for the world leading excellence of our university system. But research is a national public good (or indeed a global public good) and should be nationally funded. And with the increased mobility of educated people, even ensuring that we have a talented pool of highly skilled workers has become a

¹³⁴ United States Senate Health, Education, Labor and Pensions Committee, For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success, Majority Committee Staff Report and Accompanying Minority Committee Staff Views, quoted in Stiglitz, *The New Rules*, footnote 72.

¹³⁵ Rohit Chopra, Student Debt Swells, Federal Loans Now Top a Trillion, 17 July 2013, Consumer Financial Protection Bureau, quoted in Stiglitz, *The New Rules*, footnote 70.

national public good.” Contrary to what many are saying, we can afford it. The scrutiny of for profit schools, whose revenues are made up mostly (87%) of federal or state sources, including student loans and Pell grants, should be increased and a set of requirements for all institutions receiving federal-funded or backed loans should be established. The federal government should restore the bankruptcy protections for those with student loans, protections that were removed in 2005. Removing these protections has “increased stress enormously, and extracted money from poor students that goes into the coffers of the banks.”

3. **Make healthcare affordable and universal.**

Stiglitz argues that in the U.S. people, “pay higher prices for virtually every aspect of healthcare than those of other advanced economies, and even with the big steps forward in the Affordable Care Act, 12% of Americans are still left without health coverage.”¹³⁶ Drawing from several sources he argues that the main problem lies in the fact that in the U.S. both the demand and supply of healthcare are determined by the private health providers that “operate, in conditions approaching monopolies.”¹³⁷ The solution he proposes is to open Medicare to all. This program, which serves the highest risk and most expensive patients – the seniors – clearly surpasses the performance of private insurers in providing excellent and economical services. Opening it up to all would not only increase quality and lower prices, but also result in three other

¹³⁶ Jenna Levy, In U.S., Uninsured Rate Dips to 11.9% in First Quarter, Gallup, 2015, quoted in Stiglitz, *The New Rules*, footnote 75.

¹³⁷ Melanie Evans, Consolidation creating giant hospital systems, 21 June 2014, *Modern Healthcare*, quoted in Stiglitz, *The New Rules*, footnote 74. I did not reproduce the other sources in this footnote.

“significant improvements”: 1) “competition from Medicare's entry into the insurance exchange would lower premiums for everyone; one study found increased competition on exchanges could lower fees by an estimated 11%”,¹³⁸ 2) “Medicare's wider acceptance by providers than many private insurers would provide an alternative to the lower premium 'skinny network' plans offered that limit choices to a highly restricted set of doctors and hospitals in many markets,” 3) “introducing Medicare as a viable competition will also drive employer-provided health plans purchased from ACA exchanges towards the higher efficiency and standards offered by Medicare.”

4. **Expand access to banking services through a postal savings bank.** “Nearly 93,000,000 of Americans – about 28% – are unbanked or underbanked, and that number is unlikely to budge,” notes Stiglitz.¹³⁹ To solve this problem that prevents people from accessing “the payment system” which represents a necessary condition of living and working in the modern economy, Stiglitz proposes that the federal government authorize the Postal Service to “create a 'post card' debit card available with minimum fees and high protections for consumers. Its scale and size would significantly allow both access and efficiency to help citizens build wealth, and it would force banks and payday lenders to actually compete on price and services rather than confusion and predation.”

¹³⁸ Dafny Leemore, Jonathan Gruber and Christopher Ody, More Insurers Lower Premiums: Evidence from Initial Pricing in the Health Insurance Marketplaces, 2014, Evanston, IL: Kellogg School of Management, Northwestern University, quoted in Stiglitz, *The New Rules*, footnote 76.

¹³⁹ Mike Leyba, Michael Young, Mike Lapham, and Steve Schnapp, State of the Dream 2015: Underbanked and Overcharged, 2015, Boston, MA: United for a Fair Economy, quoted in Stiglitz, *The New Rules*, footnote 77.

5. **Create a public option for housing finance.**

Stiglitz remarks that the 2008 crisis was produced thanks to the private sector that excelled at exploiting ordinary Americans but not in helping them manage the risks associated with homeownership. “The suits that emerged after the financial crisis exposed fraud, incompetence, and negligence beyond the imagination of even the sector’s critics.” He also notes that private securitization has plummeted: it “provided over 50% of the mortgage-backed securities in 2006” and now only 5 percent. And while many private banks would like “to resurrect the version of the old system that worked so well for them, with government guarantees backstopping their lending practices”, they are at the same time resisting “demands that if they originate mortgages, they should have 'skin in the game', that is, bear the consequences for the bad mortgages they originate”. Stiglitz thus boldly proposes that the federal government “create an explicitly public mechanism in the housing market”, “a government homeownership agency”. The government already disposes of most of the information needed for mortgages – an individual's income history and the prices of similar houses – and with all the modern technology available it could process all this information at a very low cost. A private system that maximizes fees and excels in fine-tuning “the ability to exploit different groups” would face the competition of a public one that offers transparency and low costs, and would thus be incentivized “to better perform the functions that it is supposed to perform”.

6. **Increase retirement security by reducing transactions costs and the exploitation of retirees, and expanding Social Security.** Once again Stiglitz calls for a greater role for the federal government. He basically confronts head-on a basic tenet of neoliberalism by asserting that the government can manage the retirement security of U.S. citizens with much lower costs and higher efficiency than the private sector can. "Our system of private retirement savings remains weak and inefficient. The fact that more people in America will face retirement with inadequate savings poses problems not just for the retirees, but for the overall economy as their consumption will contract with inadequate retirement income, or they will divert consumption from others in their families or rely more heavily on social transfers." Asset management fees, which often eat up a third of the future savings of retirees, have been a top driver of Wall Street's revenues in the last two decades.¹⁴⁰ The federal government could control asset management fees by "requiring fund managers to adhere to a fiduciary standard", or require "that any pension or retirement account eligible for preferential tax treatment not have excessive transaction costs. Fees on any account could not exceed those on the best performing indexed funds, unless they were demonstrably higher risk-adjusted returns." To address the budgetary concerns of Social Security, a program that remains "strong and effective", "the payroll cap that limits the amount of revenue Social Security raises" should be removed. "In addition, the government should expand retirement security by

¹⁴⁰ Robert Hiltonsmith, The Retirement Savings Drain: Hidden & Excessive Costs of 401(K)S, 2012, New York, NY: Demos, quoted in Stiglitz, footnotes 79 and 80.

providing a voluntary public retirement program above Social Security to further supplement retirement security. The plan could be modeled on private individual retirement accounts (IRA), but the public program would have many additional benefits. Lower transaction costs and reduce opportunities for exploitation are immediate advantages. But the government could also match savings for the worse off - the opposite of our current system for encouraging savings, which overwhelmingly subsidizes the rich.”

7. **Reform political inequality.** Stiglitz notes that in the U.S. “people with higher incomes vote more frequently than those with lower incomes and election campaign finance is dominated by a relatively small number of large donors who wield outsize influence.”¹⁴¹ This blatant inequality in democracy should be corrected by the following measures: 1) voting should be made easier by establishing “automatic voter registration, accepted throughout the country without the need to reregister and without burdensome voter identification requirements”; by making it possible to vote by mail or “early in-person on multiple days” and even, once “cyber-security concerns are met”, online; by establishing “weekend Election Days or a national election day”; 2) by creating a campaign system, ideally by Congress, that prevents the domination of elections by wealthy donors.

¹⁴¹ Sean McElwee, Why the Voting Gap Matters, New York, NY: Demos, quoted in Stiglitz, *The New Rules*, footnote 82.

Labour Manifesto in England and Stiglitz

There is a striking resemblance between Stiglitz' *Rewriting the Rules* and the electoral platform – Labour manifesto – of the Labour Party in England under the leadership of Jeremy Corbyn. Both propose the radical reversal of neoliberalism and a greater role for public enterprises. And, quite astonishingly, even though Theresa May launched a snap election for 8 June 2017 in order to crush the opposition – polls were showing that her Conservative Party had a 20-point lead over Labor – she ended up doing just the opposite. She lost her majority and ended up with a hung parliament. Voters came out massively, especially the young, and Labor gained 32 seats, producing what has been coined “the most sensational political upsets of our time”.

This was not about “self-inflicted Tory wounds”, or simply “a remainder revolt”. It was “about millions inspired by a radical manifesto that promised to transform Britain, to attack injustices, and challenge the vested interests holding the country back,” comments Owen Jones.¹⁴²

Another sign of the depth of anti-neoliberal globalization: just four days after the election Labour's membership “surged to a stunning 800,000”, an increase of 150,000. Furthermore, according to a Survation poll – Survation is the company that had accurately predicted Labour would win 40 percent of the vote – taken a few days after the election, if another general election were held Labour would get 45 percent of the vote and the Conservatives only 39 percent.¹⁴³

As noted at the beginning of this book, globalization is usually associated with the neoliberal revolution initiated by Ronald Reagan in the U.S. and Margaret Thatcher in Great

¹⁴² Jeremy Corbyn has caused a sensation – he would make a fine prime minister, Owen Jones, *The Guardian*, 9 June 2017.

¹⁴³ Labour as the Corbyn surge goes ballistic, 11 June 2017, Bex Summer UK The Canary, Retrieved 13 June 2017.

Britain. We have pointed out the profoundly negative impact of this revolution in the U.S., according to Stiglitz, and the new rules he proposes to return to growth and shared prosperity. Neoliberal globalization seems to have had a similar negative impact in Great Britain. An impact that is such that even Theresa May's Conservative Party decided to distance itself, to some extent, from neoliberalism.

Notes The Economist of 3 June 2017: Neoliberalism has been abandoned "by the two main parties". (...) "Mrs May launched her manifesto by attacking 'the privileged few', denouncing 'rip-off energy prices' and proclaiming that 'it's time to remember the good that government can do.' (...) The Conservative manifesto reintroduces ideas that Margaret Thatcher regarded as beyond the pale: price controls for energy markets; more council houses; industrial policy of the sort that free-marketers reflexively denounce as "picking winners". (...) Mrs May's manifesto ... evokes 'five challenges': the economy, Brexit, social divisions, an ageing society and technological change. "We do not believe in untrammelled free markets," it claims. "We reject the cult of selfish individualism. We abhor social division, injustice, unfairness and inequality." And "Labour's manifesto is even more hostile to markets".

And what is the negative impact of neoliberalism that pushed the Labour Party and even the Conservative Party to distance themselves, the former radically and the latter moderately, from neoliberalism?

Answers The Economist: "The biggest factor was the 2008 global financial crisis. It hit Britain particularly hard because financial services play an outsized role in the country's economy, generating 8% of its GDP, and because of its "light touch" regulation. The crisis made Britons significantly poorer: British workers saw their wages (adjusted for inflation) fall by 10% in 2008-14, and are

unlikely to see them reach pre-crisis levels until at least 2020. It played havoc with the public finances: faced with large deficits the coalition government chose to cut back on public spending.” (...)

“Privatisation has fed resentment too. Labour’s promise to re-nationalise the railways, which would have been unthinkable ten years ago, is popular today: thank high fares and private profit.” (...)

“If the neoliberal dispensation was good at producing jobs (...) it was no great help in guaranteeing their quality. Almost a million Britons are on ‘zero-hours’ contracts that provide no assured revenue, up from 108,000 in 2004. Britons work longer hours than their French and German counterparts, and, in the south-east, spend more time and more money getting to work. Britain’s productivity (output per hour worked) briefly exceeded the EU-15 average in the early 2000s but now stands at just 90% of the average. The OECD notes that a higher proportion of British 18- to 24-year-olds suffer from low literacy and numeracy than their equivalents in France, Germany, Italy or Spain.”

The Economist also mentions growing inequality: “Per-person GDP in London is almost two-thirds higher than the national average; it is almost two-and-a-half times higher than in Wales. The house-price-to-earnings ratio in London has risen from seven times average earnings in the early 2000s to 13 times today, so that London vies with New York and Tokyo as the most expensive place to live. The capital is also the most expensive place in the world for startups to rent offices. (...) In 1980 the average CEO of a company on the FTSE All Share index earned 25 times more than the average employee. In 2016 the bosses earned 130 times more. Between 2000 and 2008 the index fell by 30% but the pay for the CEOs running the firms on the index rose by 80%.

A last factor mentioned by The Economist: a wave of immigration, well regarded by wealthy Britons but viewed with increasing anger by the less well off who see immigrants “as competitors for jobs and state resources” such as schools and hospital places.¹⁴⁴

And George Monbiot explains the strong popular appeal of the Labour manifesto:

“On policy after policy, the Labour manifesto accords with what people say they want. It offers a strong and stable National Health Service, in which privatisation is reversed, clinical budgets rise and staff are properly paid. It promises more investment in schools, smaller class sizes, and an end to the stifling micromanagement driving teachers out of the profession. It will restore free education at universities. It will ensure that railways, water, energy and the postal service are owned for the benefit of everyone, rather than only the bosses and shareholders. It will smoke out tax avoidance, and bring the banks under control.”¹⁴⁵

Stiglitz praises Labour manifesto

Above, I mentioned the striking resemblance between Stiglitz’s *Rewriting the Rules of the American Economy* and Jeremy Corbyn’s Labour manifesto. This resemblance stands out loud and clear in the article *Austerity has strangled Britain. Only Labour will consign it to history*¹⁴⁶ – that Stiglitz published on 7 June 2017 and that I am fully reproducing:

“The choice facing the voters in this election is clear – between more failed austerity or a Labour party advancing

¹⁴⁴ The above information and quotes were drawn from Britain’s election offers little respite for its woes, The Economist, 3 June 2017.

¹⁴⁵ I’ve never voted with hope before. Jeremy Corbyn has changed that, The Guardian, 6 June 2017.

¹⁴⁶ Austerity has strangled Britain. Only Labour will consign it to history, The Guardian. Retrieved on 10 June 2017.

an economic agenda that is right for the UK. To understand why Labour is right, we first need to look back to the 1980s.

“Under Ronald Reagan in the United States and Margaret Thatcher in the UK, there was a rewriting of the basic rules of capitalism. These two governments changed the rules governing labour bargaining, weakening trade unions; and they weakened anti-trust enforcement, allowing more monopolies to be created. In our economy today we can see industries with one or two or three firms with market power. This gives them the power to raise prices – and as they raise prices, people’s incomes fall, in terms of what they can buy.

“Changes to how our corporations are governed have allowed chief executives to take a larger and larger fraction of the corporate pie, leaving less and less to be reinvested in the company, and less to pay to workers. Monetary policy has been conducted with a focus on inflation rather than on employment.

“Over three decades later, it is clear that the rules were rewritten in ways that slowed our economy. These changes encourage financialisation, with firms chasing only profits; and they promote short-termism, with companies unwilling to invest over the longer term. Both contribute to this slowdown. And as the economy has grown more slowly, it has been divided more unequally.

“The set of ideas that came to dominate has been called neoliberalism. By boosting inequality and a dependency on finance, the ideas of neoliberalism fed directly into the crash of 2008. The ideas have now been shown to be wrong, to have failed for over a third of a century. It’s time for us to think about alternatives.

“Put simply, there needs to be an appropriate balance between government and market. When an economy is weak, as it has been in recent years, there is a need for governments to invest in people, technology and

infrastructure. This not only grows the economy today, but also in the future.

“Instead, since the crash, many governments have turned to austerity. Across Europe, and in Britain, they have tried frantically to cut their spending, allegedly to repay debts run up as a result of the crisis.

“The idea that government debt is a particular burden has a kind of intuitive appeal. The former Conservative chancellor George Osborne would talk about “maxing out the credit card”, so governments would have to balance the books, and couldn’t borrow. But an economy is different from a family. In an economy, when the government spends more and invests in the economy, that money circulates, and recirculates again and again. So not only does it create jobs once: the investment creates jobs multiple times.

“The result of that is that the economy grows by a multiple of the initial spending, and public finances turn out to be stronger: as the economy grows, fiscal revenues increase, and demands for the government to pay unemployment benefits, or fund social programmes to help the poor and needy, go down. As tax revenues go up as a result of growth, and as these expenditures decrease, the government’s fiscal position strengthens.

“Austerity has the opposite impact. The evidence on this point is very clear. Austerity has not only damaged the European economies, including the UK, but actually threatens future growth. For instance, when you have young people not learning, or in jobs inappropriate to their skills, they’re not increasing their human capital in the way they could be. Without that human capital, future economic growth will be lower than it could have been. It is remarkable that there are still governments, including here in the UK, that still believe in austerity.

“There is a need for a break with the past. With neoliberalism discredited and austerity failed, we need to rewrite the rules of the economy once again. But this time in the right way. We need rules that focus on long-term economic growth, and the only kind of sustainable prosperity is shared prosperity.

“Even if you have to borrow, if the value of your investments – in people, in technology, in infrastructure – increases, then the economy is in a stronger position for the future. Focusing only on the debt side of the balance sheet misses this, and damages the economy.

“There’s a long list of investments that governments could and should be making. There is strengthening infrastructure, such as transport and communications; there is investment in education; there is investment in families, particularly putting measures in place that free women from having to make the choice between raising a family and work. If that is done, it increases the labour supply. And that is not only better for society – it’s better for the economy.

“In this election, it is Labour that is advocating the kind of economic plan that is right for the UK. I’ve been impressed with how the party proposes to finance its plans: it’s not on the basis of “magic money”, but on carefully thought-out proposals based on taxing those at the top and ensuring that corporations pay what they should. The evidence shows that these actions will not slow down growth but will help strengthen the UK economy.”

Extracts from the Labour manifesto

“When shareholders are looking for quick short term returns, they encourage companies to cut corners. That means they look to cut wages, instead of investing for the long term, or they spend longer inventing new tax

avoidance schemes than they do inventing new projects.
(...)

“Labour will end the closure of Crown Post Office branches, which play a major role in serving their communities. We will also set up a commission to establish a Post Bank, owned by the Post Office and providing a full range of banking services in every community (...).

“We will bring private rail companies back into public ownership as their franchises expire (...); replace our dysfunctional water system with a network of regional publicly-owned water companies; reverse the privatization of Royal Mail at the earliest opportunity. (...)

“By reforming the rules our companies operate under, we can make sure they stay focused on delivering shared wealth. Labour will amend company law so that directors owe a duty directly not only shareholders, but to employees, customers, the environment and the wider public (...).”

“We will ensure all future trade deals safeguard the right to regulate in the public interest and to protect public services. We will ensure that trade agreements cannot undermine human rights and labour standards (...).

“Labour opposes parallel investor-state dispute systems for multinational corporations (...). Labour would introduce free, lifelong education in further education colleges, enabling everyone to upscale or re-train at any point in life.
(...)

“Black and Asian workers still suffer a massive pay gap. By introducing equal pay audit requirements on large employers, Labour will close this pay gap. By making the Minimum Wage a real Living Wage, we will benefit ethnic minority workers who are more likely to be on low pay
(...).

“Labour has a proud record on progressing women’s rights and freedoms. We brought in the Equal Pay Act, the Sex Discrimination Act, the Equality Act, the Minimum Wage and introduced Sure Start. Ours will be a government for women, with a cabinet of at least 50 per cent women, which fights inequality and misogyny in every part of society.”¹⁴⁷

Grenfell Tower Tragedy: Symbol of Failure of Globalization in Britain

In the introduction to her 2014 book *This Changes Everything: Capitalism vs. the Climate* Naomi Klein asserts, “Each supercharged natural disaster produces new irony-claden snapshots of a climate increasingly inhospitable to the very industries most responsible for its warming”. And she gives the following striking example: the head offices of the oil companies involved in the Alberta tar sands going dark and obliged to send all their workers home because of the 2013 historic floods in Calgary, Alberta, Canada.

As if nature had mysteriously decided to support Klein’s assertion, a wildfire erupted on 1 May 2016 and swept through Fort McMurray, Alberta, the city where most of the workers of the Alberta tar sands project are located. The oil companies had to suspend their production, more than one million barrels a day, and more than 80,000 Fort McMurray residents had to flee their homes. At the end of May, the wildfire, which had covered 580,000 hectares, was still out of control.¹⁴⁸ The 2,280 firefighters expected weeks, if not months, would be necessary before the fire could be put out. Some, such as Tim Lynham who works for Natural Resources Canada as a fire behavior expert, blamed climate change for such extreme fire-events. “We have a

¹⁴⁷ *For the Many, Not the Few*, 2017.

¹⁴⁸ Oil firms devise plans to restart output in wake of Alberta wildfire, Jeffrey Jones, *Globe and Mail*, 22 May 2016.

temperature and it's turning into a fever and we're trying to ignore it", says Lynham.¹⁴⁹

If the Fort McMurray fire represents a powerful symbol of the dramatic failure of neoliberal globalization in addressing climate change, the fire that erupted in the 24-storey public housing Grenfell Tower in North Kensington, west London, England on 14 June 2017, and which resulted in 79 deaths – the deadliest fire in Britain for more than 100 years – represents another powerful symbol of the dramatic failure of neoliberal globalization in Britain.

Comments Polly Toynbee: "Precise blame comes later in the public inquiry: we are all overnight experts in cladding and sprinklers now. But political blame spreads right through the Conservative party, with no escape on offer. This goes far beyond the precise shockers – the Tory MPs who mockingly rejected housing regulation; the cuts to funding to councils responsible for retro-fitting fire suppressants; the disregard of coroner's instructions after the 2009 Lakanal House tragedy; and even the plan to opt out of EU safety regulations. Conservative Kensington and Chelsea council allegedly blocking its ears to tenants' well-founded anxiety is just the immediate scandal. But this event reaches far deeper, to the very sinews of its party's policy.

"That tower is austerity in ruins. Symbolism is everything in politics and nothing better signifies the May-Cameron-Osborne era that stripped bare the state and its social and physical protection of citizens. The horror of poor people burned alive within feet of the country's grandest mansions, many of them empty, moth-balled investments, perfectly captures the politics of the last seven years. The Cameron, Osborne, Gove Notting Hill set live just up the road.

¹⁴⁹ Canada wildfire: why a sleeping giant awoke in Alberta and became relentless, Ashifa Fassam, The Guardian, 15 May 2016

“From the 40% cuts to local councils, to the bedroom tax and the housing benefit cap banishing people hundreds of miles from family and schools, the people spilling out on to the street, sheltered by churches and mosques, are the unwilling emblems of deliberate Conservative attacks. Just remember how personally people have been abused by George Osborne – those idlers with the blinds down while hard workers set off at dawn. Or Iain Duncan Smith’s: “This is not an easy life any more, chum.” Together with their poisonous press, they hardened public hearts against those struggling and working hard on low incomes: how else could they make this April’s £12bn benefit cuts politically palatable? Here’s the moment public hearts soften and the idea of social security regains its meaning.”¹⁵⁰

And the Guardian political editor Toby Helm also points out that neoliberal deregulation is the heart of the problem: “For years fire experts have been insisting that building regulations need to be amended and tightened in two main ways: to ensure that the materials used, particularly on the exteriors of buildings, are far more fire-resistant, and that sprinkler systems are installed in the construction of new buildings where large numbers of people live, work or spend much of their time.”

And Helm adds that according to Ronnie King, the honorary secretary of the all-party parliamentary fire safety and rescue group, which brings together politicians and fire and construction experts, “many of the problems date back decades to changes in building regulations in 1986 (Note added by author: remember that the neoliberal revolution initiated by Margaret Thatcher, who was prime minister from 1979 to 1990, was then in full swing. See the video Margaret Thatcher: Political Pioneer, Pop Culture Icon), which allowed blocks in London to be built and refurbished

¹⁵⁰ Theresa May was too scared to meet the Grenfell survivors. She’s finished, The Guardian, 16 June 2017. Retrieved 21 June 2017.

with materials on their exteriors that have almost no fire-resistant qualities at all. This change, he (King) insists, is what allowed the Lakanal House fire in Camberwell, south London, in 2009, in which six people died, to spread with terrible results. ‘Fire spread up the external parts of the building and went into the flat above and killed six people,’ he says. ‘That was because the refurbishment – a similar refurbishment again [to that at Grenfell Tower] – allowed the outside wall to be of only a class 0 on the spread-of-flame classification system.’ Prior to 1986, such materials would have been illegal.”¹⁵¹

¹⁵¹ Why does it take a tragedy like Grenfell Tower for ministers to put lives above saving money?, Toby Helm, The Guardian, 17 June 2017. Retrieved 21 June 2017.

ECLAC and IMF in 2017

Above, I explained in considerable detail the analysis of Stiglitz. Below, I will point out the profound similarity between the analysis of Stiglitz and that of the Economic Commission for Latin America and the Caribbean (ECLAC), drawing information from the 174-page document produced by ECLAC for its 36th session held in Mexico City in May 2016. Then I will show that the IMF in recent years has been moving closer to the viewpoint of both Stiglitz and ECLAC on inequality.

Similarity between Stiglitz and ECLAC.

In both *Globalization and Its Discontents* and *Rewriting the Rules*, Stiglitz criticizes neoliberalism. In the former, because of its negative impact on developing countries, and in the latter, because of its negative impact on the U.S. economy. While ECLAC avoids using the term ‘neoliberalism’ and only speaks of the ‘Washington Consensus’, it is clear, as previously mentioned above, that it also calls into question this free market fundamentalist ideology. In its May 2016 document Horizons 2030 Equality at the Centre of Sustainable Development ECLAC asserts, “In the 1990s, (...) humanity was divided into two worlds whose agendas were at odds or openly in conflict. On one side was the United Nations policy-setting agenda. On the other side stood a deregulated economic system, especially the world of finance, whose assets were multiplying rapidly while their underpinnings in the real economy were diminishing (...). This system prioritized trade liberalization and disregarded the specific problems affecting developing economies, such as competitiveness, external balances and environmental deterioration. During this decade, the Washington Consensus was also extended to the peripheral countries, which weakened the State’s capacity to act and considerably reduced public policy space in the social and production arenas. These were two worlds

at odds: a world built upon the United Nations policy-setting agenda and a world under pressure to continue pursuing an unsustainable development pattern.”¹⁵²

One of the key ideas of Stiglitz, as we have seen, is that the financial sector, because of neoliberal induced deregulation, has rapidly outgrown the real economy. Instead of serving the common good by financing investment and jobs, it has turned to serving itself, thus imposing considerable harm on the economy by slowing growth and increasing both inequality and volatility.

ECLAC shares this analysis, which it had first exposed in its May 2002 document *Globalization and Development* and now reasserts in May 2016: “Paradoxically, weakened aggregate demand coexists with an excess of liquidity. The financial system is on a self-sustaining path of asset multiplication, to which current account imbalances and the resulting issuances of debt securities have contributed.”

And ECLAC reproduces a graph (see Figure 1.3¹⁵³ on following page) illustrating how financial assets, especially derivatives¹⁵⁴, have been growing much faster than world GDP from 1980 to 2014.

Such exponential growth of financial assets (financialization), it continues, has been causing considerable harm: “Rapidly expanding financial wealth that far exceeds production and trade volumes has tremendous disruptive potential. The successive financial and exchange rate crises that have beset the world economy, and the developing economies in particular, have often been associated with bubbles, speculation on energy or raw

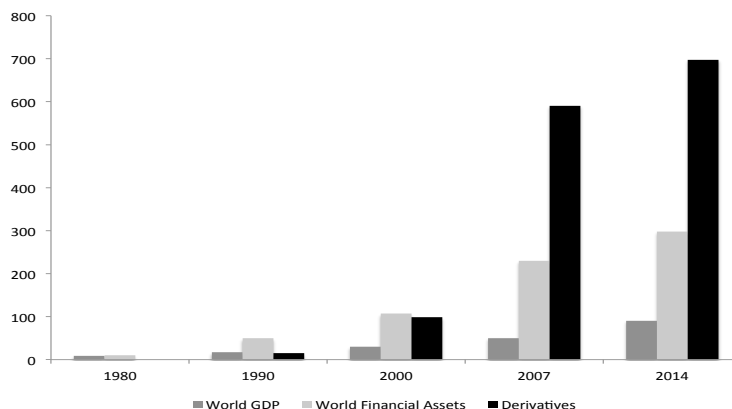
¹⁵² Horizons 2030 Equality at the Centre of Sustainable Development, p. 30.

¹⁵³ ECLAC, on the basis of figures provided by the Bank of International Settlements (BIS) and World Bank, World Bank Development Indicators, 2015.

¹⁵⁴ To discover what is meant by derivatives, see the following 4 min. video: [What are derivatives](#), posted on YouTube on 20 February 2012.

material prices, or exchange rate appreciation fuelled by capital inflows and international liquidity cycles.”

Figure 1.3
The dissonance between international finance and the real economy:
world nominal GDP, financial assets and financial derivatives, 1980-2014
(Trillions of dollars)



A second similarity: Stiglitz asserts that neoliberalism tends to ignore the importance of public goods. For example it views education as a mere commodity and thus prefers to leave it to the private sector. Stiglitz argues that education should not be considered as a mere commodity as it constitutes a national public good (or indeed a global public good). Universities, for example, produce research that fuels innovations that drive business and change the way people live. They should therefore be nationally funded.

ECLAC also criticizes neoliberalism’s tendency to ignore the nature and importance of public goods, and especially global public goods.

What are public (and global public) goods?

“A public good is a good whose consumption is non-rivalrous (that is, its use by an agent does not diminish the possibility of use by another agent) and non-excludable (once the good is produced, it is impossible to prevent any individuals from consuming it). For this reason, some agents seek to benefit from these goods without helping to pay for them or produce them (known as the freerider problem). For the same reason, they tend to be produced in suboptimal quantities, unless there is a mechanism of cooperation or command in place that compels everyone to contribute to their production.”

It is for this reason that governments must step in to finance and build, with tax money, infrastructure such as roads, bridges, railways, high-speed access to Internet, etc. Not doing so would mean neglecting the well being of present and future generations.

“Public goods are global when their benefits are universal, that is, they benefit all actors in the international system — including future generations— and not only the inhabitants of a particular country or region”.¹⁵⁵ In this sense, stability in the world economy (in other words decreasing volatility) represents a global public good. So does clean alternative energy. And so does reducing gross inequality of income and wealth. Governments must cooperate to produce such global public goods that benefit both present and future generations.

¹⁵⁵ This definition and the previous one of ‘public good’ were drawn from Horizons 2030 Equality at the Centre of Sustainable Development, May 2016, footnote 11, p. 26.

ECLAC mentions two urgently needed global public goods.

1) The international system must stabilize and facilitate growth and employment. 2) This must be done following a low carbon path, in other words in a manner that copes with climate change.

To produce these two global public goods, governments must cooperate very closely “to sustain aggregate demand”; to create “a new financial architecture to reduce uncertainty and curb the fluctuations generated by international capital movements” (here one easily recognizes one of the main points in all of Stiglitz’ publications); to establish rules and mechanisms “to decouple production from emissions and restrict the predatory use of the planet’s resources”; and “to reduce inequality between countries by narrowing gaps in capacities and income (...).”

Just as Stiglitz, in *Rewriting the Rules*, emphasized the importance, for the U.S. economy, of establishing rules to limit and constrain the imbalances resulting from the interplay of sheer market forces, especially when the latter in a context of deregulation lead to monopoly power and gross inequality, ECLAC emphasizes the importance, for the world economy, of establishing rules to correct the gross imbalances flowing from a deregulated world economy. The imbalances of a world where technology and income are “highly concentrated in the hands of a small number of actors, large transnational corporations and complex financial firms;” and the imbalances of a world where colonization and fossil fuel based industrialization have imposed a heavy burden on today’s developing nations, on the one hand locking them into a model of primary commodities and low-tech goods, and on the other, imposing on them the bulk of the pollution produced by the wealthy few.

These stark historically induced differences mean that the rules elaborated must acknowledge and incorporate the

principal of “common but differentiated responsibilities”. In other words, all countries must be responsible to correct the stark technological and income gap, and to address climate change, but the primary responsibility and burden for doing so must rest on the wealthy developed countries.

As previously mentioned, colonialism, slavery and climate change, which are closely linked to the industrial revolution and the rapid expansion of markets, can certainly be considered a fundamental aspect of globalization. And the primary burden for correcting these three wrongs or debts, in the opinion of a vast number of observers, rests on the shoulders of the countries of the North.

ECLAC approaches the matter in a more diplomatic and less direct manner. It notes, “Taking these asymmetries into account and establishing rules to correct them and to control the imbalances they generate will make the whole system more stable and ease the tension in various areas of international relations, from migratory flows to disputes over trade or labor and environmental standards”.

A blatant example of not understanding and/or accepting the principle of differentiated responsibility

When Donald Trump announced that the U.S. would withdraw from the historical Paris Climate Agreement, he said, “The Paris Climate Accord is simply the latest example of Washington entering into an agreement that disadvantages the United States to the exclusive benefit of other countries, leaving American workers, who I love, and taxpayers to absorb the costs in terms of lost jobs, lower wages, shut factories and vastly diminished economic production (...). For example China will be able to increase these emissions by a staggering number of years – 13 years. India makes its participation contingent on its country receiving billions and billions of dollars in foreign aid from developed countries. They can do whatever they want for 13

years, not us. (...) China will be allowed to build hundreds of additional coal plants. We can't build coal plants but they can, according to this agreement. India will be allowed to double its coal production by 2020. Think of it: India can double their coal production. We're supposed to get rid of ours." (To watch the video of Trump – especially min. 6 to 9 – making the announcement: <https://www.youtube.com/watch?v=k9DxYMs-5uU>).

Quite obviously, President Trump is totally oblivious of the fact that the U.S., which represents no more than 5 percent of the world population, has been historically responsible for at least 30 percent of the world pollution that presently affects primarily those living in developing countries. It is thus only normal that the U.S. be asked to do more to right the environmental wrongs afflicting the planet. The Paris Climate Agreement represents a small step in the right direction. "While the U.S. is the second-largest emitter of carbon, after China, it has contributed the most to emissions over time, accounting for about a third of the excess and warming carbon in the atmosphere today," notes Rebecca Harrington.¹⁵⁶

Besides the two similarities just explained – coming to terms with the very harmful exponential growth of the financial sector and prioritizing the production of public goods – there are many other similarities between the analysis of Stiglitz and that of ECLAC:

1. The present economic model is based on the intense use of fossil fuels. Climate change means that a new model is called for, one that prioritizes the use of clean alternative energy, both on the national and international level. In national economic policy and in free trade agreements, the environment must no longer take the back seat.

¹⁵⁶ Trump withdrawing from Paris Climate Agreement, *Business Insider*, 1 June 2017.

2. The present economic model leads to growing inequality and stagnant growth. Rules must be implemented to cope with this problem. The financial architecture must be reformed so that it becomes more democratic and less dependent on a few very wealthy countries and their financial elite; so that it fosters long term planning and investment, and shared and more robust growth.
3. The present economic model in its deregulated form is rigged against developing nations. The latter suffer the most negative consequences of pollution and the predatory use of natural resources. And they are locked into a colonization-induced specialization in primary commodities and low-tech goods. The latter are more vulnerable to terms of trade deterioration, which means that developing nations are harder hit by economic crises.
4. Stiglitz stresses the importance of taxing pollution, of restoring the progressivity of taxation, of correcting the tax privilege of capital gains, of eliminating tax evasion through offshore banking, of favoring public transportation, etc. ECLAC asserts, "The elimination of fossil fuel subsidies and the taxing of polluting activities (so as to align social and private costs) will expand the fiscal space for countercyclical and industrial policies, and at the same time will shift incentives towards less carbon-intensive activities. A policy that penalizes the use of private transportation and makes public transport more attractive by guaranteeing quality standards will also serve to reduce pollution and inequality. Strengthening indirect taxation and eliminating the preferential treatment of capital gains (on which taxation is too low) will broaden fiscal space and promote equality. Similarly, extending taxes on assets will help reduce the asymmetry in the taxation of capital and of labour, reducing the regressive bias in that area. Steps must also be taken to combat the high levels of tax evasion and avoidance, which, in the

region (Latin America and the Caribbean), amounts to some US\$ 320 billion a year, equivalent to 6.3% of regional GDP (...), part of which feeds the illicit flows analysed above. Greater redistribution can also be achieved by reducing preferential treatment and lowering the income level at which top tax rates kick in.”

5. China, though a developing nation, has managed to break out of the colonization-induced specialization in primary commodities and low-tech goods by saying NO to the Washington Consensus. In other words by saying no to neoliberalism. It did open up to free trade, but only gradually, and in the framework of an industrial policy that allowed new jobs to be created as old ones were destroyed, and in which capital flows remained controlled. This was a point made loud and clear in Stiglitz’ *Globalization and Its Discontents*. ECLAC also analyzes China’s economic miracle, but points out that the latter offers two important lessons for Latin America and the Caribbean: one positive, showing what must be done, and one negative, showing what must be avoided. It asserts, “China’s success in reducing income and capacity gaps with respect to advanced economies provides some important lessons for Latin America and the Caribbean. The first of these is that the diversification of the production structure towards more knowledge-intensive sectors is a core vector of development. China diversified by building up increasingly advanced manufacturing sectors that transformed its pattern of international specialization. While China’s structural change gave it a new position in the world, for much of Latin America and the Caribbean it served to reinforce the specialization in commodities.” In other words, China managed to break out of the pattern of primary commodities and low-tech goods by refusing neoliberalism, but Latin America and the Caribbean, which followed the neoliberal path, didn’t. However, if China was successful in entering the realm of

high-tech goods, it was not successful in decoupling production from emissions. “China has become the world’s largest emitter of greenhouse gases because its rapid economic growth has been fuelled by an energy mix that is heavily dependent on coal”, notes ECLAC. Nor was China successful in reducing inequality on a national level. Inequality in China has soared because economic growth, which was concentrated in “the Special Economic Zones”, resulted in a large wage gap between urban and rural zones on the one hand, and, in urban areas, between those with more education and those with less.¹⁵⁷

IMF’s changing views on inequality

The neoliberal view of the world, which, as explained above, finds its historical roots in Adam Smith and its contemporary and more articulate roots in Milton Friedman, rests on the pillar of the so-called invisible hand, or what is also known as the trickle-down theory. The wealthy are the key drivers of economic growth. As they amass private wealth, part of it always trickles down to everyone else. To take away a large part of the wealth of the elite through taxation and to transfer it to the poor, according to this philosophy, is a big mistake. Why? For a very simple reason: it slows down economic growth, the very foundation of all improvements in well-being. Put another way: the more one tries to redistribute wealth through taxation, the more one harms growth. And all are thus negatively affected, even the poor.

In both *Globalization and Its Discontents* and *Rewriting the Rules*, Stiglitz argues that the trickle-down theory is fundamentally flawed. Neoliberal austerity measures imposed on developing nations by the IMF simply do not work. Reducing deficits by privatization, and by making

¹⁵⁷ Horizons 2030 Equality at the Centre of Sustainable Development, May 2016, p. 43.

large cuts in education, health and social welfare, etc. leads to greater problems, in particular rising inequality, and negatively affects the population, especially the poor. Neoliberal rules applied to the U.S. reduce the working conditions and quality of life of the middle-class, women and minority groups.

The IMF, which in 2002 posted on the web a paper – summarized earlier in this book – defending neoliberal globalization, a paper clearly intended to rebuke the scathing critique of the rebellious former chief economist of its sister organization the World Bank, Joseph Stiglitz, now seems to be changing its opinion.

Brad Plumer reported in The Washington Post on 12 October 2012: “Earlier this week, the International Monetary Fund made a striking admission in its new World Economic Outlook. The IMF's chief economist, Olivier Blanchard, explained that recent efforts among wealthy countries to shrink their deficits (...) have been causing far more economic damage than experts had assumed.”¹⁵⁸ Greece, for example, has been pressured to reduce its deficit by massive privatization and austerity measures, and the end result has been a sharp fall in growth, a persisting deficit, and such decreasing living standards that the suicide rate increased. This led the IMF to distance itself from Germany, the former claiming that a huge part of Greece’s debt should simply be pardoned, and the latter maintaining that all of the debt had to be paid back through austerity measures.

And Philip Inman reported in The Guardian of 26 February 2017: “Backing analysis by the Keynesian economist and Nobel prizewinner Joseph Stiglitz, the IMF warned that inequality can (...) make growth more volatile and create the unstable conditions for a sudden slowdown in GDP

¹⁵⁸ IMF: Austerity is much worse for the economy than we thought, Brad Plumer, The Washington Post, 12 October 2012.

growth. And in what is likely to be viewed as its most controversial conclusion, the IMF said analysis of various efforts to redistribute incomes showed they had a neutral effect on GDP growth. This last point is expected to dismay rightwing politicians who argue that overcoming inequality robs the rich of incentives to invest and the poor of incentives to work and is counter-productive.”¹⁵⁹

In *Rewriting the Rules*, Stiglitz refers to the same IMF research findings mentioned above by Philip Inman. The IMF, points out Stiglitz, not only asserts that “redistribution (in other words taxing the wealthy more and making transfers to the poor and less well off), outside of some extremes, has no relationship with economic growth” but also points out that “countries with high levels of inequality suffered lower growth than nations that distributed incomes more evenly.”¹⁶⁰

Measures to reduce inequality are not only morally but also economically sound, point out the IMF researchers: “On average, across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. And the resulting narrowing of inequality helped support faster and more durable growth, apart from ethical, political, or broader social considerations.”¹⁶¹

¹⁵⁹ IMF study finds inequality is damaging to economic growth.

¹⁶⁰ Andrew Berg, Charalambos G Tsangarides, and Jonathan David Ostry, Redistribution, Inequality, and Growth, IMF, 17 February 2014, quoted in Stiglitz, *The Current Rules*, footnote 84.

¹⁶¹ Andrew Berg, Charalambos G Tsangarides, and Jonathan David Ostry, Redistribution, Inequality, and Growth, IMF, 17 February 2014, p. 26.

Crisis of anti-globalization in Latin America

At the very beginning of this book, I mentioned that globalization, a growing world trend at the end of the 20th century and beginning of the 21st century, was now in full crisis. And I added that the region of the world where one finds the most successful 21st century anti-globalization movement in the world – Latin America – was also in full crisis. A crisis interpreted by progressives as resulting mainly from a ‘golpe blanco’ (white coup) organized by the right to reverse the recent remarkable social advances in Argentina, Brazil, Venezuela, Bolivia and Ecuador, and interpreted by conservatives as resulting mainly from corruption and ill-guided anti-neoliberal policies.

The Economist of September 2106 reports: “Some countries in Latin America, especially those on the Pacific seaboard, like Mexico, Chile and Peru, never turned their backs on globalisation. Others did. Boosted by record prices for their commodity exports, they turned inward and subjected their economies to state controls, repeating on a smaller scale the model that failed the region in the 1970s. (...) During 12 years of rule by Cristina Fernández de Kirchner and her late husband, Néstor Kirchner, Argentina cut itself off from the world, nationalising foreign businesses, curbing imports and severing normal ties with the IMF.”¹⁶²

And The Economist provides evidence showing that several of the anti-globalization Latin American economies are now returning to globalization:

- “This month President Mauricio Macri welcomed 1,600 business leaders to Buenos Aires, inviting them to invest in and trade with his country.

¹⁶² Bello, *Of growth and globalisation*, The Economist, September 2016

- “Brazil’s congress is poised to roll back a law that gave Petrobras, the state-controlled oil company, a monopoly over deep-water operations. Michel Temer, the new president, is set to loosen rules governing national content in the oil industry.
- “In Ecuador Rafael Correa, a left-wing populist who boasted that his country was doing well because it disregarded the IMF’s recipes, plans to stand down as president next year amid a recession. His government has already accepted a \$364m no-strings loan from the fund for earthquake reconstruction; whoever wins the election is likely to seek a conventional IMF programme.”

James Petras, whose co-authored book *Globalization Unmasked* we have analyzed above, argues that while it is true that many Latin American countries, under the influence of increasing and massive anti-neoliberal demonstrations, did elect governments that declared themselves socialist, the latter never did really embark in authentic socialism. Socialism would have meant that the most important means of production would have been taken over by the public sector, and directly managed by the State in pursuit of the common good. What happened instead is that governments obliged multinationals to pay more taxes and higher royalties, and used these to finance generous social programs that led to improved living conditions and reduced poverty. In a context of extremely high commodity prices these multinationals accepted to cooperate, argues Petras, obtaining in return the privilege of continued access to land and mines. However, following the plummeting of commodity prices in the 2008 crisis, the situation changed radically. Plummeting commodity prices meant plummeting taxes and royalties, and thus the financial foundation of the more generous social programs disappeared in thin air. Willing to cooperate and adopt a soft approach in a context of high commodity prices, multinationals resumed their

traditional approach and became more pro-active politically, not hesitating to do everything possible to destabilize progressive governments.¹⁶³

It is in this context that popular discontent started increasing in Argentina, Brazil, Venezuela, Ecuador and Bolivia. The two latter countries, which had adopted remarkably environment-friendly and indigenous-respectful constitutions, failed to respect them in a context of crisis. On the one hand they accepted, in an effort to maintain funding for social programs, that multinationals increase the exploitation of fossil fuels, and, on the other, they responded to the indigenous nations who opposed such increased exploitation by seeking to divide them. Thus placing, as a matter of fact, both the environment and the rights of the indigenous on the backburner, and contradicting the newly proclaimed constitutions.

The late internationally renowned sociologist and Catholic priest Francois Houtart¹⁶⁴ seems to agree with the analysis of Petras. For example, he claims that the Correa government in Ecuador, while promising to implement 21st century socialism ended up merely modernizing capitalism. No agrarian reform was carried out and peasants were not properly prioritized, he says. Houtart cites a 2013 study that shows that the rate of poverty in rural areas is still 44

¹⁶³ See: James Petras : *US – Latin American Relations 1990-2009*, 28 min, posted on YouTube on 5 August 2013, Also see: *America latina entre el terrorismo de estado y la resistencia popular*, 34 min, posted on YouTube on 12 October 2014. Both videos retrieved on 21 June 2017.

¹⁶⁴ A very prolific writer and outstanding activist specialized in social movements, Father Houtart passed away in his sleep in Ecuador on 6 June 2017. At 92 years old, he was still very active and teaching. See *L'altermondialiste François Houtart est mort*, Le Courrier, le 8 juin 2017. I met Father Houtart in 1967 in Rome where I was then studying to become a priest. A theologian who had played an important role in Vatican II and who wanted the church to become closer to the poor and marginalized, he was wearing a huge badge on which it was written, in Italian: "I am a very important Catholic. In case of an accident, please call a cardinal!"

percent and the rate of extreme poverty 19.5 percent. He claims that Correa promoted a modern monoculture export agriculture that destroys forests and expels peasants from their lands and often failed to consult the indigenous before embarking in fossil fuel projects on their land, even though the new constitution stipulates obligatory consultation. However, if Correa ended up merely modernizing capitalism, he is nevertheless not, according to Houtart, neoliberal. His movement represents a coalition between conservatives and leftist leaders originating from the social mobilizations of the 1970s.¹⁶⁵

Writing in the Summer 2013 issue of NACLA, William I. Robinson also adopts an analysis similar to that of Petras.

On the one hand he acknowledges that progressive governments in Latin America have improved the living conditions of the many in several respects, achieving “faster rates of economic growth and reductions in poverty and inequality”. And he adds: “The left-oriented or “pink tide” governments challenged and even reversed major components of the neoliberal program. Many of them halted privatizations, nationalized natural resources and other economic sectors, restored public health and education, expanded social spending, introduced social welfare programs, renegotiated foreign debts on discounted terms, broke with the IMF, and staked out foreign policies independent of Washington’s dictat”.

On the other hand he makes it quite clear that these progressive or left-oriented governments not only did not alter the profound roots of extractivist capitalism, but also even allowed the latter to expand. He asserts: “Every national agricultural system in Latin America has been

¹⁶⁵ Sergio Ferrari, *Entre logros, decepción y fractura del movimiento social*, Entrevista con el sociólogo François Houtart, *América Latina en movimiento*, 23 March 2017.

swept up in the new global agribusiness complex—the Global Farm. Alongside beef, coffee, and sugar, King Soy now dominates agriculture in Argentina, Bolivia, Brazil, and Paraguay. Soy is mass-produced and processed as industrial and edible oils, animal feed, and food for markets in Asia and elsewhere. Soy plantations set up by transnational agribusiness and run as capitalist “factories in the field” are displacing millions of small landholders, eating up the rainforests and savannas, and generating an ecological disaster. In Brazil, former president Luiz Inácio Lula da Silva (2003–10) gave powerful support to agribusiness over small farms and the landless. In the countryside land ownership was more concentrated at the end of Lula’s term than it was 50 years ago. The countryside is *a landscape of endless seas of soy plantations, massive cattle ranches, and poisonous industrial farms that displace poor Brazilian families and cut down ever-larger swaths of rainforest*, observes writer Benjamin Dangel in his 2010 book, *Dancing With Dynamite*.¹⁶⁶

And Robinson pursues, showing that the advances of global capitalism, even in left-oriented Latin American economies, were not limited to agriculture: “Services, commerce, and finances have become increasingly transnationalized. The arrival of the Global Supermarket has involved the invasion of transnational retail conglomerates like Walmart, K-Mart, Costco, Carrefour, and Royal Ahold, as well as fast-food chains, (...) generally in partnership with Latin American investor groups. Fast-food chains, super-stores, and malls are the outlets for the distribution of goods from the Global Farm and the Global Factory. They have displaced thousands of small traders, disrupted local economies, and

¹⁶⁶ Latin America in the New Global Capitalism, William I. Robinson, NACLA, Summer 2012 issue. Robinson’s quote from Benjamin Dangel in *Dancing With Dynamite: Social Movements and States in Latin America* (AK Press, 2010), p. 134.

propagated a global consumer culture and ideology. Meanwhile, data-processing and call centers, outsourced from the Global North, have spread at an astonishing rate. Already by 2003, half a million Brazilians labored in call centers, largely women from 16 to 24 years of age, in what some characterized as *informational maquiladoras*”.¹⁶⁷

Chile turns its back on neoliberal globalization

At the very beginning of this book I pointed out that even though Margaret Thatcher and Ronald Reagan are generally viewed as the initiators of globalization in the neoliberal sense, it is Augusto Pinochet in Chile that was the very first to initiate this trend. Later, when commenting on a conference on globalization given by Joseph Stiglitz in 2013, I noted that according to him neoliberal globalization was producing a democratic deficit in the world: “Presently, however, we do not have global governance. Instead we have a democratic deficit at a global level. This deficit originates from the fact that corporate interests have the upper hand and that international institutions such as the IMF and the World Bank reflect power and wealth, not democracy”. And when commenting and summarizing *Globalization Unmasked*, I mentioned that according to its authors James Petras and Henry Veltmeyer the overthrow of the democratically elected government of Salvador Allende in Chile in 1973 represented one blatant example among many of the undemocratic nature of globalization.

Ironically enough, while *The Economist* claims, as we have just noted above, that Chile is one of the Latin American countries that did not turn its back on globalization, the fact of the matter is that the majority of the Chilean population is presently doing just that: turning its back on neoliberal globalization. In her 2016 book *Le réveil démocratique du*

¹⁶⁷ Robins cites Ruy Braga, “Information Work and the Proletarian Condition Today,” *Societies Without Borders* 2, no. 1 (2007): 27–48.

Chili (Chile's Democratic Awakening to Democracy), Marie-Christine Doran asserts that Chileans are presently recuperating the collective memory of an immense dual suffering that they have endured, one that has been deeply buried in their subconscious for decades: the suffering resulting from a 17-year dictatorship that imposed a massive repression on dozens of thousands of Chileans – torture, executions, disappeared, deportations, etc. –, and from the fact that many of the authors of this repression are still enjoying, more than 40 years later, total impunity; and the suffering resulting from the brutal and long imposition of the most privatized neoliberal economy of the world, one that welcomed globalization with open arms.¹⁶⁸

The first grand eruption of the collective memory was linked to the massive and long repression exercised by the dictatorship and was provoked by the Pinochet Affair, that is, the unexpected and spectacular one year long detention of Pinochet in England in 1998. Human rights, deemed fundamental only by a small minority of Chileans in the first years of the Concertación governments, rapidly turned into a key national issue following the Pinochet Affair, which made the headlines throughout the world for months. So much so, as a matter of fact, that in 2003 President Ricardo Lagos felt obliged to set up the Valech Commission whose role was to go beyond the previous human rights inquiry – The Rettig Commission – that could only investigate those killed by the dictatorship but not those responsible for the executions.

Following the first report of the Valech Commission, a group of Chilean historians published a manifesto – Manifiesto de historiadores contra los que torturan a nombre

¹⁶⁸ Marie-Christine Doran, *Le réveil démocratique du Chili: une histoire politique de l'exigence de justice* (1990-2016), Éditions Karthala, Paris, 2016, 377 pp. The information from this and the following five paragraphs was drawn from this source.

de la Patria (Manifesto of historians against those who torture in the name of the Fatherland) – whose impact was immense and, according to Doran, represents a key turning point in the grand democratic awakening of Chileans.

Asserts the manifesto: “Chileans have been shocked by the publication of the first Report of the National Commission on Political Prisoners and Torture. (...) This new and painful eruption of our collective memory, arising from more than 28,000 testimonies of torture experienced in almost 1,200 centres under military and police control, has spectacularly highlighted our immense and outstanding debt in terms of truth and justice, and has reminded us once again that no decree can oblige one to forget. This time, everyone has been obliged to acknowledge the raw and powerful truth that emanates from these testimonies.”¹⁶⁹

The last report of the Valech Commission, published in August 2011, reported that the total number of victims (excluding the dozens of thousands forced to take refuge abroad) surpasses 40,000: the tortured, the executed, the disappeared and the political prisoners.

The second grand eruption of the collective memory of Chileans is linked to the suffering caused by the radical neoliberal economy imposed by the 17 year-long Pinochet dictatorship. Chile is a country in which education, health and even pensions and water are considered private, not public goods. In other words, access to these services is measured by the size of one’s pocketbook: the wealthy receive the most and best services, and the others have to make do with what they can afford, regardless of their needs.

In the same manner that Britons are upset by a privatized railway system that has resulted in services of reduced

¹⁶⁹ My translation from Spanish to English.

quality and much higher prices; that their increasingly privatized education system has resulted in skyrocketing student debt and decreased quality (As noted above, the OECD notes that a higher proportion of British 18- to 24-year-olds suffer from low literacy and numeracy than their equivalents in France, Germany, Italy or Spain); that the quality of the National Health Service is being reduced because of neoliberal-inspired radical cuts; in that same manner Chileans are increasingly upset and discontent with their radical neoliberal economy.

Ever more frustrated by a privatized education system based on the search for short-term profits and that prioritizes the needs of the wealthy, Chilean students initiated a massive series of demonstrations in 2010. A wave of demonstrations that was absolutely historical, and that took the whole world by surprise. The demonstrations lasted a full three years, they were backed by the majority of the people, and they led to the ever-greater calling into question of the neoliberal economic model itself. So much so that they contributed to the electoral victory of the New Majority, a government led by Michelle Bachelet and that promised to reverse neoliberalism, in particular in education, and to set up a process for the eventual adoption of a new constitution, free of the neoliberal constraints enshrined in the one adopted during the dictatorship.

In August 2016 another historical demonstration: millions of Chileans from all walks of life massively invaded the streets throughout Chile requesting that the government put an end to the privatized pension system, known as AFP. A system that serves the elite very well, providing it with immense profits, sometimes obtained through fraud, and that leaves the majority of citizens with miserable pensions.

One month later Daniel Gallagher reports: “When it comes to water, Chile is failing its citizens. In Santiago, the nation’s capital, millions of people are regularly left without

running water for days at a time and experts are warning of water scarcity to come across the country as temperatures rise and glaciers retreat. (...) A recent protest saw at least 2,000 people take to the capital's streets to demand the repeal of laws that privatised Chile's water supply. At the heart of the protest and others like it in recent years lies frustration that the privatisation of water has kept prices unnecessarily high, delivered poor service and done little to address concerns over insufficient supply in the future. (...) Pinochet's political demise in 1990 was not the end of Chile's faith in a privatised water supply. If anything, that faith deepened following the return to democracy, with legislation in 1998 clearing the way for international firms to buy up the nation's water utilities. Aguas Andinas, for example, a subsidiary of transnationals Agbar and Suez, monopolises Santiago's market today, selling water to 6 million of the city's 7.2 million residents at one of the highest tariffs in Latin America."¹⁷⁰

In March 2017, yet another massive protest against the private pension system. "According to organizers, 800,000 took part in the marches in Santiago and a further 2 million across the country."¹⁷¹

Similarly to Britons and Americans in the other two countries that have initiated and led the wave of neoliberalism, Chileans are presently turning against globalization because of sharply increasing and obscene inequality. The Economist of 7 June 2014 published a letter by the ex-secretary general of the United Nations, Carlos Fortin, in which he states that according to the United Nations Development Report of 2013, there are only 18 countries, out of 140, whose income distribution is more

¹⁷⁰ The heavy price of Santiago's privatised water, The Guardian, 15 September 2016.

¹⁷¹ Organizers say it was the largest-ever protest against the private pension system in Chile, Telesur, 27 March 2017.

unequal than Chile's. And quoting from two studies from the University of Chile¹⁷² Marcelo Solervicens writes in his blog of 9 March 2014: "In Chile the income of the richest 1% is 40 times greater than the per capita income of 80.6% of the population. The latter earn 338 dollars a month, or about 4,000 dollars per year. (...) One percent (73,000) of Chileans receive 33% of total income (...). The 0.01%, that is to say some 1,200 individuals, pocket 10% of the total income of the country while 99% of the population receives only 68%. By comparison, in Canada 1% receive 15% of total income and 0.01% receive 2% of total income." ¹⁷³

¹⁷² La 'Parte Del León': Nuevas Estimaciones De la participación de los súper ricos en el ingreso de Chile, Serie de documentos de trabajo, sdt 379, Ramón López, Eugenio Figueroa B. y Pablo Gutiérrez C., Santiago, marzo 2013 Combatiendo la desigualdad. Conclusiones del Ciclo de Políticas Públicas: Panel de Pobreza y desigualdad, Centro de estudios públicos de la Universidad de Chile, No 364, 2013 (My translation from Spanish to English).

¹⁷³ Marcelo Solervicens, Inicio del Segundo Gobierno Bachelet en Chile: ¿Y ahora Qué? 9 March 2014.

Anti-globalization Donald Trump vs. Stiglitz

As mentioned at the beginning of this book, the unexpected election of Donald Trump as president of the U.S. represents a sign of the growing anti-globalization movement in the world. In what follows I will present the electoral promises – those primarily directly affecting the economy – made by Trump during his electoral campaign, and then critically evaluate them in terms of the new rules proposed by Joseph Stiglitz for the U.S. economy. More precisely I will compare and contrast what Trump proposed during his electoral campaign and is now trying to implement with what Stiglitz proposed in *Rewriting the Rules of the American Economy*.

The fact that Trump is renowned for making grandiose and hyperbolic statements, and also for rapidly changing his mind and being totally unpredictable, renders my task more complicated. And so does the fact that he regularly makes blatantly false assertions.

After providing a detailed list of all President Trump's lies since he took office and claiming that "there is simply no precedent for an American president to spend so much time telling untruths", The New York Times asserts:

"Trump told public lies or falsehoods every day for his first 40 days. The list above uses the conservative standard of demonstrably false statements. By that standard, Trump told a public lie on at least 20 of his first 40 days as president. But based on a broader standard — one that includes his many misleading statements (like exaggerating military spending in the Middle East) — Trump achieved something remarkable: He said something untrue, in public, every day for the first 40 days of his presidency. The streak didn't end until March 1.

"Since then, he has said something untrue on at least 74 of 113 days. On days without an untrue statement, he is often

absent from Twitter, vacationing at Mar-a-Lago in Florida, or busy golfing.

“The end of May was another period of relative public veracity — or at least public quiet — for the president. He seems to have been otherwise occupied, dealing with internal discussions about the Russia investigation¹⁷⁴ and then embarking on a trip through the Middle East and Europe.”¹⁷⁵

Two of the spectacular lies told by Trump: his argument according to which he fired James Comey as head of the FBI not because the latter was refusing to abandon the Russia investigation but merely because the FBI was ill-managed and Comey had lost the confidence of most of his employees. Testifying under oath, Comey said that these were “lies, plain and simple”.

Another spectacular lie, according to the internationally renowned reporter Seymour M. Hersh (the latter “exposed the My Lai Massacre in Vietnam 1968” and “uncovered the abuses at Abu Ghraib prison in Iraq”): “In April 6, United States President Donald Trump authorized an early morning Tomahawk missile strike on Shayrat Air Base in central Syria in retaliation for what he said was a deadly nerve agent attack carried out by the Syrian government two days earlier in the rebel-held town of Khan Sheikhoun. Trump issued the order despite having been warned by the U.S. intelligence community that it had found no evidence that the Syrians had used a chemical weapon.” Hersh quotes a U.S. senior advisor: “It was a totally Trump show from

¹⁷⁴ To understand what is meant by ‘Russia investigation’ see: [Why David Brooks is wrong about Trump-Russia investigation](#), Julian Zelizer, CNN, 22 June 2017; [Trump is terrified of the investigation into his relationship with Russia](#), Max Boot, Business Insider, 25 June 2017.

¹⁷⁵ [Trump’s Lies](#), David Leonhardt and Stuart A. Thompson, The New York Times, 23 June 2017. Retrieved 25 June 2017.

beginning to end”.¹⁷⁶

Free trade

Trump often declared during his campaign that he was speaking for those Americans without a voice. Those in the rust belt whose jobs have been destroyed by a deindustrialization process caused by NAFTA and by China, which is “stealing” American manufacturing jobs and which he calls out for “outrageous theft of intellectual property, (...) illegal product dumping, and (...) devastating currency manipulation”.¹⁷⁷ And those whose jobs would also be destroyed should the U.S. go ahead with the Trans-Pacific Partnership Agreement (TPPA), a free trade agreement between twelve countries: the United States, Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru, and Vietnam. He promised to totally abandon the TPPA upon being elected and to renegotiate NAFTA in order to make America great again. Should the latter renegotiation not provide satisfactory results, I will simply walk away from the NAFTA agreement, he bluntly asserted. Trump also threatened to impose a 35 percent tax on the imports of companies that choose to go offshore.

During his Inaugural Address Trump painted a very grim picture of the U.S. He spoke of “a country where mothers and children are *trapped in poverty in our inner cities*, where *rusted-out factories* are *scattered like tombstones across the landscape* and where drugs¹⁷⁸ and crime *have*

¹⁷⁶ Trump Bombed Syria Ignoring Important U.S. Intelligence, Information Clearing House, 26 June 2017. Retrieved 27 June 2017.

¹⁷⁷ Trump on China: ‘They’re not currency manipulators’, Sarah Waychoff, Truth Squad, 13 April 2017.

¹⁷⁸ While it is true that Trump, as noted above, is inclined to exaggerate considerably, his statement that drugs are taking too many lives is quite accurate. Josh Katz in the New York Times of 5 June 2017 – Modern Plague: Drug overdoses are now the leading cause of death for Americans under 50 – reports: “Drug overdose deaths in 2016 most likely exceeded 59,000, the largest

stolen too many lives. (...) An education system flush with cash but which leaves our young and beautiful people deprived of all knowledge. This American carnage, he declared, stops right here and stops right now. (...) We have spent trillions and trillions of dollars overseas while America's infrastructure has fallen into disrepair and decay. We've made other countries rich while the wealth, strength and confidence of our country has dissipated over the horizon. One by one the factories shuttered and left our shores with not even a thought about the millions and millions of American workers that were left behind. (...) We will follow two simple rules: buy American and hire American.”^{179 180}

Once elected Trump immediately withdrew, on 23 January 2017, from the TPPA. And in the following months he initiated the renegotiation of NAFTA with Canada and Mexico.¹⁸¹

annual jump ever recorded in the United States, according to preliminary data compiled by The New York Times. The death count is the latest consequence of an escalating public health crisis: opioid addiction, now made more deadly by an influx of illicitly manufactured fentanyl and similar drugs. Our estimate of 62,500 deaths would be a 19 percent increase over the 52,404 recorded in 2015. Drug overdoses are now the leading cause of death among Americans under 50, and all evidence suggests the problem has continued to worsen in 2017.” And on 12 July 2017 Federal Reserve Chair Janet Yellen, commenting on the fact that 91 Americans die every day of overdosing on opioids, declared: “I do think it is related to a decline in labour force participation among prime-age workers. I don't know if it's causal or if it's a symptom of long-running economic maladies.” BBC: US opioid abuse 'linked to jobs market' says Fed boss.

Retrieved on 14 July 2017.

¹⁷⁹ Donald Trump Is Sworn In as President, Capping His Swift Ascent, Peter Baker and Michael D. Shear, The New York Times, 20 January 2017. Retrieved 28 June 2017.

¹⁸⁰ Trump Inauguration Speech, ABC News, posted on YouTube 20 January 2017. Retrieved 28 June 2017.

¹⁸¹ The countdown to NAFTA talks has begun. What's going on? A guide, The Globe and Mail, Retrieved 23 June 2017. To see the implications of this renegotiation, and the contentious issues: <https://www.theglobeandmail.com/news/politics/nafta-renegotiations-trump-canada/article33715250/>.

In his book *Rewriting the Rules of the American Economy* Stiglitz acknowledges deindustrialization caused in the U.S. by free trade deals such as NAFTA and by massive Chinese imports. He cites David Autor and co-authors whose study shows that imports from China, “explained 25 percent of lost manufacturing jobs in the 1990s and 2000s, with those jobs being lost much faster than they were replaced”.¹⁸²

Both Stiglitz and Trump thus acknowledge that American workers are being hurt by free trade deals and by Chinese imports. However, they vastly differ in their explanation of the causes of this situation. In *Globalization and Its Discontents*, Stiglitz praises China for having avoided adopting a neoliberal type of globalization. China implemented an industrial policy in which the State played a key role and opened up its economy only gradually and carefully, making sure that the new jobs being created by global competition equaled and generally surpassed those being lost. China remained somewhat protectionist in not allowing massive short-term speculative capital flows that could destabilize its economy and by taking care to create the institutions necessary to support market-oriented reforms, privatizing only very slowly and methodically. Its economic miracle resulted from saying no to the Washington Consensus, and in so doing it managed to lift out of extreme poverty more than 500 million of its citizens, an unprecedented historical achievement.

By calling free trade agreements like NAFTA and the TPPA into question, Trump is certainly not reflecting typical republican values. Republicans, and in particular the initiator of NAFTA, former president George H. W. Bush, are normally staunch defenders of free trade. In this sense Trump is closer to the views of leftists or progressives, and

¹⁸² The China Syndrome: Local Labor Market Effects of Import Competition in the United States, 2013, *American Economic Review* 103(6): 2121-2168, quoted by Stiglitz, Appendix, footnote 37.

also closer to the views of Stiglitz. However, Trump, instead of acknowledging, as Stiglitz does, the wisdom of China for having an industrial policy and for allowing the State to play a key role in development, merely resorts to his usual simplistic tactic “good guys” versus “bad guys”. He suggests that China’s success flows from unethical behavior. The Chinese, he claims, *stole* American jobs not because of wiser economic policies and creativity, not because it gradually opened its doors to foreign direct investment (FDI) and became the largest recipient of FDI among developing nations, but merely because of cheating. The word “steal” is very powerful, and so are the words “outrageous theft of intellectual property, (...) illegal product dumping, and (...) devastating currency manipulation”. Such expressions are very polarizing, as they suggest that WE, the good Americans, are being exploited by the OTHER, the bad Chinese.

Not too surprisingly, Trump eventually changed his mind and declared that China was not, as he had previously repeatedly claimed, a currency manipulator. However, he still managed to show considerable inconsistency:

“After he reversed a campaign pledge and declined to label China a currency manipulator, he kept changing his description of when China had stopped the bad behavior. Initially, he said it stopped once he took office. He then changed the turning point to the election, then to since he started talking about it, and then to some uncertain point in the distant past.”¹⁸³

In April 2017 Trump indulged in another verbal lashing, as he so often loves doing. This time it was Canada’s turn to be slammed. “I was in Wisconsin the other day, and I want to end and add by saying that Canada what they've done to our

¹⁸³ Trump’s Lies, David Leonhardt and Stuart A. Thompson, The New York Times, 23 June 2017. Retrieved 25 June 2017.

dairy farm workers is a disgrace. It's a disgrace. (...) And that also includes what's happening along our border states with Canada having to do with lumber and timber. The fact is NAFTA, whether it's Mexico or Canada, is a disaster for our country. It's a disaster. It's a trading disaster." A few days later the U.S. enthusiastically announced it was imposing retroactive countervailing duties of about 20 percent on imported Canadian wood.¹⁸⁴

On 26 June 2017 the U.S. declared that it was imposing anti-dumping duties of about 9 percent on Canadian lumber: "US customs officers will now levy on Canadian timber exports these rates along with countervailing duties, bringing tax rates from 17.41 percent to 30.88 percent, depending on the business. (...) Jerry Dias, president of Canada's largest union Unifor, called the duties *a slap in the face to the concept of fair trade*."¹⁸⁵

Health care

Trump promised during his campaign to repeal and replace the Affordable Care Act, commonly known as Obamacare. He repeatedly asserted that Obamacare was "a disaster" and that with his new health plan everyone would be better off and that nobody, especially the poor, would be worse off: "You can't let the people in this country that are the poor people, the people without the money and resources go without healthcare," Trump told the MSNBC program. "I just can't even imagine. You're sick and you can't even go to a doctor. I say one thing, can you let 25 percent of the people of the country go without something because they have no money?"¹⁸⁶

¹⁸⁴ Trump slaps 20% tariff on Canadian lumber, Alexander Panetta and Ross Morowits, The Canadian Press, 24 April 2017.

¹⁸⁵ US imposes second round of tariffs on Canadian lumber, Times Delhi, 27 June 2017. Retrieved the same day.

¹⁸⁶ Trump: I Still Want 'Healthcare For Everybody,' but Not Obamacare, Sandy Fitzgerald, Newsmax, 22 June 2016.

In May 2017 the House voted in favor of an Obamacare Replacement Bill. The “final vote was 217-213, with 20 Republicans and all Democrats opposing the bill”. While the Republicans celebrated their victory, the non-partisan Congressional Budget Office declared that the “bill would leave 24 million fewer people insured by 2026 than under Obamacare”.¹⁸⁷

Thursday, 22 June 2017 a Senate draft bill – the Better Care Reconciliation Act – was introduced in the Senate, this after a process of very short and secretive negotiations that contrasted sharply with the long and very open negotiations leading to Obamacare. According to Margo Sanger-Katz, of the New York Times, the bill would reverse the two most fundamental dimensions of Obamacare. While the latter “gave health insurance to millions of Americans by shifting resources from the wealthy to the poor and by moving oversight from states to the federal government”, the new Senate bill would do just the opposite: it would shift resources from the poor to the wealthy and move oversight from the federal government to the states. “Obamacare raised taxes on high earners and the health care industry, and essentially redistributed that income — in the form of health insurance or insurance subsidies — to many of the groups that have fared poorly over the last few decades.” The new Senate bill, “would jettison those taxes while reducing federal funding for the care of low-income Americans. The bill’s largest benefits go to the wealthiest Americans, who have the most comfortable health care arrangements, and its biggest losses fall to poorer Americans who rely on government support”.¹⁸⁸

¹⁸⁷ House Republicans pass bill to replace and repeal Obamacare, MJ Lee, CNN, 4 May 2017.

¹⁸⁸ Shifting Dollars From Poor to Rich Is a Key Part of the Senate Health Bill, 22 June 2017.

A few hours after the Better Care Reconciliation Act was introduced in the Senate Barack Obama “made some of his most pointed comments since leaving office in defense of what remains the most signature accomplishment of his two terms. (...) He sharply condemned the healthcare plan unveiled by Senate Republicans (...) as a massive transfer of wealth to the rich, at the expense of poor and middle-class Americans. (...) *The Senate bill, unveiled today, is not a healthcare bill*, Obama wrote. *It’s a massive transfer of wealth from middle-class and poor families to the richest people in America. Simply put, if there’s a chance you might get sick, get old, or start a family, this bill will do you harm*, he added, while highlighting some of the more contentious provisions within the legislation, such as tax breaks to top earners and drug and insurance companies, and the potential gutting of coverage for pre-existing conditions, pregnancy and mental health.”¹⁸⁹

Comments Adam Gaffney: “The Senate bill looks very much like the House’s, retaining, of course, the lavish tax cuts for healthcare corporations and the rich. Over a decade, the House version of the bill was estimated to redistribute \$230.8bn to high-income earners, \$144.7bn to insurance companies, \$28.5bn to pharmaceutical companies and \$19.6bn to medical device manufacturers (healthcare stocks are jumping accordingly).”¹⁹⁰

And Gaffney pursues: “Like the House bill, the Senate bill also aims to appease conservative true believers by allowing states to apply for waivers to weaken Obamacare’s insurance regulations (albeit now via Obamacare’s 1332 waiver program). The true believers assert that jettisoning

¹⁸⁹ Obama attacks Republican health bill as 'massive transfer of wealth' to the rich, Sabrina Siggiui, The Guardian, 22 June 2017.

¹⁹⁰ Trumpcare is like a vampire, set on sinking its teeth into the poor, The Guardian, 23 June 2017.

such regulations – like those that require coverage of a full set of healthcare benefits – would bring down premiums.

“They are obviously right. Similarly, as Megan McArdle recently argued in Bloomberg, requiring sprinklers in tall residential buildings like the one that burned to a crisp in London last week (current death toll: 79) increases, to some extent, the cost of housing construction.

“Which is not to say that, as with housing, the affordability of healthcare is not an issue. When conservatives critique Obamacare by asserting that premiums and deductibles are unaffordable for many, they are right, albeit disingenuously so. Just as the solution to unaffordable housing is not to let more buildings go up in flames, the solution to high healthcare costs is not to make health insurance plans increasingly worthless.” (To see on YouTube comic Seth Meyers’ critique of the draft Senate health bill: <https://www.youtube.com/watch?v=qMhy9aE6tN4&feature=youtu.be>)

Reports Jordan Rau: “Medicaid pays for most of the 1.4 million people in nursing homes (...). It covers 20 percent of all Americans and 40 percent of poor adults. On Thursday, Senate Republicans joined their House colleagues in proposing steep cuts to Medicaid (about \$800bn), part of the effort to repeal the Affordable Care Act. Conservatives hope to roll back what they see as an expanding and costly entitlement. But little has been said about what would happen to older Americans in nursing homes if the cuts took effect.”¹⁹¹

¹⁹¹ Medicaid Cuts May Force Retirees Out of Nursing Homes, The New York Times, 24 June 2017. Retrieved 25 June 2017. Among the most conservative in the Republican Party who hope to roll back what they see as an expanding and costly entitlement, one finds four senators, Ted Cruz, Ron Johnson, Mike Lee and Rand Paul, and also billionaires such as the Koch brothers. Ed Pilkington reports: “The dispute (in the Republican Party) is also being fanned by rightwing billionaires investing millions of dollars in attempting to push the

“The Senate’s bill to repeal the Affordable Care Act is not a healthcare bill. It’s a tax cut for the wealthiest Americans, paid for by a dramatic reduction in healthcare funding for approximately 23 million poor, disabled, working and middle-class Americans,” comments the former Secretary of Labor under Bill Clinton, Robert Reich. “If enacted, it would be the largest single transfer of wealth to the rich from the middle class and poor in American history.”¹⁹²

The non-partisan Congressional Budget Office, after analyzing the Senate Health bill submitted by Republicans, announced that it “would add 22 million people to the ranks of the uninsured over the next decade, while making both insurance and care itself more expensive”.¹⁹³

Best estimates show that it would cause vast suffering, “including (...) around 200,000 preventable deaths.” Even though many don’t realize just how cruel the bill really is – “only a minority of voters are aware of the plan to make savage cuts to Medicaid” – polls are showing overwhelming

Republican party further in their direction. This weekend the energy tycoons Charles and David Koch held a three-day retreat at a luxury resort in the Rocky Mountains, with hundreds of wealthy donors pledging \$100,000 each to an ultraconservative campaign-fighting fund. One of the topics under discussion at the Koch retreat was how to ensure that Republicans in Congress move in a more radical anti-government direction over healthcare. See: [Trump wants 'heart' as Republicans seek to deliver Senate healthcare bill](#), The Guardian, 25 June 2015. Retrieved 26 June 2017.

¹⁹² [Trumpcare isn't about health. It's a tax cut for the 1%](#), The Guardian, 26 June 2017. Retrieved the same day.

¹⁹³ [Why the world should pay attention to America's civil war over healthcare](#), Tom McCarthy, The Guardian, 29 June 2017. Retrieved the same day. Very little knowledge in economics is necessary to understand why Trumpcare would make both insurance and health care more expensive. Obamacare obliged all citizens to purchase health insurance. This means that even the young and healthy would be paying, thus broadening the pool of payers and diminishing the costs for everyone, including the old and the ill. Obamacare also subsidized the health care of the poor and ill with increased taxes on the wealthy. Eliminating these subsidies, and the taxes of the rich that financed them, can only result in one thing: higher insurance premiums.

popular opposition to the bill.¹⁹⁴ “Only 12% of registered voters support the legislation (Trumpcare), according to a USA Today poll released on Wednesday (28 June 2017). Obama’s healthcare law, meanwhile, broke through last month to more than 50% approval nationally for the first time ever, according to Gallup.”¹⁹⁵

There is an immense difference between the health plan being proposed by the Trump administration, and that proposed by Stiglitz in *Rewriting the Rules of the American Economy*. In this book Stiglitz proposes to make healthcare affordable and universal by opening Medicare, the U.S. government program that guarantees health insurance for the elderly, to everyone. Medicare, he argues, surpasses the performance of private insurers in terms of both quality and costs and also enjoys a wider acceptance by providers than they do. The main problem in the U.S. according to Stiglitz is that “both demand and supply of healthcare are determined by private health providers that operate in conditions approaching monopolies”. Opening Medicare to all “would drive employer-provided health plans purchased from ACA exchanges towards the higher efficiency and standards offered by Medicare”; “would lower premiums for everyone”; and “would provide an alternative to the lower premium ‘skinny network’ plans offered that limit choices to a highly restricted set of doctors and hospitals in many markets.”

The new health plan proposed by the government of Donald Trump, known as Trumpcare, reflects the neoliberal philosophy so dear to the Republicans, one that views the public sector and regulations in a negative light and the

¹⁹⁴ Understanding Republican Cruelty, Paul Krugman, The New York Times, 30 June 2017.

¹⁹⁵ Why the world should pay attention to America’s civil war over healthcare, Tom McCarthy, The Guardian, 29 June 2017. Retrieved the same day.

private sector and deregulation in a positive light. It is thus very logical that this plan would shift oversight from the federal government to the states, allow states to apply for waivers to weaken Obamacare's insurance regulations such as those that require coverage of a full set of healthcare benefits, provide tax breaks to top earners and drug and insurance companies, and gut coverage for pre-existing conditions, pregnancy and mental health. As the wealthy, according to neoliberalism, are the driving force of the economy, the job creators par excellence, drastic tax cuts, especially for the top earners, make sense. The wealthy will make the economy grow, and the additional wealth will trickle down to the poor. Thus the *"massive transfer of wealth from middle-class and poor families to the richest people in America"* that Trumpcare involves, and that former President Obama criticizes, is not a problem but a solution for Republicans, especially the most conservative of these. Even the poor will be better off as a result of this transfer and their individual freedom, even that of not having any health plan whatsoever, will be increased.

To his credit Trump eventually called the health bill narrowly passed in the House "mean", and also pressured Republicans in the Senate to pass a health bill reform "with a heart".¹⁹⁶

Dodd-Frank bill

Trump pledged to overhaul the bank reforms – known as the Dodd-Frank bill – implemented by the Obama government in order to address the problems leading to the 2008 financial crisis. Trump does not acknowledge the merit of this bill and views it as an obstacle to growth and jobs: *"Dodd-Frank has made it impossible for bankers to function, the presumptive Republican nominee said. It*

¹⁹⁶ Trump wants 'heart' as Republicans seek to deliver Senate healthcare bill, The Guardian, 25 June 2015. Retrieved 26 June 2017.

makes it very hard for bankers to loan money for people to create jobs, for people with businesses to create jobs. And that has to stop. Pressed on the extent of the changes he wanted to make, Trump said, *it will be close to dismantling of Dodd-Frank.*”¹⁹⁷

As discussed above, Stiglitz also believes that Dodd-Frank needs to be reformed, but for a reason exactly opposed to that of Trump. While the latter wants to reduce its teeth, to the point of virtually dismantling it, Stiglitz on the contrary wants to strengthen it, given that it “did not change the structure of the dysfunctional” financial system that allows monopoly behavior and short-termism and results in slow growth and rising inequality.

Let us recall here what Stiglitz proposes, and was mentioned above, to strengthen the Dodd-Frank bill:

- a) Very large banks that pose a systemic risk to the entire economy would have to be assessed with an additional capital surcharge above what regulators currently assess under the Basil Accords, in order to make failure less likely and more manageable. Such banks would also have to produce a financial report showing exactly how they would handle bankruptcy properly; otherwise they would be “broken up along business lines and by size so that potential failures can better be managed”.
- b) The shadow-banking sector, which flourished during decades of neoliberal deregulation, played a key and very destructive role in what eventually produced the 2008 financial crisis. Stiglitz argues that the Securities and Exchange Commission (SEC) should apply strict rules to the shadow banking sector, and that the government should make sure that shadow banks and offshore financial centers

¹⁹⁷ Donald Trump Says He Would Dismantle Dodd-Frank Wall Street Regulation, Reuters, 18 May 2016.

are not merely used “to end-run the regulation designed to ensure a safe and sound financial system”, and also make it clear that it will not act as a lender of last resort should shadow banks indulge in excessive risks.

c) Stiglitz argues that people often get ripped off because of opaque activities in asset management such as uncompetitive and often undisclosed fees. While he acknowledges that Dodd-Frank partly addressed the problem by requiring private equity to register with the SEC, he believes that Congress should expand the latter’s mission so it can require private equity and hedge funds disclose holdings, returns, and fee structures.

d) Stiglitz argues that credit and debit card companies are presently charging outrageous fees, fees that merely represent “a monopoly rent on the country’s networked payments infrastructure”. Dodd-Frank did partly address this problem by giving the Federal Reserve the responsibility of lowering excessive fees that debit card companies charge merchants. Stiglitz argues that the Federal Reserve should also be given the responsibility of forcing down the excessive fees of credit card companies.

Later in his book Stiglitz also proposes that the federal government authorize the Postal Service to “create a ‘post card’ debit card available with minimum fees and high protections for consumers. Its scale and size would significantly allow both access and efficiency to help citizens build wealth, and it would force banks and payday lenders to actually compete on price and services rather than confusion and predation”.

It is obvious that for Trump and all other Republicans, allowing the federal Postal Service to play such a prominent role makes little sense. This would be akin to giving more space to that which is the least efficient – the government – and less to that which is the most efficient – private enterprise.

e) Stiglitz argues that during the decades long neoliberal trend, the SEC and Justice Department usually let debit and credit card companies off the hook when they caught them in some wrongdoing. The fines paid were tax deductible, and the individuals responsible for the wrongdoing were not “made to give back the compensation they received as a reward for the extra profits generated by their illegal activities”. Penalties should be stricter and never watered down, recommends Stiglitz.

f) Finally Stiglitz argues that Wall Street is too close to the leadership of the Federal Reserve, so much so that it sometimes appears that the actions of the Federal Reserve reflect individual, and not public interests. He proposes strict rules to eliminate all possibilities of conflicts of interest.

Once again, it is hard to exaggerate the immense gap separating the overhaul of Dodd-Frank proposed by Trump to the substantial improvements to Dodd-Frank proposed by Stiglitz.

Climate change

During his electoral campaign Trump promised to revise the Clean Power Plan passed during the Obama era – “It’s just killing our businesses”, he claimed – and to ditch the Paris Climate Agreement. “Reading from a teleprompter, Trump called for reducing restrictions on energy exploration, opening up more federal lands to drilling, and reducing dependence on foreign oil. He said he would try to reopen negotiations to build the Keystone XL pipeline, which President Obama rejected. (...) Trump railed against the “totalitarian tactics” of the Environmental Protection Agency. He pledged to dismantle the EPA entirely in an April town hall. (...) He railed against “draconian climate rules” and said he would “cancel” the Paris climate agreement and withdraw any funding for United Nations

programs related to global warming. Trump has repeatedly called climate change a “hoax” in the past, bucking the overwhelming international scientific consensus that man-made emissions are spurring a dangerous increase in global temperature.”¹⁹⁸

In March 2017 Trump passed “a sweeping new executive order (...) to start demolishing a wide array of Obama-era policies on global warming — including emissions rules for power plants, limits on methane leaks, a moratorium on federal coal leasing, and the use of the social cost of carbon to guide government actions.”¹⁹⁹

On 1 June 2017 Trump announced that the U.S. was withdrawing from the historical Paris Climate Agreement. Let us repeat his exact words: “The Paris Climate Accord is simply the latest example of Washington entering into an agreement that disadvantages the United States to the exclusive benefit of other countries, leaving American workers, who I love, and taxpayers to absorb the costs in terms of lost jobs, lower wages, shut factories and vastly diminished economic production (...). For example China will be able to increase these emissions by a staggering number of years – 13 years. India makes its participation contingent on its country receiving billions and billions of dollars in foreign aid from developed countries. They can do whatever they want for 13 years, not us. (...) China will be allowed to build hundreds of additional coal plants. We can’t build coal plants but they can, according to this agreement. India will be allowed to double its coal production by 2020. Think of it: India can double their coal production. We’re supposed to get rid of ours.” (To watch the video, especially from min. 9 to 12, of Trump making

¹⁹⁸ Donald Trump Pledges to Rip Up Paris Climate Agreement in Energy Speech, Benjy Sarlin, 26 May 2016, NBC News.

¹⁹⁹ Trump’s big new executive order to tear up Obama’s climate policies, explained, Vox, 28 March 2017.

the announcement:

<https://www.youtube.com/watch?v=k9DxYMs-5uU>).

Faithful to his electoral pledge to reverse many of the rules of the Environmental Protection Agency (EPA), Trump, as noted at the beginning of this book, named as its new director Scott Pruitt, a man who questions, “the idea that humans bear any responsibility for global warming. *For too long, the Environmental Protection Agency has spent taxpayer dollars on an out-of-control anti-energy agenda that has destroyed millions of jobs, while also undermining our incredible farmers and many other businesses and industries at every turn*, Mr. Trump said in a statement. Calling Pruitt a *highly respected* attorney general, Mr. Trump promised that Pruitt would *reverse this trend and restore the EPA’s essential mission of keeping our air and our water clean and safe*.”²⁰⁰

As noted by The New York Times’ Coral Davenport, Pruitt has not at all procrastinated in reversing this trend:

“In the four months since he took office as the Environmental Protection Agency’s administrator, Scott Pruitt has moved to undo, delay or otherwise block more than 30 environmental rules, a regulatory rollback larger in scope than any other over so short a time in the agency’s 47-year history, according to experts in environmental law. (...)

“Since February, Mr. Pruitt has filed a proposal of intent to undo or weaken Mr. Obama’s climate change regulations, known as the Clean Power Plan. In late June, he filed a legal plan to repeal an Obama-era rule curbing pollution in the nation’s waterways. He delayed a rule that would require

²⁰⁰ Donald Trump names Oklahoma AG Scott Pruitt to lead EPA, Reena Flores, CBS News, 8 December 2016. Also see: Donald Trump choosing climate-change denier to head Environmental Protection Agency, Global News, by Michael Biesecker and Sean Murphy, The Associated Press, 7 December 2016.

fossil fuel companies to rein in leaks of methane, a potent greenhouse gas, from oil and gas wells. He delayed the date by which companies must comply with a rule to prevent explosions and spills at chemical plants. And he reversed a ban on the use of a pesticide that the EPA's own scientists have said is linked to damage of children's nervous systems.

"In a sign of both Mr. Pruitt's influence in the White House and the high regard in which Mr. Trump holds him, he will take a leading role in devising the legal path to withdraw from the 194-nation Paris agreement on climate change, a job that would typically fall to lawyers at the State Department.

"And he is doing all this largely without the input of the 15,000 career employees at the agency he heads, according to interviews with over 20 current and former EPA senior career staff members. (...)

"Instead, Mr. Pruitt has outsourced crucial work to a network of lawyers, lobbyists and other allies, especially Republican state attorneys general, a network he worked with closely as the head of the Republican Attorneys General Association. Since 2013, the group has collected \$4.2 million from fossil fuel-related companies like Exxon Mobil, Koch Industries, Murray Energy and Southern Company, businesses that also worked closely with Mr. Pruitt in many of the 14 lawsuits he filed against the EPA."²⁰¹

Once again, the difference between Stiglitz and Trump is huge. In his 2013 conference that we analyzed above, Stiglitz argues against free trade deals that ignore the workers affected *and the environment*. His criticism of NAFTA: If an environmental law hurts profits, governments

²⁰¹ Counseled by Industry, Not Staff, E.P.A. Chief Is Off to a Blazing Start, 1 July 2017.

must compensate corporations. Thus the basic democratic rights of ordinary people are ignored. The rights to clean air should predominate, says Stiglitz, not those of corporations to make profits.

In *Rewriting the Rules of the American Economy*, Stiglitz recommends that all levels of governments grant public contracts only to corporations that respect both workers – “to provide a living wage, safe working conditions, and opportunities for advancement” – and the environment.

In *This Changes Everything: Capitalism vs. the Climate*, Naomi Klein, after pointing out that free trade deals and even the WTO typically impose binding rules to protect the profits of corporations but no such binding rules to protect the environment, quotes Stiglitz: “Should you let a group of foolish lawyers, who put together something before they understood these issues, interfere with saving the planet?”²⁰²

Immigrants

Trump’s position on immigrants is also diametrically opposed to that of Stiglitz.

Trump promised to build a big wall between the U.S. and Mexico, a wall that would prevent “rapists” and “criminals” from coming into the U.S. from Mexico. The wall, he insisted, would be totally paid by Mexico itself (Mexico, of course, was very insulted and flatly refused to do so).

During his electoral campaign he also “promised to triple Immigrations and Customs Enforcement personnel, remove the estimated 690,000 undocumented residents who have committed crimes and expel immigrants overstaying their visas. An analysis by the Washington Post put the total number of deportations at somewhere between 5 million

²⁰² Published by Alfred A. Knopf Canada, 2014, chapter 2 (Hot Money). Klein quotes Stiglitz but does not clearly indicate, among the numerous references given for this quote in the footnote, which one pertains to Stiglitz.

and 6.5 million of the 11 million undocumented immigrants in the United States.”²⁰³

In a speech that he gave in Iowa on 22 June 2017 Trump stated that perhaps the wall between Mexico and the U.S. could include solar panels so that the wall would partly pay for itself and Mexico would have to pay much less for it. He also returned to his sensationalist electoral campaign rhetoric, suggesting that immigrants were responsible for the creation of gangs. “We’re going to throw these horrible assassins out of the country. They’re worse than Al Qaeda. They’re real animals and we’re going to throw thousands out of this country”, he proclaimed, to a very enthusiastic audience.²⁰⁴

On 27 January 2017 Trump “signed an executive order (...) to keep refugees from entering the country for 120 days and immigrants from seven predominantly Muslim nations out for three months. The countries affected are Iran, Iraq, Syria, Sudan, Libya, Yemen and Somalia. (...) Foreign leaders slammed the ban. UK Prime Minister Theresa May said *we do not agree with this kind of approach*. German Chancellor Angela Merkel called Trump herself and reminded the President of the United States' obligations to refugees under the Geneva Conventions. London Mayor Sadiq Khan called the ban *shameful and cruel*. Canadian Prime Minister Justin Trudeau tweeted that refugees were welcome in Canada.”²⁰⁵

After several judges blocked Trump’s executive order, Trump signed, on 8 March 2017, a revised executive order “which barred travel from six predominantly Muslim

²⁰³ President Donald Trump Promised To Deport 6 Million Immigrants: Is Immigration Reform Dead?, Lydia O’Neal, 11 September 2016, International Business Times.

²⁰⁴ Trump quiere que el muro con México sea un panel solar, Pablo De Llano, El País, 22 June 2017. My translation from the Spanish.

²⁰⁵ Trump travel ban: Here's what you need to know, Doug Criss, CNN, 30 January 2017. Retrieved 29 June 2017.

countries for 90 days— removing Iraq” and also exempting “permanent residents and current visa holders from the travel ban.”

One week later the revised executive order was once again blocked, this time by a federal judge in Hawaii.

After a long and complicated process the Supreme Court announced on 26 June 2017 that it would hear arguments from both sides in October 2017 and that until then, “Trump’s ban on visitors from Iran, Libya, Somalia, Sudan, Syria and Yemen can be enforced if those visitors lack a *credible claim of a bona fide relationship with a person or entity in the United States*.”²⁰⁶

In *Rewriting the Rules of the American Economy* Stiglitz does not propose building walls and making immigration harder. Nor does he propose kicking undocumented immigrants out of the U.S. He argues instead, as noted above, that the federal government should make it easier for new migrants to come to the U.S. and bring the undocumented migrants “out of the shadows” by providing them with “a pathway to citizenship”. He suggests three immediate steps that could be taken: 1) “normalize the legal status of families working, learning, and serving in America” and stop deporting and imprisoning “all but violent criminals”; 2) Congress should make sure that “all labour laws extend to all people working in America, irrespective of their documentation status”; 3) the Department of Labor should coordinate with the U.S. Immigration and Customs Enforcement “to ensure that unscrupulous employers cannot easily threaten workers with

²⁰⁶ [Trump travel ban to go into effect: Timeline of a legal journey](#), Fox News, 28 January 2017. Retrieved 29 January 2017.

the prospect of deportation by calling in worksite raids”.²⁰⁷

After recalling that the U.S. incarcerates a higher percentage of its population than any other nation in the world, “that African-Americans and Latinos accounted for 69.8% of mandatory minimum sentences,” – among these are certainly the “rapists” and “criminals” referred to above by Trump – and that the cost of this in both human and economic terms is tremendous, Stiglitz proposes that 1) Congress “move to reduce the burden ex-felon’s face when searching for jobs by expunging certain records after a set amount of time;” 2) and “allow judges the ability to waive mandatory minimums”; 3) the Department of Justice “focus on encouraging alternatives to incarceration, investigating possible best practices that can be adopted at the federal and state levels;” 4) the government increase public defence spending to allow people of color and Latinos to have easy and more equitable access to quality legal representation, “and improve effectiveness through regular attorney and social worker training.”

In the article America’s prisons are failing. Here’s how to make them work The Economist of 27 May 2017 notes: “Barack Obama tried to reduce the number of absurdly long prison sentences in America. His attorney-general, Eric Holder, told federal prosecutors to avoid seeking the maximum penalties for non-violent drug offenders. This reform caused a modest reduction in the number of federal prisoners (who are about 10% of the total). Donald Trump’s attorney-general, Jeff Sessions, has just torn it up. This month he ordered prosecutors to aim for the harshest punishments the law allows, calling his new crusade against drug dealers “moral and just”. It is neither.”

²⁰⁷ Rebecca Smith and Eunice Hyunhye Cho, How Immigration Reform Can Stop Retaliation and Advance Labor Rights, February 2013, New York, NY: The National Employment Law Project, quoted in Stiglitz, *The New Rules*, footnote 53.

Tuesday 27 June 2017 comic Seth Meyers of NBC “took aim at the Trump administration for its controversial healthcare legislation and its plans to revive the for-profit prison industry.” He “began by discussing Donald Trump’s campaign promises to rejuvenate the economy. *During the presidential campaign, Trump promised to bring back industries that were becoming obsolete or being phased out during the Obama administration, like the coal and steel industry*, Meyers said. *But one you probably heard less about is the for-profit private prison industry.*

President Obama’s justice department last summer began to phase out the federal use of private prisons, also known as contract prisons, Meyers explained. *Unlike government-run prisons, these are for-profit private companies that have contracts with state and federal governments, which means that they need people to lock up, because unlike a government facility, private industry cannot survive without customers.*

“The host continued: *That’s why the vegan empanada place on your block went out of business but the post office is still there, even though nobody ever went to either of them. That’s exactly why private prisons and detention centers are controversial. To keep them profitable, you have to keep them full.*

“Meyers went on to detail a government report released last summer that found private prisons *pose higher security risks, were not cost-effective, and that disturbances in several federal contract prisons resulted in extensive property damage, bodily injury and the death of a correctional officer.*

“In spite of those findings, Trump has promised – with the financial backing of private prison companies such as GEO Group – to build more private prisons. (...)

GEO Group also donated \$100,000 to Rebuild America

*Now, a pro-Trump Super PAC, Meyers said. So now GEO Group has a contract to build the first new immigrant detention center under the Trump administration in Texas, set to open by the end of next year.*²⁰⁸

Seth Meyers' critique is strikingly similar to the main thesis underlying Stiglitz's *Rewriting the Rules of the American Economy*.

Infrastructure 10-year plan

During his electoral campaign Trump promised to spend \$1 trillion in a massive infrastructure project. "We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals. We're going to rebuild our infrastructure. Which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it. (...) The American Infrastructure Act leverages public private partnerships and private investments through tax incentives to spur one trillion dollars in infrastructure investment over the next ten years." (To watch Trump making this pledge: https://www.youtube.com/watch?v=TCWCRquC_r0).

However, when he announced his first budget in March 2017, many infrastructure advocates accused Trump of hypocrisy. "*For someone who says he wants to invest in infrastructure, I don't see any evidence of it in this budget*," said Beth Osborne, a senior policy adviser at Transportation for America, a nonpartisan group that urges investment in transportation. (...) The White House provided no details on its infrastructure package. Trump has touted building infrastructure with government and private-sector money to minimize public costs. But a group representing water utilities in rural areas said Thursday that public-private partnerships won't work, and it assailed Trump's proposal

²⁰⁸ Late-night TV on private prisons: 'Trump has no idea what he's talking about', The Guardian, Jake Nevins, 28 June 2017. Retrieved the same day.

to eliminate a \$500-million-a-year program that helps rural communities build and improve water, sewer, trash and street-drainage systems. *This demonstrates how blind the Administration is to its rural constituency and the lack of knowledge of what is most effective in funding the majority of the nation's water and wastewater infrastructure*, the National Rural Water Association said in a statement. (...) Trump's proposed cuts would jeopardize 56 public-transit projects in early development stages, said Richard White, president of the American Public Transportation Association, which represents transit systems. *It's been a long time since we started a budget process where there was a major scale back or retreat from a federal role in supporting transit infrastructure*, White said.²⁰⁹

In *Rewriting the Rules of the American Economy* Stiglitz proposes a massive infrastructure investment similar in many respects to that promised by Trump. Let us repeat here what we said above about Stiglitz's proposal: "When competition originating from abroad resulted in deindustrialization and devastated cities like Baltimore, Gary, and Detroit, the U.S. government did not have to sit there with its arms crossed. It could have done what many others have done: make massive public investments to cope with these problems and set the foundation for a future more prosperous and shared economy. Massive public investments in education, technology and infrastructure are particularly called for when interests rates are very low, a considerable amount of idle money is piling up in corporations, and a country is experiencing slow growth and has plenty of excess capacity. They are particularly urgent when a country's infrastructure is also falling behind that of

²⁰⁹ Trump has promised big spending on infrastructure. His budget cuts it, Thomas Frank, CNN, 16 March 2017. Retrieved 28 June 2017.

other countries,²¹⁰ when “roads and energy and telecommunication systems” are so neglected that it becomes more “costly to do business and for people to go about their daily lives, and leads to more wasted time and more environmental degradation”²¹¹, and when existing infrastructure systems are “unequally distributed, leaving distinct areas and communities segregated from the rest of society and without the opportunities that connecting affords”. Stiglitz proposes a 10-year global plan that would, possibly using public infrastructure banks, “provide investments in air, rail, and road transportation; public transit; ports and inland waterways; water and energy; and telecommunications and the Internet.” Such an investment, estimated by some at about \$4 trillion,²¹² “would yield dividends in the form of more productive businesses, millions of new jobs, and sustainable management of our energy and environmental resources.”

While Trump’s large infrastructure plan is similar to that of Stiglitz in several respects it is also very different in several others.

Trump speaks of a 10-year plan of \$1 trillion; Stiglitz proposes a much more ambitious 10-year plan of about \$4 trillion. Four times greater, financially, than that of Trump.

Trump would finance his infrastructure project through “public private partnerships” and private investments spurred “through tax incentives”. Stiglitz suggests “using

²¹⁰ Klaus Schwab and Xavier Sala-i-Martin, 2014, The Global Competitiveness Report 2014-2015, quoted in Stiglitz, *The New Rules*, footnote 34.

²¹¹ National Economic Council and the President’s Council of Economic Advisors, 2014, An Economic Analysis of Transportation Infrastructure Investment, Washington, DC: The White House, quoted in Stiglitz, *The New Rules*, footnote 35.

²¹² Damon Silvers, Eric Harris Bernstein, and Dominic Russel, November 16, 2016, Transformative Infrastructure Investment and American Competitiveness, New York: Roosevelt Institute, quoted in Stiglitz, *The New Rules*, footnote 36 (the report was then only forthcoming, but Stiglitz already knew about it).

public infrastructure banks” instead, something that has been done very successfully in other countries. Here one can see Trump’s clear preference for private enterprise and Stiglitz’s for the public sector.

In their infrastructure plan both Trump and Stiglitz mention roads, bridges, airports, schools and hospitals. However, contrary to Stiglitz, Trump does not prioritize the “sustainable management of our energy and environmental resources”, something that is very high on Stiglitz’s ‘To Do’ list, not only in terms of large infrastructure projects but also when negotiating free trade deals. Trump, as we have seen, even chose to withdraw the U.S. from the historical Paris Climate Agreement. And while his critique of free trade agreements seeks to protect, as Stiglitz’s, the wages and living conditions of those sectors negatively affected by global competition, it totally ignores the environment and climate change. As we have seen above, the latter, for Stiglitz, represents a key component of his critique of neoliberal free trade deals.

One obvious infrastructure priority for Stiglitz is public transit. Neoliberalism, he claims, has led to favoring those means of transportation used by the wealthy, cars in particular, and neglecting those, both more economical and environmentally friendly, preferred by the middle class and especially the poor, public transit. No such priority is given to public transit in Trump’s infrastructure plan.

Similarities between Trump and Radical Left

Not only are there similarities between Trump’s ambitious infrastructure plan and that of Stiglitz, but there are also many similarities, quite surprisingly, between Trump and the more radical left.

The more radical left has repeatedly criticized the costly and harmful American invasion of Iraq, and other costly and harmful U.S. invasions such as that of Libya. Trump also

repeatedly criticizes these invasions, even though it would seem that, contrary to what he asserts today, in the past he had supported the invasion of Iraq.²¹³

The more radical left has repeatedly argued that the U.S. should stop acting as if it were responsible for policing the entire world and stop spending billions in war abroad while leaving its national infrastructure in decay and grossly neglected. Trump publicly makes a similar assertion and says that he was elected not to govern the world but to govern America.

The more radical left – for example Michel Collon – has repeatedly criticized the U.S. for its gross human rights violations and for unfairly criticizing Russia. When interviewed by Bill O'Reilly who criticized him for being Putin's friend, in other words the friend of a killer, Trump surprisingly replied: "There are a lot of killers. There are a lot of killers. Well do you think that our country is so innocent? Do you think our country is so innocent? (...) Take a look at what we've done too. We've made a lot of mistakes. I've been against the war in Iraq from the beginning. ... a lot of people were killed". (To watch Trump making this statement:

https://www.youtube.com/watch?v=_skgXR0GTZA)

The more radical left – for example Noam Chomsky in his 1988 classical book *Manufacturing Consent: The Political Economy of the Mass Media* – has repeatedly claimed that the media does not represent the people and freedom of thought but rather the establishment, the elite, and corporate interests. Trump has constantly been at war with the media, especially The New York Times, The Washington Post, CNN, NBC, CBS and ABC. He repeatedly asserts that the preceding media merely produce 'fake news'. On 2 July

²¹³ Fact-Checking Trump on His Support for the Iraq War, NBC News, 26 September 2016. Retrieved 28 June 2017.

2017 Trump even took an extreme and very juvenile measure to criticize CNN: he published a video on Twitter of himself wrestling CNN. To see the video, which was decried by most Americans, including several Republicans, as an incitement to violence:

<https://www.youtube.com/watch?v=TRw5dbxTMuo>.

If Trump is constantly at war with the media, there is one big exception: Fox News. With the latter – the most staunchly free market fundamentalist and neoliberal of the news media, which was created by media mogul Rupert Murdoch and is still managed by him today – he is surprisingly uncritical and extremely friendly.

Trump and James Petras

Above in the first part of this book I pointed out the main ideas in *Globalization Unmasked*, a book coauthored by James Petras, of the more radical left. According to Petras, you will recall, globalization was simply another and more polite word for ‘imperialism’. In other words, a strategy on the part of the global capitalist elite to keep on exploiting the many, both in the developing poor nations and in the advanced and wealthy developed nations.

In an article posted on his website on 27 January 2017²¹⁴, Petras argues that, contrary to what the mainstream media claim, Trump is actually critical of the ruling class and is defending the many, who are exploited by the elite. Like Trump, Petras also refers to this media as “garbage journalists”. Petras asserts:

“During his inaugural speech, President Trump clearly and forcefully outlined the strategic political-economic policies he will pursue over the next four years. Anti-Trump journalists, editorialists, academics and experts, who appear

²¹⁴ President Trump: Nationalist Capitalism, An Alternative to Globalization.

in the Financial Times, New York Times, Washington Post and the Wall Street Journal have repeatedly distorted and lied about the President's program as well as his critique of existing and past policies."

And Petras pursues:

"The emphasis on investment and jobs in the US is a complete break with the previous Administration, where President Obama focused on waging multiple wars in the Middle East, increasing public debt and the trade deficit.

"Trump's inaugural address issued a stern promise: *The American carnage stops right now and stops right here!* This resonated with a huge sector of the working class and was spoken before an assemblage of the very architects of four decades of job-destroying globalization. 'Carnage' carried a double meaning: Widespread carnage resulted from Obama and other administrations' destruction of domestic jobs resulting in decay and bankruptcy of rural, small town and urban communities. This domestic carnage was the other side of the coin of their policies of conducting endless overseas wars spreading carnage to three continents. The last fifteen years of political leadership spread domestic carnage by allowing the epidemic of drug addiction (mostly related to uncontrolled synthetic opiate prescriptions) to kill hundreds of thousands of mostly young Americans and destroy the lives of millions. Trump promised to finally address this 'carnage' of wasted lives. Unfortunately, he did not hold 'Big Pharma' and the medical community responsible for its role in spreading drug addiction into the deepest corners of the economically devastated rural America. Trump criticized previous elected officials for authorizing huge military subsidies to 'allies' while making it clear that his critique did not include US military procurement policies and would not contradict his promise to 'reinforce old alliances' (NATO)."

That Petras, a person identified with the more radical left,

would speak so highly of Trump is somewhat surprising and disconcerting. However, Petras's admiration for Trump was short-lived. As he observed the concrete measures adopted by Trump and watched him embark in military interventions and sell \$110 billion worth of arms to Saudi Arabia²¹⁵, he gradually altered his analysis of Trump. Petras now argues, as can be seen by subsequent articles on his website, that Trump is betraying the working class just as the Latin

²¹⁵ Trump signs \$110 billion arms deal with Saudi Arabia, Kathryn Watson, CBS News, 20 May 2017. Retrieved on 5 July 2017. Watson writes: "The agreement is worth \$110 billion effective immediately and \$350 billion over 10 years, in an effort to equip Saudi Arabia and Persian Gulf partners in the fight against ISIS. The agreement will provide fighter jets, tanks, combat ships and anti-missile defense systems and create defense-sector jobs in the U.S., according to the White House. The deal includes additional private-sector agreements and a joint vision statement with Saudi Arabia, one of the world's largest oil producers.

"That was a tremendous day," Mr. Trump told reporters. "Tremendous investments in the United States."

"Hundreds of billions of dollars of investments into the United States and jobs, jobs, jobs," he continued."

Quite ironically, while Trump declared that he was selling billions of dollars of arms to Saudi Arabia to strengthen the fight against ISIS, he was in fact providing arms to THE main country that supports Islamic fundamentalism: Saudi Arabia. French-Swiss author and journalist Richard Labévière, who published *Terrorisme, la face cachée de la mondialisation* (Terrorism: the underside of globalization, 2016), notes this blatant contradiction. Commenting Trump's visit to Saudi Arabia, the arms deal, and Trump's declaration that he was strengthening the fight against ISIS, he asserts: "Some of Trump's advisors told him by that by making this declaration in Riyadh, the very epicenter of terrorism, he was going a bit too far. This is a bit paradoxical, not to say blatantly contradictory!"

--How then would you characterize Donald Trump's declaration, during his visit to Saudi Arabia, of strengthening the fight against ISIS?, remarked Michel Collon, who was interviewing Labévière.

Labévière replied: "It's merely a public relations strategy on the part of the Gulf Cooperation Council (it consists of all Arab states of the Persian Gulf, except for Iraq) in an effort to isolate Qatar. It's a public relations effort to mask and legitimate the fact that Donald Trump continues selling billions of dollars of arms to Saudi Arabia, which in turn simultaneously invests billions of dollars in the U.S. in order to obtain their support. (...) It's not at all a virtuous cooperation, but simply a business deal." See: *Terrorisme, la face cachée de la mondialisation*. Investig'ation, 2 July 2017. Retrieved on 5 July 2017.

American progressive regimes of the last decade betrayed it in Latin America, and just as Alexi Tripras betrayed it in Greece by accepting, in the end, the neoliberal austerity measures imposed by the EU and the IMF.

Trump and Naomi Klein

Contrary to Petras, Naomi Klein never did believe that Trump was acting in the interests of the many even though she does acknowledge, as I noted at the very beginning of this book, that his election originates from their profound discontent. Following Trump's election she pointed out, as Petras does, that Trump is speaking directly to the pain imposed by decades of neoliberalism. She asserted:

"Here is what we need to understand: a hell of a lot of people are in pain. Under neoliberal policies of deregulation, privatization, austerity and corporate trade, their living standards have declined precipitously. They have lost jobs. They have lost pensions. They have lost much of the safety net that used to make these losses less frightening. They see a future for their kids even worse than their precarious present. (...) Donald Trump speaks directly to that pain"²¹⁶

However, she makes it ultra clear that Trump's policies will not address that pain but only make it worse. In her new book *No is Not Enough: Resisting Trump's Shock Politics and Winning the World We Need* (June 2017) she asserts:

"Trump is extreme but he's not a Martian. He is the logical conclusion of many of the most dangerous trends of the past half-century. He is the personification of the merger of humans and corporations--a one-man megabrand, with wife and children as spin-off brands. (...)"²¹⁷

²¹⁶ *It was the Democrats' embrace of neoliberalism that won it for Trump*, The Guardian, 9 November 2016.

²¹⁷ Review: Naomi Klein's No Is Not Enough is a cautiously hopeful document for a despairing age, The Globe and Mail, 16 June 2017.

“From the evidence so far, it’s clear that Trump and his top advisers (...) are trying to pull off a domestic shock doctrine. The goal is all-out war on the public sphere and the public interest, whether in the form of antipollution regulations or programmes for the hungry. In their place will be unfettered power and freedom for corporations. It’s a programme so defiantly unjust and so manifestly corrupt that it can only be pulled off with the assistance of divide-and-conquer racial and sexual politics, as well as a nonstop spectacle of media distractions. And, of course, it is being backed up with a massive increase in war spending, a dramatic escalation of military conflicts on multiple fronts, from Syria to North Korea, alongside presidential musings about how “torture works”.

“Trump’s cabinet of billionaires and multimillionaires tells us a great deal about the administration’s underlying goals. ExxonMobil for secretary of state; General Dynamics and Boeing to head the department of defence; and the Goldman Sachs guys for pretty much everything that’s left. The handful of career politicians who have been put in charge of agencies seem to have been selected either because they do not believe in the agency’s core mission, or do not think the agency should exist at all. Steve Bannon, Trump’s allegedly sidelined chief strategist, was open about this when he addressed a conservative audience in February. The goal, he said, was the “deconstruction of the administrative state” (by which he meant the government regulations and agencies tasked with protecting people and their rights). “If you look at these cabinet nominees, they were selected for a reason, and that is deconstruction.” (...)

“Trump and his team are set to detonate programmes that protect children from environmental toxins, they have told gas companies they no longer need to report all of the powerful greenhouse gases they are spewing, and are

pushing dozens and dozens of measures along the same lines. This is, in short, a great unmaking.

“What Donald Trump’s cabinet represents is a simple fact: the people who already possess an absolutely obscene share of the planet’s wealth, and whose share grows greater year after year – the latest statistic from Oxfam shows eight men are worth as much as half the world – are determined to grab still more. According to NBC News in December 2016, Trump’s picks for cabinet appointments had a staggering combined net worth of \$14.5bn (not including “special adviser” Carl Icahn, who’s worth more than \$15bn on his own).

“So let’s be honest about what is happening in Washington. This is not the usual passing of the baton between parties. It’s a naked corporate takeover, one many decades in the making. It seems that the economic interests that have long since paid off both major parties to do their bidding have decided they’re tired of playing the game. Apparently, all that wining and dining of elected officials, all that cajoling and legalised bribery, insulted their sense of divine entitlement. So now they’re cutting out the middlemen – those needy politicians who are supposed to protect the public interest – and doing what all top dogs do when they want something done right: they are doing it themselves.”²¹⁸

In reviewing Klein’s book John Semnely comments: “Klein develops an image of Donald Trump as an embodiment of “capitalist burlesque,” manifested on his hit reality show *The Apprentice*, and even his appearances as himself in pro wrestling broadcasts. She is shrewd and savvy enough to understand that Trump is a product of a system, that a *billionaire president who boasts he can grab women by*

²¹⁸ Naomi Klein: *Now let's fight back against the politics of fear*, Extracts from *No is Not Enough*, The Guardian, 10 June 2017. Retrieved on 5 July 2017.

*their genitals while calling Mexicans ‘rapists’ and jeering at the disabled is the logical expression of a culture that grants indecent levels of impunity to the ultrarich, that is consumed with winner-take-all competition, and that is grounded in dominance-based logic at every level.”*²¹⁹

To see a 6 min. video in which Klein, interviewed on 7 July 2017 by The Guardian’s Owen Jones, talks about her new book:

https://www.theguardian.com/global/video/2017/jul/07/naomi-klein-trump-is-more-like-the-schlock-doctrine-video?CMP=Share_iOSApp_²²⁰

Taxes: more or less?

Trump promised during his electoral campaign to radically reduce taxes. “When talking about taxes in this campaign, Donald Trump has often sounded like a different kind of Republican. He says he will take on ‘the hedge fund guys’ and their carried interest loophole. He thinks it’s ‘outrageous’ how little tax some multimillionaires pay. But his plan calls for major tax cuts not just for the middle class but also for the richest Americans — even the hedge fund managers. And despite his campaign’s assurances that the plan is ‘fiscally responsible,’ it would grow budget deficits by trillions of dollars over a decade. (...) Currently, the top income tax rate for regular income is 39.6 percent. Mr. Trump would cut that rate to 25 percent, the lowest level since 1931. He’d cut maximum rates on capital gains and dividends to 20 percent from 23.8 percent. He’d cut the corporate tax rate to 15 percent, and also offer a special tax rate of 15 percent to business owners — less than half what

²¹⁹ Review: Naomi Klein’s *No Is Not Enough* is a cautiously hopeful document for a despairing age, *The Globe and Mail*, 16 June 2017.

²²⁰ Naomi Klein: ‘Trump is more like the shlock doctrine’ – video. *The Guardian*, 7 July 2017. Retrieved on 10 July 2017.

they may pay under today's rules. He'd abolish the estate tax entirely", comments Josh Barro.²²¹

As we have discussed above, Stiglitz argues in *Rewriting the Rules of the American Economy* that free market fundamentalist or neoliberal policies in the U.S. in the last decades "prioritized tax cuts and subsidies on those at the top, placing a greater tax burden on the rest and causing neglect of critical public investments". It is thus urgent, according to Stiglitz, to reverse this trend. More precisely, to raise, not lower, the top marginal tax rate. He provides the following example: "for an extra \$50,000 taxed on every \$1 million of the wealthy individuals income, the United States could make all public college education free and fund universal pre-kindergarten".

Stiglitz also criticizes the preferential tax treatment given to Americans for capital gains and dividends. The latter are owned nearly exclusively by the wealthy and they pay much less taxes than the poor, as billionaire Warren Buffett often openly admits. Stiglitz thus argues that all income, whether originating from labor or capital, should be taxed at the same rate. The only exception: in order to eliminate growing and very detrimental short-termism, those making short-term capital gains should be taxed at a higher rate. Stiglitz also recommends that the privilege of not having to pay a capital gains tax until the stock is actually sold should be eliminated. Finally, he recommends that the privilege enjoyed by the wealthy thanks to the so-called 'step up in basis at death' should be ended, as it allows the wealthy to avoid all capital gains taxes when they bequeath their estate to their children at death.

It is difficult to exaggerate the immense gap separating

²²¹ Trump Plan Is Tax Cut for the Rich, Even Hedge Fund Managers, 26 September 2015, The New York Times. Retrieved 24 June 2017.

Trump's promised tax cuts with the revamped and much more progressive tax code recommended by Stiglitz.

Getting rid of rules

While Stiglitz, throughout *Rewriting the Rules of the American Economy*, insists on the paramount importance of strong rules and more government intervention so that a free market economy can work to the benefit of the many, Trump, on the contrary, argues that an excess of rules and government intervention is what is preventing the U.S. economy from moving forward.

As mentioned above, Trump, when announcing his sweeping new executive order in March 2017 that reversed a multitude of Obama-era regulations to address climate change, made it ultra clear that the heart of his agenda consisted in eliminating regulations: "My administration is putting an end to the war on coal. We're going to have clean coal -- really clean coal. With today's executive action, I am taking historic steps to lift the restrictions on American energy, to reverse government intrusion, and to cancel job-killing regulations. (Applause.) *And, by the way, regulations not only in this industry, but in every industry. We're doing them by the thousands, every industry.*"²²²

Below are three more examples, besides the ones listed above, of Trump's efforts to do away with such rules and government intervention:

a) Trump promises never to infringe on people's right to keep and bear arms. On April 27, 2017, Trump attended the convention of the National Rifle Association of the

²²² Remarks by President Trump at Signing of Executive Order to Create Energy Independence, From the Press Office of the White House. The italics are my own.

United States (NRA). In the speech that he gave,²²³ he declared that the NRA now had a friend in the White House, a real friend. He also said that Obama, in his efforts to address gun violence, had taken away a constitutional right that infringed on the freedom of Americans, a freedom whose origin is none other than the almighty God himself! Forget about the fact, lamented by Obama in the long interview that he gave BBC's Jon Sopel that "if you look at the number of Americans killed since 9/11 by terrorism, it's less than 100. If you look at the number that have been killed by gun violence, it's in the tens of thousands!"²²⁴

Here are Trump's exact words in his speech to the NRA: "The eight-year assault on your Second Amendment freedoms has come to a crashing end. (Applause.) You have a true friend and champion in the White House. No longer will federal agencies be coming after law-abiding gun owners. (Applause.) No longer will the government be trying to undermine your rights and your freedoms as Americans. Instead, we will work with you, by your side. (...) So let me make a simple promise to every one of the freedom-loving Americans in the audience today: As your President, I will never, ever infringe on the right of the people to keep and bear arms. Never ever. (Applause.) Freedom is not a gift from government. Freedom is a gift from God. (Applause.)"

A few weeks later the NRA showed immense gratitude to Trump by in turn patting him on the back as his approval rating was plunging and popular discontent was growing.

In a one-minute video posted on YouTube on 30 June 2017

²²³ President Trump Full Speech at the NRA Leadership Forum, posted on YouTube on 28 April 2017. Retrieved 30 June 2017. To watch the speech: <https://www.youtube.com/watch?v=XmUql9Tz77k>.

²²⁴ President Barack Obama (FULL) Interview – BBC News, posted on YouTube on 23 July 2015. Retrieved on 30 June 2017. To watch Obama's 23-minute interview: <https://www.youtube.com/watch?v=YdU7fUXDLpI>.

and that rapidly went viral, NRA's Dana Loesch, former editor of Breitbart (the alt right media of Stephen Bannon, present White House chief strategist) asserts (To watch the video: https://www.youtube.com/watch?v=WK_jkPhrddc):

"They use their media to assassinate real news.

"They use their schools to teach children that their president is another Hitler.

"They use their movies stars and singers, and comedy shows and award shows to repeat their narrative over and over again.

"And then they use their ex president to endorse the resistance.

"All to make them march, make them protest, make them scream racism and sexism, and xenophobia and homophobia... to smash windows, burn cars, shut down interstates and airports, bully and terrorize the law abiding.

"Until the only option left is for the police to do their jobs and stop the madness.

"And when that happens they'll use that as an excuse for their outrage.

"The only way we stop this. The only way we save our country and our freedom is to fight this violence of lies with a clinched fist of truth.

"I'm the National Rifle Association of America and I'm freedom's safest place."

b) Trump rolls back Michelle Obama's efforts to fight childhood obesity. On 1 May 2017 The New York Times reported that Trump had just eliminated regulations implemented in schools as a result of Michelle Obama's efforts to fight childhood obesity:

"The Trump administration took aim Monday at two signature programs of the former first lady Michelle Obama, rolling back her efforts to promote healthy school lunches

nationwide and potentially rebranding her program to educate adolescent girls abroad.

“Agriculture Secretary Sonny Perdue announced that school meals would no longer have to meet some requirements connected with Mrs. Obama’s initiative to combat childhood obesity by overhauling the nation’s school menus.

“The nutrition regulations were part of the Healthy, Hunger-Free Kids Act of 2010 and were advocated by Mrs. Obama’s “Let’s Move” campaign. For the last five years, schools have been required to reduce the amount of calories, fat and sodium in their cafeterias and increase offerings of whole grains, fruits and vegetables, and non-fat milk to the roughly 32 million students who receive federally subsidized meals.

“Beginning next school year, schools can request an exemption from the whole grain requirements and delay the sodium mandate. They will also be able to serve 1 percent flavored milk instead of non-fat.”²²⁵

In a powerful video posted on YouTube in the following days, one that went viral, Michelle Obama sharply criticized the Trump administration for damaging her efforts to reduce childhood obesity.²²⁶ Here are some of her exact words:

“Kids, right... This isn’t political. Everybody’s got em, Republicans, Democrats, Independents. Every religion has kids, every race, we all have kids... We all have kids. I mean this wasn’t fake news, you know. Obesity rates are rising and continue to rise among our youngest. Moms, think about this, I don’t care what State you live in. Like me

²²⁵ Trump Takes Aim at School Lunch Guidelines and a Girls’ Education Program, Erica L. Green and Julie Hirschfeld Davis. Retrieved on 30 June 2017.

²²⁶ Michelle Obama attacks Donald Trump for gutting her legacy. Retrieved on 30 June 2017. To see the 2-minute video: <https://www.theguardian.com/global/video/2017/may/13/michelle-obama-attacks-donald-trump-for-gutting-her-legacy-video>.

or don't like me. But think about why someone is okay with your kids eating crap. Why would you celebrate that? Why would you sit idly and be okay with that? Cause here's the secret: if someone is doing that they don't care about our kids".

c) Ignoring advice of Office of Government Ethics, Trump refuses to divest his businesses,

Once elected president of the U.S. Trump should normally have done what every president in the last forty years has done: divest his own businesses. The Office of Government Ethics, created following the Watergate scandal, clearly stipulates that any newly elected president should do that in order to avoid the appearance of any conflict of interest. Otherwise decisions taken by Trump as president could often appear to favor his own financial interests instead of those of the public.

Report Peter Overby and Marilyn Geewax:

"On 6 July 2017 Walter Shaub, the director of the Office of Government Ethics, resigned following "months of clashes with the White House over issues such as President Trump's refusal to divest his businesses and the administration's delay in disclosing ethics waivers for appointees. (...)

"On Jan. 11, shortly before Inauguration Day, Shaub spoke out at the Brookings Institution, causing a stir when he said Trump's plan for avoiding conflicts of interest *"doesn't meet the standards that the best of his nominees are meeting and that every president in the past four decades has met."* Trump's trust is *"not even halfway blind,"* Shaub said at Brookings. *"His sons are still running the businesses, and, of course, he knows what he owns."*

"Trump's plan involved moving his business interests into a trust run by his two oldest sons and a longtime business associate. Trump is the sole beneficiary of the trust. Since

the 1970s, presidents have moved their assets into blind trusts run by third parties.”²²⁷

And Jan Martínez Ahrens reports in El País:

“*In the present situation there is very little I can do in the Office of Government Ethics. Recent events have shown that it is necessary to strengthen the ethics program,*” Shaub declared. “In January 2017 Shaub had requested that disciplinary actions be undertaken against White House advisor Kellyanne Conway, for having, in a television program, encouraged people to buy clothes of the Ivanka Trump trademark. The White House simply ignored his request.”²²⁸

Stiglitz’s own critique of Trump

In his 2 June 2017 article, *Trump’s reneging on Paris climate deal turns the US into a rogue state*,²²⁹ Stiglitz has very strong words not only about Trump’s withdrawal from the Paris Climate Agreement but also about his global agenda. As this article provides a bird’s eye view of my attempt, above, to compare and contrast Trump’s policies with what Stiglitz proposes in *Rewriting the Rules of the American Economy*, I have chosen to quote it at length:

“Donald Trump has thrown a hand grenade into the global economic architecture that was so painstakingly constructed in the years after the end of the Second World War. The attempted destruction of this rules-based system of global governance – now manifested in Trump’s withdrawal of the United States from the 2015 Paris climate agreement – is

²²⁷ Ethics Office Director Walter Shaub Resigns, Saying Rules Need To Be Tougher, NPR, 6 July 2017. Retrieved on 9 July 2017.

²²⁸ *Dimite el director de la Oficina de Ética que se enfrentó a Trump por los conflictos de interés* (Director of Ethics Office, who confronted Trump for his conflicts of interest, resigns), 6 July 2017. Retrieved on 9 July 2017. My translation from Spanish to English.

²²⁹ *Trump’s reneging on Paris climate deal turns the US into a rogue state*, The Guardian. Retrieved 30 June 2017.

just the latest aspect of the US president's assault on our basic system of values and institutions.

"The world is only slowly coming fully to terms with the malevolence of the Trump administration's agenda. He and his cronies have attacked the US press – a vital institution for preserving Americans' freedoms, rights and democracy – as an "enemy of the people". They have attempted to undermine the foundations of our knowledge and beliefs – our epistemology – by labelling as "fake" anything that challenges their aims and arguments, even rejecting science itself. Trump's sham justifications for spurning the Paris climate agreement is only the most recent evidence of this.

"For millennia before the middle of the 18th century, standards of living stagnated. It was the Enlightenment, with its embrace of reasoned discourse and scientific inquiry, that underpinned the enormous increases in standards of living in the subsequent two and a half centuries.

"With the Enlightenment also came a commitment to discover and address our prejudices. As the idea of human equality – and its corollary, basic individual rights for all – quickly spread, societies began struggling to eliminate discrimination on the basis of race, gender, and, eventually, other aspects of human identity, including disability and sexual orientation.

"Trump seeks to reverse all of that. His rejection of science, in particular climate science, threatens technological progress. And his bigotry toward women, Hispanics, and Muslims (except those, like the rulers of Gulf oil sheikhdoms, from whom he and his family can profit), threatens the functioning of American society and its

economy, by undermining people's trust that the system is fair to all.²³⁰

“As a populist, Trump has exploited the justifiable economic discontent that has become so widespread in recent years, as many Americans have become downwardly mobile amid soaring inequality. But his true objective – to enrich himself and other gilded rent-seekers at the expense of those who supported him – is revealed by his tax and health-care plans.

“Trump's proposed tax reforms, so far as one can see, outdo George W Bush in their regressivity (the share of the benefits that go to those at the top of the income distribution). And, in a country where life expectancy is already declining, his health-care overhaul would leave 23 million more Americans without health insurance.

“While Trump and his cabinet may know how to make business deals, they haven't the slightest idea how the economic system as a whole works. If the administration's macroeconomic policies are implemented, they will result in a larger trade deficit and a further decline in manufacturing.

“America will suffer under Trump. Its global leadership role was being destroyed, even before Trump broke faith with over 190 countries by withdrawing from the Paris accord. At this point, rebuilding that leadership will demand a truly heroic effort. We share a common planet, and the world has learned the hard way that we have to get along and work together. We have learned, too, that cooperation can benefit all.

²³⁰ An example of Trump's attitude towards transsexuals: El ejército de EEUU frena la entrada de transexuales porque duda de su “capacidad de defender la nación” (The U.S. Army Stops Allowing Transsexuals to Join the Army because It Questions their “Capacity to Defend the Nation”), El País, J.M.A., 1 July 2017.

“So what should the world do with a babyish bully in the sandbox, who wants everything for himself and won’t be reasoned with? How can the world manage a “rogue” US?

“Germany’s Chancellor Angela Merkel gave the right answer when, after meeting with Trump and other G7 leaders last month, she said that Europe could no longer “fully count on others”, and would have to “fight for our own future ourselves”. This is the time for Europe to pull together, recommit itself to the values of the Enlightenment, and stand up to the US, as France’s new president, Emmanuel Macron, did so eloquently with a handshake that stymied Trump’s puerile alpha-male approach to asserting power.

“Europe can’t rely on a Trump-led US for its defence. But, at the same time, it should recognise that the cold war is over – however unwilling to acknowledge it America’s industrial-military complex may be. While fighting terrorism is important and costly, building aircraft carriers and super fighter planes is not the answer. Europe needs to decide for itself how much to spend, rather than submit to the dictates of military interests that demand 2% of GDP. Political stability may be more surely gained by Europe’s recommitment to its social-democratic economic model.

“We now also know that the world cannot count on the US in addressing the existentialist threat posed by climate change. Europe and China did the right thing in deepening their commitment to a green future – right for the planet, and right for the economy. Just as investment in technology and education gave Germany a distinct advantage in advanced manufacturing over a US hamstrung by Republican ideology, so, too, Europe and Asia will achieve an almost insurmountable advantage over the US in the green technologies of the future.

“But the rest of the world cannot let a rogue US destroy the planet. Nor can it let a rogue US take advantage of it with

unenlightened – indeed anti-Enlightenment – “America first” policies. If Trump wants to withdraw the US from the Paris climate agreement, the rest of the world should impose a carbon-adjustment tax on US exports that do not comply with global standards.

“The good news is that the majority of Americans are not with Trump. Most Americans still believe in Enlightenment values, accept the reality of global warming and are willing to take action. But, as far as Trump is concerned, it should already be clear that reasoned debate will not work. It is time for action.”

Concluding Remarks

I have chosen not to have a formal conclusion as such.

My simple hope is the following:

That the information provided in this book will help readers, and in particular students, *raise more, not less questions*.

That it will motivate them to do *more reading and research*, not less.

That it will help them to gradually *reach their own conclusions*, however tentative and incomplete these may be.

That it will help them to understand and accept that even though all is not black and white in the world, and that it is normal and even wise to have doubts, *ideas and theories do matter a lot* and that studying and debating them is an essential task of anyone committed to the pursuit of the common good.

When I was experiencing the military coup in Chile in 1973, a coup in which Augusto Pinochet overthrew the democratically elected president Salvador Allende who had nationalized American multinational copper companies in order to extend free healthcare to the many and to offer free university education to the youth, and who carried out a courageous land reform to the benefit of the landless many...

When I was listening to Augusto Pinochet, who received the official backing of the Catholic Church following the coup, declare that the hand of God had intervened to save Chile, a declaration reiterated by several Catholic bishops...

When I was listening to the military declare that they would restore freedom in Chile, establish a privatized educational

system, a privatized health system, and even a privatized pension system...

When I was listening to conservative sectors of Chile declare that it is perfectly normal that it would be the aristocracy – naturally and traditionally more educated and wise – that would take over and lead the country, and not the masses of poor and less educated people²³¹...

When I was listening to all this, I was listening to mere ideas...

However these ideas eventually turned into reality...

²³¹ Here are two of the typical declarations made by these conservative sectors.

The first is from the book *Fuerzas armadas y seguridad nacional*, Ediciones Portada, Santiago, Chile, 1973, p. 29.: “The military vocation represents a very noble and high calling... and befits that very select group of patriots known as aristocrats. Not in the vulgar meaning that this expression now has, with its connotation of an absurd class struggle. What is meant here by aristocracy is what this term has always referred to in History: that group of people who, through tradition and natural endowments of intelligence, is directly called upon to assist the government. It is a government whose leadership is made up of the very best. And it is precisely because one finds the best people in the Armed Forces that, in a given moment of history, it is through the Armed Forces that the quality of a country stands out.” (My translation from the Spanish)

The second is from the confidential report sent by the Catholic bishops of Chile in December 1973 to all the bishops of the world – *Informe confidencial de la Conferencia episcopal de Chile* (Confidential Report of the Episcopal Conference of Chile): “The Armed Forces and the National Police of Chile are not at all perpetrators of a coup or fascists (paragraph 73)”. They represent “the authentic moral reserve of Chile’s national soul” (paragraph 79). These quotes of the bishops’ report were taken from my book, [Chile: el golpe divino](#), first published in French in 1974 and republished in Spanish on Amazon Kindle in 2017. (My translation from the Spanish)

It is interesting to compare the above two quotes with Donald Trump’s statement during a rally in Iowa in June 2017. Trump explained why he chose rich, not poor people, to lead his government: “I love all people, rich or poor. But in those particular positions, I just don’t want a poor person. Does that make sense? (...) Somebody said, ‘Why did you appoint the rich person to be in charge of the economy?’ I said that’s because that’s the kind of thinking we want. Because... really... they’re representing the country.” To watch Trump making this declaration: [Trump explains why he picked a ‘rich’ Cabinet](#). Posted on YouTube on 22 June 2017. Retrieved the same day.

A reality that led hundreds of thousands of Chilean students, who were suffering because of a privatized educational system that favors the rich and excludes the many, to initiate historical demonstrations that lasted from 2010 to 2013, and that triggered the calling into question of the entire neoliberal Chilean economy...

A reality that led millions of Chileans from all walks of life, who were suffering because of a privatized pension system – AFP – that serves the rich very well but leaves the many with miserable pensions, to massively invade the streets throughout the country, first in August 2016, and then again in March 2017, calling for an end to privatized pensions...

Reality – what people experience in their daily lives – is a fact, not a mere idea, and a fact that speaks louder than ideas.

But what people experience in their daily lives also represents the spectacular illustration that ideas really do matter...

Review Questions

Globalization Under Attack

1. Describe how the crisis of globalization is being depicted in the media. In your own neighborhood (family, city or region) do you see any signs of this crisis? If so, briefly describe these signs.
2. The crisis of globalization pushes large sectors of society to move either towards the right of the political spectrum or to the left. Provide a few examples illustrating the movement to the left, and also the movement to the right.
3. Bill Moyers points to the roots of the crisis of globalization in the United States. Explain and discuss.
4. Branko Milanovic and François Bourguignon examine the roots of the crisis of globalization in the world in general. Discuss these roots, illustrating both those who gained from globalization and those who suffered because of it.
5. Briefly describe the shocking picture of the negative impact of globalization according to Oxfam.
6. Describe the positive impact of the anti-globalization Latin American governments in the 2000s.
7. Point out and discuss the present crisis of the anti-globalization Latin American governments. What are, according to the conservatives, the causes of this crisis? What are, according to progressives, the causes of this crisis?
8. Explain and comment the following quote: “One of the greatest paradoxes of today is that despite the Internet revolution, which provides us with instant access to oceans of information and the capacity to communicate with one another instantaneously on a worldwide basis,

there seems to be ever-greater polarization.” Do you see any signs of such a polarization in your own milieu? If so, provide one or two examples.

9. I argue that overcoming polarization by embarking in critical thinking is a challenge for both the left and the right. Provide one example of the right having difficulty in overcoming such polarization. Provide one example of the left having the same difficulty.

Joseph E. Stiglitz - *Globalization and Its Discontents*

1. Briefly explain who Joseph E. Stiglitz is. That is, the jobs that he has held in the past, and his importance as an economist.
2. Point out and explain briefly the key ideas which express Stiglitz’ disappointment with and scathing critique of the IMF.
3. Many have criticized the IMF before Stiglitz. What renders his criticism so special? Briefly comment.
4. When Stiglitz first visited Ethiopia after accepting his job at the World Bank, he rapidly became entangled in a quarrel that was ongoing between the government of Ethiopia and the IMF. Briefly explain what the quarrel was all about.
 - a) Identify the three key points of the quarrel.
 - b) For what reasons was Stiglitz in agreement with the views of the government of Ethiopia and in disagreement with the views of his “sister” organization, the IMF?
5. For what reasons were the East Asian countries admired during the 1980s and early 1990s?
6. Describe the key elements in the East Asian Crisis of the late 1990s.

7. Stiglitz argues that the IMF and the World Bank consciously avoided studying East Asia when its economic “miracle” was in full swing. For what reason or reasons? In your answer, make sure to explain the economic policies pursued by the governments of East Asia and which brought about this miracle.
8. Stiglitz, as many others, argues that when speculators move large sums of money in and out of countries, they can often make rapid astronomical profits. Explain the concrete example that he gives to illustrate this.
9. Stiglitz also argues that IMF policies in East Asia basically protected the Western banks that had made bad loans to East Asia. Explain how, in his opinion, this happened.
10. While Stiglitz does not believe that Western governments deliberately provoked the East Asian crisis in order to profit from it, he admits that the facts readily lend themselves to that interpretation. Explain.
11. Stiglitz is extremely critical of the IMF’s handling of Russia’s transition from communism to capitalism. Identify and explain the key points in this criticism.
12. What, according to Stiglitz, explains the fact that China’s transition towards a market economy did not plunge it into a recession, but, quite to the contrary, allowed it to experience prolonged and impressive economic growth?
13. Summarize the article *Rebel With a Cause*
14. Drawing from the article *Prizefighter thumps Bush*, explain how Stiglitz, after aiming his critique at the economic policies pushed by the IMF, is now also criticizing the policies followed by the Bush administration in the United States?

IMF's Brief - *Globalization: Threat or Opportunity?*

1. Compare and contrast the views of Stiglitz and those of the IMF regarding the causes of the East Asian economic miracle.
2. Compare and contrast the views of Stiglitz and those of the IMF regarding the causes of the East Asian crisis.
3. How does the IMF define globalization?
4. The IMF argues that globalization allowed countries to experience unparalleled growth. What facts does it refer to in order to prove this?
5. What is meant by PPP dollars? Explain carefully.
6. Although very useful, the PPP dollar has been called into question recently as a very inappropriate tool to measure world poverty. Drawing from the article by George Monbiot point out why some consider it inappropriate.
7. While acknowledging that the inequality of income has increased in the world during the globalization process, the IMF nevertheless maintains that those countries that integrated the most in the global economy did well and the others did not. Point out the facts set forth by the IMF to prove this.
8. The IMF examines the evolution of three important aspects of globalization: net capital flows to developing countries, the spread of knowledge and the mobility of labor. And it argues that the evolution of these three aspects is helping, or could possibly help in the future, the Third World. Explain.
9. The IMF acknowledges that the income gap between rich and poor countries has increased notably in the course of the 20th century. However, it argues that when one uses broader measures than income to evaluate the fate of the poor countries, the picture that emerges is

quite different. “Indeed, the gaps may have narrowed”, says the IMF. Explain the method and precise indicators used by the IMF to prove this.

10. The IMF sets forth a combination of factors that can help the poorest countries catch up more quickly. Among these, are “country-owned strategies to reduce poverty by promoting pro-poor policies that are properly budgeted—including health, education, and strong social safety nets”.

In my commentary, I express my doubts about the IMF’s intentions and quote, at considerable length, the critique of Soren Ambrose regarding the sudden conversion of the IMF to pro-poor policies.

a) Explain Ambrose’s critique of the Heavily Indebted Poor Countries debt relief initiative.

b) Explain his critique of the Poverty Reduction and Growth Facility.

11. The IMF, in analyzing the crises of the emerging economies (including of course East Asia) points to factors at the national and international level. A) Explain these factors. B) In my commentary, I criticize the IMF’s explanation, referring to Stiglitz. Explain my criticism.

ECLAC - Globalization and Development

1. Identify the three stages of globalization presented by ECLAC and the characteristics of each stage.
2. The IMF presented the mobility of labor, a basic characteristic of globalization, in a positive manner. ECLAC, however, argues that globalization, in its most recent phase—1974-2000—has been producing problems for Third World countries. Explain carefully.

3. The IMF argued in its brief that globalization does not weaken national sovereignty. Compare and contrast the IMF's views on this point and the views of Stiglitz and ECLAC.
4. ECLAC argues that it is not true, as it is widely believed, that the State practiced laissez-faire economics during the first phase of globalization (1870-1913) and that free trade was the primary engine of economic growth in the period. Pont out the facts and arguments set forth by ECLAC to prove this.
5. ECLAC argues that free trade did not produce economic growth in the more recent phases of globalization. Pont out the facts and arguments set forth by ECLAC to prove this.
6. ECLAC notes that in the developing world in general, with some notable exceptions, "the periods of greatest export-expansion have tended to coincide" with slow economic growth. And it adds that this is especially the case in Latin America and the Caribbean. Why, in its opinion, did the increase of exports not result in strong economic growth in Latin America and the Caribbean? Explain your answer carefully.
7. The IMF argues that when Latin America implemented strong state interventions and certain forms of protectionism ("pursued inward-oriented policies") in the 1970s and 1980s, its economies declined. Afterwards, that is in the 1990s, it started implementing outward-oriented policies— prioritizing exports, adopting free trade and liberalizing their capital markets. "As a result they are starting to reap the benefits," concludes the IMF. Does ECLAC agree with this analysis? Why or why not?
8. ECLAC provides a few statistics showing the growing power of transnationals in the world and the

concentration of their head offices in the advanced countries. Discuss briefly.

9. ECLAC argues that the Third World external debt remains a problem and that “external indebtedness trends” have not been positive. It worries in particular about the fact that many Third World countries have seen their external debt/GDP ratios deteriorating in recent years.
 - a) Provide the statistics showing this deterioration.
 - b) Explain what is meant by external debt/GDP ratio.
 - c) Explain why a country whose external debt/ratio is 60 percent is worse off than one whose external debt/GDP ratio is 20 percent.
10. ECLAC views the widening of the income gap both within and between countries as “one of the hallmarks of the third phase of globalization”. It refers to a recent study that measures the income gap between the inhabitants of the world from 1975 to 1995.
 - a) Drawing from the information given in Table 3.4 on the World Trend in Income Inequality, illustrate the growing income inequality in Latin America.
 - b) What factors, according to ECLAC, have contributed to this growing inequality? Explain each factor.
11. ECLAC identified three main international factors that, in its opinion, are contributing to the lack of development (underdevelopment) of Third World countries. Point out and explain each factor.

James Petras and Henry Veltmeyer - *Globalization Unmasked*

1. Globalization, claim Petras and Veltmeyer, can have three different meanings. Explain each one of these

meanings. Point out to which one the IMF is associated, to which one Stiglitz and ECLAC are associated, and to which one Petras and Veltmeyer are themselves associated.

2. According to Petras and Veltmeyer, workers and ordinary citizens of the capitalist world, experienced notable gains in the decades immediately following World War II because of both economic and political factors. Explain.
3. However, Petras and Veltmeyer note that two major series of factors, some economic and some political and ideological, substantially altered the situation and set the stage for the neoliberal globalization agenda that characterizes the last quarter of the 20th century. Explain both the economic and political factors.
4. Petras and Veltmeyer assert that the capitalist class pushed ahead a neoliberal-oriented globalization process in the last quarter of the 20th century. Explain what are, in their opinion, the key components in this process. (Answering this question will require considerable time and energy; avoid short answers!).
5. For what reasons do Petras and Veltmeyer prefer to use the term 'imperialism' to describe what is presently occurring in the world economy instead of the very popular expression 'globalization'? Explain your answer carefully.
6. Those who favor the so-called globalization process usually paint a very rosy picture of the future. Petras and Veltmeyer believe that the contrast between this rosy ideal future and the actual present facts could not be starker. Point out and explain the negative impact of imperialism (globalization) according to these authors.

7. Petras and Veltmeyer provide evidence pointing to the clear dominance of U.S. corporations in this ever more accentuated imperialism (globalization).
 - a) What statistics do they provide to substantiate this claim?
 - b) Six strategic advantages allowed U.S. corporations to recover from their historical decline in power in the mid-1970s. Point out and explain these advantages.
8. Petras and Veltmeyer explain the gains made by workers and ordinary citizens in Latin America, thanks to strong government intervention, in the decades immediately following World War II. Discuss.
9. It is not the failure of statism, as many contend, that led to the neoliberal economic revolution in Latin America, according to Petras and Veltmeyer. Neoliberalism was imposed by the wealthy, backed by the Western, mainly U.S. powers, using naked military force, not just persuasion. Explain their views, citing the facts they refer to in order to substantiate them.
10. There is vast statistical evidence, assert Petras and Veltmeyer, that the elite class represented by transnationals, both Latin American and U.S., “benefited enormously from U.S. hegemony” in Latin America from 1974 to 2000, the period described by ECLAC as the third phase of globalization. Describe this statistical evidence.
11. What is transfer pricing? How can this mechanism be used by transnational corporations to increase their effective profits? (Answering this question will require considerable time and energy; avoid short answers!)
12. According to Petras and Veltmeyer, the general economic situation in Latin America and the living conditions of most of the people have deteriorated

substantially from 1980 to 1999. Explain their views, drawing from the facts they use to substantiate them.

13. Petras and Veltmeyer argue that the imperialist (globalization) process, which they identify as a stage in the evolution of capitalism, must be not just reformed but also downright eliminated.
 - a) Point out and explain the reasons they give to hold such radical views.
 - b) Briefly describe the grassroots organizations and movements on which they put their hope to bring about the construction of a new, more socially oriented economy.
14. Point out and explain a few of the similarities and differences between the views of Petras and Veltmeyer, of ECLAC and Stiglitz regarding globalization.
15. What are the sharpest differences between the views of the IMF on the one hand, and Petras and Veltmeyer, Stiglitz and ECLAC on the other regarding globalization?

Understanding Backlash Against Globalization

1. I argue that globalization finds its theoretical historical roots, first in Adam Smith in the 18th century and then in Milton Friedman in the 20th century. Explain, carefully showing both the similarities and differences between these two outstanding economists.
2. Naomi Klein argues that colonialism, slavery and climate change, which are closely linked to the industrial revolution and the rapid expansion of markets, can certainly be considered a fundamental aspect of globalization. More precisely, she argues that the wealthy industrialized countries have three historical debts to the poor developing countries, debts that they have always chosen to ignore and dismiss. Explain what

she means. Then explain what she proposes the wealthy countries do to pay back these debts.

3. After being elected Donald Trump signed an executive order “putting an end to the war on coal” and lifting “the restrictions on American energy”. Explain the nature and scope of this executive order. Then explain why I argue that, compared to India and China in particular, Trump is moving the U.S. in the wrong direction.
4. In his 2013 conference – analyzed in this book – Stiglitz argues that the strengthening of intellectual property rights resulting from free trade deals cause more harm than good. First clearly explain what is meant by ‘intellectual property rights’. Then explain, using a clear concrete example, why Stiglitz says their strengthening was a mistake.
5. In the same 2013 conference Stiglitz argues that privatizing old-age pensions is good for Wall Street but bad for the majority of people. Why does he say this? Explain his argument carefully.
6. In the same 2013 conference Stiglitz argues that for capitalism to work well, the government must regulate in terms of labor conditions and the environment. And he adds that the main problem of globalization stems from the fact that economic globalization has been outpacing political globalization. Explain and comment.
7. In *Rewriting the Rules of the American Economy* (hereafter referred to as ‘his new book’) Stiglitz blames excessive market power, insufficiently regulated rapid technological change and free trade agreements for growing inequality and slow economic growth in the U.S. Explain each one of these factors, providing an example to illustrate each factor.

8. In his new book Stiglitz rigorously analyzes the financial sector, illustrating how it represents a blatant example of excessive market power. Explain his analysis, carefully mentioning the empirical studies to which Stiglitz refers to support his argument.
9. Explain and comment the following quote: “While the overturning of antitrust laws led to “a rash of takeovers” that reduced competition, the tilting of CEO compensation toward stock options provided CEOs with “an incentive to manipulate stock prices by using company money to buy back shares in order to drive the price higher” and “to engage in ‘creative accounting’ to increase short-term profits.” This gave rise to a shareholder revolution based on short-termism.”
10. In his new book, Stiglitz argues that in the last decades the government in the U.S. has changed the tax code in order to favor the rich. Explain, providing the facts pointed out by Stiglitz. Explain how the capital gains tax actually favors the rich.
11. Mainstream conservative economists have long argued that if one taxes the rich more, this hampers growth. They have also argued that if one takes from the rich (by higher taxes) and redistributes income to the poor, this also hampers growth. Does Stiglitz agree? If not, does he have empirical proof to support his argument?
12. Stiglitz believes that the main role of the Central Bank of a country should be to control and limit inflation. True or false? Carefully explain your answer.
13. Neoliberal economists argue that unions allow workers to have excessive market power over wages and working conditions and thus are harmful to the global economy. Does Stiglitz agree? If not why?
14. In his new book Stiglitz argues that in the last decades labor in the U.S. has suffered “a sustained political

attack”. Identify and explain the key facts to which he refers to support this claim.

15. In his new book Stiglitz also argues that in the last decades in the U.S. labor standards have been falling dramatically. Identify and explain the key facts to which he refers to support this claim.
16. In his new book Stiglitz argues that racial discrimination, open and legal in the 19th and first half of the 20th century and still present – “de facto” – today is a “clear driver of economic inequality in the United States.” African-Americans and Latinos in the U.S. suffer radical discrimination in terms of education, housing, jobs, policing and criminal justice, and access to credit, he says. Point out and discuss some of the disturbing factions Stiglitz mentions to support his argument.
17. In his new book Stiglitz notes one more factor that, in his opinion, hinders growth: structural discrimination against women. Point out and discuss a few of the facts that he sets forth to illustrate this structural discrimination.
18. The new rules proposed by Stiglitz for the U.S. economy represent the exact opposite of neoliberalism. Explain and discuss the previous statement.
19. Describe Stiglitz’s critique of past free trade agreements and his proposal for future free trade agreements.
20. Stiglitz argues that the cost of health care in the U.S. is excessive. What measures does he propose to reduce them?
21. Stiglitz proposes six precise measures to stop the financial sector from serving itself and to return to what should be its primary function – “providing funds for

investment and job creation”. Point out and explain each one of these measures.

22. Stiglitz criticizes short-termism. First define and explain the latter term, explain why, in Stiglitz’s opinion, short-termism is not good for the economy, and then point out and explain each one of the three measures he proposes to end short-termism.
23. Stiglitz argues that neoliberalism implemented in the United States in the last 35 years “prioritized tax cuts and subsidies focused on those at the top, placing a greater tax burden on the rest and causing neglect of critical public investments”. Point out and explain the four measures that he proposes to reverse this trend and correct this imbalance.
24. Stiglitz criticizes the Federal Reserve for focusing too much on the control of inflation and not enough on reducing unemployment. Explain and discuss Stiglitz’s criticism.
25. Stiglitz argues that the weakening of American wages does not primarily result from globalization and technological change, but rather from legal and institutional frameworks that are typical of the U.S. He then proposes six measures to reverse this situation and restore the voice of workers. Point out and explain each measure.
26. Stiglitz argues that even though the American workforce “predominately consists of women and people of color”, this group faces both individual and structural biases, a discrimination that is not only morally unjust but also harmful to the economy. He proposes seven measures to address this bias and promote economic growth and shared prosperity. Point out and explain each measure.

27. Presently most families in the U.S. cannot afford to educate their children, obtain a stable home, save something in case of emergency, and retire at a reasonable age, argues Stiglitz. To address this problem he proposes six measures. Point out and explain each measure.
28. When snap elections were held in England on 8 June 2017 the Labour Party, thanks to its manifesto whose resemblance with Stiglitz's *Rewriting the Rules of the American Economy* is striking, made a surprising comeback coined "the most sensational political upsets of our time". A) Point out and discuss some of the similarities between Stiglitz's book and the Labour Manifesto. B) In your opinion, is there also a resemblance between the Labour Manifesto and the economic policies that Bernie Sanders was proposing in the U.S. in the race for the leadership of the Democratic Party? If so, explain and discuss.
29. Some argue that the Grenfell Tower fire that erupted in London, England on 14 June 2017 represents the dramatic failure of neoliberalism in England. Discuss and comment.
30. Point out and explain at least three of the similarities between the analysis of Stiglitz and that of the 174-page document produced by ECLAC for its 36th session held in Mexico City in May 2016.
31. Define and explain the following terms: 1) public goods; 2) global public goods.
32. ECLAC, as many others, asserts that wealthy industrialized countries should accept "the principle of differentiated responsibility". Explain what this expression means. Does the new president of the U.S. Donald Trump seem to understand and accept this principle? Discuss.

33. I argue that the IMF in recent years has been changing its views on inequality in the world. Explain the information on which this argument is based.
34. James Petras argues that while it is true that many Latin American countries, under the influence of increasing and massive anti-neoliberal demonstrations, did elect governments that declared themselves socialist, the latter never did really embark in authentic socialism. Explain Petras's argument.
35. François Houtart and William I. Robinson seem to agree with Petras (see question 34). What facts do they point to in order to argue that left and center-left Latin American countries did not really reverse globalization and capitalism?
36. I assert: "Ironically enough, while The Economist claims that Chile is one of the Latin American countries that did not turn its back on globalization, the fact of the matter is that the majority of the Chilean population is presently doing just that: turning its back on neoliberal globalization."
- A) Explain the information that I provide to argue that the Chilean population is presently turning its back on neoliberal globalization.
- B) There is a striking similarity between what is now happening in Chile, on the one hand, and, on the other, the spectacular rise of the Labour Party in England under the leadership of Jeremy Corbyn, the amazing support obtained by Bernie Sanders in the leadership race of the Democrats in the U.S., and the remarkable popularity of Jean-Luc Mélançon just weeks before the first round of France's presidential election on April 23rd 2017? Discuss and comment the preceding assertion.

37. Both Donald Trump and Stiglitz acknowledge the pain imposed on U.S. workers by free trade deals such as NAFTA and by Chinese imports. However they differ vastly in their interpretation of the precise causes of this pain as well as in the solution they are proposing to relieve it. Explain and discuss the previous statement.
38. Stiglitz argues that in order to make healthcare affordable and universal Medicare, the U.S. government program that guarantees health insurance for the elderly, should be opened to everyone. And he points out three advantages that would result from this. Explain each advantage.
39. The Republican proposal to repeal and replace Obamacare, first narrowly passed by the House and then presented to the Senate, is known as Trumpcare. Explain the key points of Trumpcare, and then point out why there seems to be such criticism of it (according to a USA Today poll on 28 June 2017 only 12 percent of registered voters supported Trumpcare), not only among Democrats but also even among several Republicans.
40. While Stiglitz criticizes the Dodd-Frank bill because he finds that it does not go far enough to address the dysfunctional financial system, Trump criticizes it because he finds it goes too far and “makes it very hard for bankers to loan money for people to create jobs”. Comment the preceding assertion. What is your opinion on this matter? Do you agree with Stiglitz or with Trump? Why?
41. Compare and contrast the opinions of Donald Trump and Stiglitz on climate change. What is your own opinion on this matter?
42. Compare and contrast the opinions of Trump and Stiglitz on immigrants. What is your opinion on the matter?

43. Both Trump and Stiglitz propose a massive infrastructure 10-year plan. Compare and contrast the two plans. Which one of these plans do you prefer? Why?
44. Point out and explain a few similarities between Trump and the more radical left.
45. Briefly discuss what Naomi Klein has to say about Donald Trump's policies in her new book *No is Not Enough: Resisting Trump's Shock Politics and Winning the World We Need* (June 2017).
46. Stiglitz argues in his new book that it is important to raise taxes paid by the rich and to reform the tax code so that all income, whether from labour or from capital, be taxed at the same rate. Point out and explain the tax reforms being proposed by Trump? Compare and contrast these with what Stiglitz proposes. What is your opinion on this matter?
47. Neoliberalism argues against government 'intrusion' in the economy and for the elimination of restraints and rules. I point out three rules that Trump has promised to or already set aside: gun control, the rule obliging schools to provide healthy food to children in order to address growing childhood obesity, and the rule advising a president to divest his businesses. Discuss these three rules. Do you agree with Trump's decision to eliminate the two first rules and to simply ignore the latter? Why?
48. Comment the article - *Trump's reneging on Paris climate deal turns the US into a rogue state* - written by Stiglitz following Trump's decision to withdraw from the Paris Climate Agreement.