

GLOBALIZATION: A POLARIZED DEBATE THE “ANTI-MARKET GLOBALIZATION” SIDE

2. THE NEO-KEYNESIANS

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**GLOBAL CRISIS = CONFLICTING DIAGNOSIS =
CONFLICTING CRISIS MANAGEMENT STRATEGY =
DIFFERENT POLICY TOOL-KIT !**



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GLOBALIZATION = A POLARIZED DEBATE

	Positive sum game > 0 "win-win"	Distorted growth process Zero-sum game
Neo-classical economists	Adam Smith, David Ricardo, Benjamin Constant, Frédéric Bastiat, Friedrich Hayek	Karl Marx, F. Engels, Lénine, Rosa Luxembourg
Contemporary economists	Kenneth Arrow, Milton Friedman, Walter Rostow, Robert Lucas, Jagdish Bhagwati, Anne Krueger, Stanley Fisher, Rüdiger Dornbusch, Alan Greenspan, Kenneth Rogoff	Paul Prebisch, Hans Singer, Paul Baran, Paul Sweezy, Arghiri Emmanuel, Harry Magdoff, Immanuel Wallerstein, Samir Amin, Gunther Franck P. Krugman, J. Sachs, J. Stiglitz, Michel Aglietta, Thomas Piketty, MH. Bouchet, James Galbraith
Social scientists	Martin Wolf, Francis Fukuyama, Kenichi Ohmae, Peter Drucker, Ayn Rand (writer)	Pierre Bourdieu, Alain Joxe, Dominique Wolton, Joel Bakan, Susan Strange, M. Foucault, Bernard Stiegler
Academic institutions, thinktanks & NGOs	Heritage Foundation, Cato Institute, Freedom House, The Economist, FT	ATTAC, Oxfam, Alternatives Economiques
IFIs	IMF, OECD, IIF, BIS, WTO	UNCTAD, ECLA, UNDP

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THE « OFF MAIN-STREAM » DISSIDENDS (Keynesian tradition)

1. P. Krugman
2. J. Stiglitz
3. J. Sachs
4. James Galbraith
5. Hyman Minski
6. B. Mandelbrot
7. The « French School »



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THE « DISSIDENTS » ARE NEO-KEYNESIANS

- ☞ For short hand, they don't buy the assumptions of Chicago Economics regarding market rationality and self-regulation: ***markets don't get things wrong, but governments do!***
1. We don't know much about the future and we cannot thus predict and price risk accurately (hence markets crash)
 2. Risk of falling back on conventions: the future replicates the past and probabilities are distributed along a bell-shaped curve without « fat tails »
 3. No self-correction of markets, hence risk of protracted depression
 4. Governments must inject extra spending to provide stimulus and shorten level and duration of crisis (multiplier)
 5. Markets need regulation to correct unequal income and wealth distribution and to promote sustainable full employment
 6. Financial intermediation must be regulated to provide long-term financing to the real economy



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FINANCIAL GLOBALIZATION AND ECONOMIC GROWTH? TWO SCHOOLS OF THOUGHT

☞ 1- **Stiglitz, Sachs, Krugman, Rodrik...**
Financial and capital account liberalization = capital flow volatility + financial crises = capital controls + Tobin taxes + pressure to promote **finance sustainability** (Environmental + social concerns-IFC)

☞ 2. **Greenspan, Fischer, Summers...**
☞ Openness to global capital flows = higher capital efficiency North-South + technology spillover + financial market liberalization + FDI = Δ GDP

Prasad-Rogoff IMF-Harvard 2006

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☞ TWO-FOLD EMANCIPATION

(Bouchet-Pearson, Paris 2006)

- **1960s: Economic system from Political system** (MNCs, trade openness, privatization, economic liberalization, deregulation...)
- **1980s-90s: Financial system from Economic system** (global investment funds, offshore centers, derivatives...) The financial system cut loose from its economic base, hence dwarfing it

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HA-JOON CHANG: STRATEGIC TRADE PROTECTIONISM TO PROTECT INFANT INDUSTRY IN EMCS

Globalization is too important to be left to free-trade economists' policy advice!

Japan, the US and the UK have based their economic take-off on trade protectionism

- ☞ **In the UK:** 1721: average industrial tariff rate of 40-50 per cent, compared with 20 per cent and 10 per cent in France and Germany respectively. Britain moved to free trade only in the 1860s
- ☞ **In the US:** 1789: protective tariffs, subsidies, import liberalisation of industrial inputs, patents for inventions and support of development of the banking system. Following the Anglo-American war in 1812, the US started shifting to a protectionist policy; by the 1820s, its average industrial tariff had risen to 40 per cent. By the 1830s, America's average industrial tariff rate was the highest in the world and, except for a few brief periods, remained so until WWII, at which point its manufacturing supremacy was absolute

http://www.prospect-magazine.co.uk/article_details.php?id=9653

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PAUL KRUGMAN'S VIEW ON GLOBALIZATION

Ph.D. in 1977 from MIT.

Council of Economic Advisors (1982)

John Bates Clark Medal (1991)

Nobel Prize 2008. NY Times columnist. Currently at Princeton.



“**New trade theory**“ deals with the consequences of increasing returns, preference for diversity in consumption, and imperfect trade competition.

Ricardo and Heckscher-Ohlin theories emphasize trade based on the comparative advantage of countries with different characteristics (agriculture/industry productivity). But an ever larger share of trade occurs between countries with similar characteristics. Krugman argues that trade is welfare enhancing because the scale of production can increase, hence reducing costs and prices.

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KRUGMAN AND INTERNATIONAL TRADE

- ☞ Challenge: **consumers** prefer a diverse choice of brands, but **production** favors economies of scale.
- ☞ In each country, consumers have a preference for variety but there is a tradeoff between variety and cost: consumers want variety but since there are economies of scale – a firm’s unit costs fall as it produces more – more variety means higher prices. Preferences for diversity push in the direction of wider choice, economies of scale push in the direction of less.
- ☞ Trade, largely shaped by economies of scale, remains beneficial, even between similar countries: it permits firms to save on costs by producing at a larger, more efficient scale: it increases the range of brands available and sharpens the competition between firms.
- ☞ Economies of scale in production and a preference for diversity in consumption lead each country to specialize in producing a few brands of any given type of product, instead of specializing in different types of products.

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PAUL KRUGMAN: THE “DARK SIDE” OF GLOBALIZATION

- ☞ In the 1980s, openness to trade was widely believed to reduce the likelihood of economic and financial crises.
 - ☞ Today, growing global integration does predispose the world economy toward more crises because it creates pressures on governments to relax restrictions: **de-regulation + privatization!**
 - ☞ Economies are doing better in good times but are far more vulnerable to sudden crises due to volatile capital flight. The ride will continue to be very bumpy for many years to come!
- ☞ http://www.nytimes.com/2007/05/14/opinion/14krugman.html?_r=1&ref=paulkrugman

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PAUL KRUGMAN: THE “WAY FORWARD”?

- ☞ **Myth:** Globalization and modern technology displace low-qualified jobs to EMCs, while well-educated workers are clear winners (true in the 1980s !)
- ☞ **Facts:** Both high-wage and low-wage employment have grown rapidly, but medium-wage jobs of the middle class have lagged behind. The combination of NTIC and growing international trade in services will further “hollow out” the OECD job market: white collars and college graduates are NOT sheltered!
- ☞ **Facts:** EMCs’ low-wage competition is driving down U.S. wages: When the US imports labor-intensive manufactured goods from the third world, the result is reduced demand for less-educated American workers, hence lower wages for these workers. And cheap consumer goods does not compensate for lost jobs!
- ☞ The key is not protectionism but labor standards and higher wages in EMCs. Global growth is possible only if rising economies can expand into new markets.

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Krugman’s view on Asia’s 1997-98 economic crisis

- IMF’s shortsighted approach to the crisis:
- The logic of catastrophe was pretty much the same in Thailand, Malaysia, Indonesia and South Korea. In each case investors--mainly, but not entirely, foreign banks who had made short-term loans--all tried to pull their money out at the same time.

The result was a combined crisis:

1. a banking crisis because no bank can convert all its assets into cash on short notice;
2. a currency crisis because panicked investors were trying to convert baht or rupiah into dollars.
3. a governance crisis

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Krugman: CHALLENGING THE IMF'S APPROACH TO CRISIS MANAGEMENT IN ASIA IN 1998

- ☞ There was no « fundamental » reason for Asia's financial calamity
 - Budgets were in balance or surplus
 - Low inflation
 - High private savings rates
 - Economies were poised for export growth

- The IMF's tough macro-economic conditionality for approving financial support led to recessionary monetary policy, capital flight, domino effect and increased panic

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IMF DECLARATIONS ON THE EVE OF THE ASIAN CRISIS (04/1997)

« Directors welcomed Korea's continued impressive macroeconomic performance [and] praised the authorities for their enviable fiscal record »

« Directors strongly praised Thailand's remarkable economic performance and the authorities' consistent record of sound macroeconomic policies »

IMF, 1997 annual report

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Paul Krugman's view on Asia's crisis and
the role of governance

“Was the crisis a punishment for bad economic management?”

Like most *clichés*, the catchphrase "**crony capitalism**" underlies something real: excessively cozy relationships between government and business lead to bad investments, speculation, corruption, low investment efficiency

The still primitive financial structure of Asian business--too little equity, too much debt and too much of that debt consisting of soft loans from accommodating banks--also made the economies peculiarly vulnerable to a loss of confidence

Governance is key to promote inclusive growth and sustainable development

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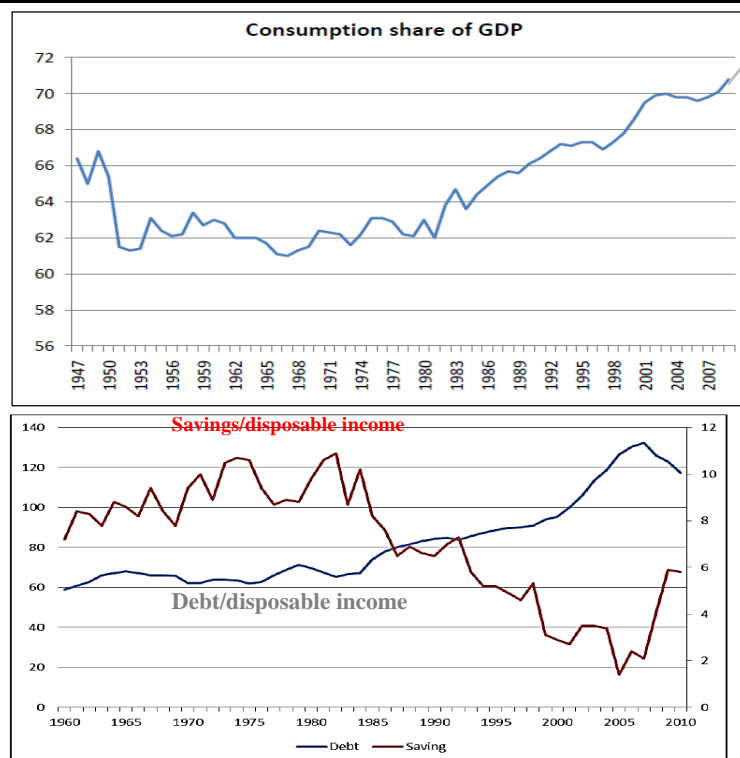
KRUGMAN ON GLOBALIZATION AFTER THE CRISIS

6 minutes on Globalization

<http://www.youtube.com/watch?v=VJiQsgikZeM>

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**GLOBAL
FINANCIAL
CRISIS
ROOTED IN
RISING
HOUSEHOLD
DEBT TO
OFFSET
RISING
INCOME
INEQUALITY!**



Stiglitz, Rajan, Krugman 2011-12 NIPA, Flow of Funds; authors' calculations

MEA CULPA AT THE IMF IN 2016: IS THE NEOLIBERAL AGENDA OVERSOLD?

☞ Neoliberal agenda's 4 key features:

1. Increased competition (opening up of domestic markets)
2. Deregulation (interest and exchange rates)
3. Capital account liberalization
4. Smaller role for the state (privatization and fiscal austerity)

Do austerity and competition pay off?

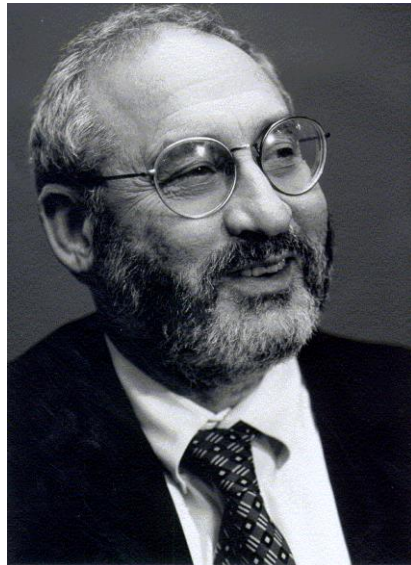
1. Trade off between growth and inequality
2. Wealth gap lowers growth (hurts domestic demand and increases unemployment)
3. Volatility, stop & go, and crisis frequency
4. Decreasing debt does not boost growth!



Source: IM Finance & Development, June 2016

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JOSEPH STIGLITZ'S VIEWS



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WHAT IS ASYMMETRY OF INFORMATION?

- ☞ It is the difference in information between two economic agents within an economic relation (e.g.: « the worker and his employer, the lender and the borrower, the insurance company and the insured »)
- ☞ According to Stiglitz, financial markets cannot regulate themselves because anyone do not have the same information at the same moment. Therefore the aim is to find the best structure to regulate markets (and not to let them work by themselves).
- ☞ Deregulation will **not** promote financial development when information is asymmetric and competition inadequate. The economic efficiency is not secured. It will spur corruption and create an oligarchic elite that opposes the emergence of competitive markets.

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ASYMMETRY OF INFORMATION'S CONSEQUENCES

- ☞ Mismatch between national regulation/globalized markets lead to weak multilateral governance in finance
- ☞ Weak governance = short-sighted behaviour, self interest, speculation and greed
- ☞ Wrong incentive structure for excess risk taking and leverage (credit bubbles)
- ☞ The partisans of the « Washington consensus » overlook the importance of economic and corporate governance, underestimate the difficulty of building institutions, and forget that many countries lack the sophisticated public administrations needed to ensure adequate competition.

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STIGLITZ'S CORE IDEAS

- ☞ Global crisis challenges not only the capitalist financial and economic system but also the intellectual edifice of Economics thinking (and teaching!)
- ☞ No perfect information nor perfect competition: Markets are not efficient, economic agents are not rational, there is no self-regulation. The « invisible hand » is simply not there!
- ☞ Poverty is an « affront to human dignity ». Globalization does not work well as a wealth distribution engine
- ☞ G7 governments urge liberalization on developing countries while maintaining trade restrictions and pushing intellectual property protection into the WTO.
- ☞ The IMF's policies, in part based on the outworn presumption that **markets**, by themselves, lead to efficient outcomes, failed to allow for desirable government interventions in the market which can make everyone better off

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APPLE, GOOGLE AND STIGLITZ: THE PROBLEM OF MULTINATIONAL CORPORATE TAX AVOIDANCE

- ☞ Globalization has made us increasingly interdependent.
- ☞ MNCs are the big beneficiaries of globalisation. **Multinationals** have learned how to exploit globalization in every sense of the term – including exploiting the tax loopholes that allow them to evade their global social responsibilities. Big corporates are gaming one nation's taxpayers against another's.
- ☞ It is time the international community faced the reality: we have an unmanageable, unfair, distortionary **global tax regime**. It is a tax system that is pivotal in creating the increasing inequality that marks most advanced countries today!

☞ <http://www.guardian.co.uk/commentisfree/2013/may/27/globalisation-is-about-taxes-too>

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JOSEPH E. STIGLITZ ON THE IMF...

- ☞ When crises hit, the IMF prescribes outmoded, inappropriate, if standard solutions, without considering the effects they would have on the **people** in the countries told to follow these policies.
- ☞ No discussions of the consequences of alternative policies. Ideology guides policy prescription. IMF structural adjustment policies worsen **poverty**.
- ☞ There is no Wall Street or IMF conspiracy. There is ideology at work and antidemocratic policy-making.

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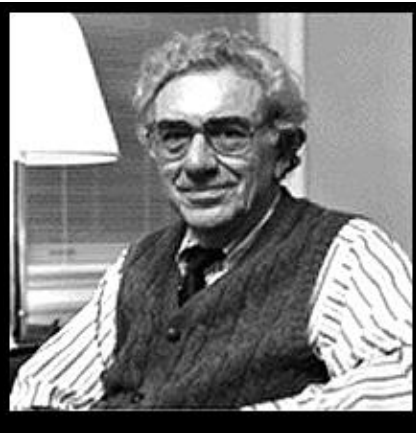
THOMAS FRIEDMAN:

GLOBALIZATION, THE LEXUS AND THE OLIVE TREE (2000)

- ☞ He dramatizes the conflict of "the Lexus and the olive tree" – the tension between the globalization system and ancient forces of culture, geography, tradition, and community.
- ☞ He also details the powerful backlash that globalization produces among those who feel brutalized by it
- ☞ Against the « Washington consensus »: the « golden straitjacket » sums up today's neoliberal orthodoxy : countries should privatise state-owned enterprises, maintain low inflation, reduce the size of government, balance the budget, liberalise trade, deregulate foreign investment and capital markets, make the currency convertible, reduce corruption and privatise pensions.
- ☞ All this leads to volatility, social disruption, crises, regional and global recession

http://www.columbia.edu/cu/news/vforum/03/globalization_inequality/index.html

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HYMAN MINSKY

(1919-1996)



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MINSKY AND THE *RECURRING* FRAGILITY OF FINANCIAL STRUCTURES

- ☞ Economic stability begets speculation, which begets a rift between asset prices and output prices, which begets economic volatility, credit contraction and the need for central bank intervention.
- ☞ **Crisis cycles:** economic stability itself encourages and nurtures excessive credit creation, leading to financial instability and speculative euphoria, then credit restraint and contraction and, finally, economic contraction and volatility

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MINSKY WEALTH EFFECT AND DEBT CRISIS?

- ☞ Prolonged economic stability encourages deregulation + financial innovation + debt accumulation = higher leverage, leading to liquidity and solvency crisis

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MINSKY'S THREE STAGES OF A FINANCIAL CRISIS

1. **Hedge finance** = debt is typically a small proportion of liabilities and readily renewable because of the adequacy of cash flows in relation to contractual payments.
2. **Speculative finance** = future cash flows < payment commitments, but the present value of expected cash receipts is greater than that of payment commitments. Need to keep issuing new debt to finance maturing debt commitments.
3. **Ponzi finance** = Ongoing need to raise ever greater amounts of debt to finance all commitments and to repay principal or even debt service. Asset values will collapse with serious deflationary consequences and damaging implications for the economy.

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BENOIT MANDELBROT

(1924-2010)



- ☞ **Markets are not rational nor self-regulating!**
- ☞ World of winner take-all : extreme wealth concentration.
- ☞ The economic world is driven primarily by random jumps. Yet the common tools of finance were designed for random walks in which the market always moves in baby steps. Despite increasing empirical evidence that concentration and volatility better characterize market reality, the reliance on the bell-shaped curve still prevail
- ☞ The global market economy has become an echo chamber leading to contamination and spill-over effect: volatility breeds volatility
- ☞ 1970s-80s: Fractal geometry: a new analytical tool for predicting and managing crisis

(Mis)Behavior of Markets

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THE « FRENCH SCHOOL »

☞ **F. Braudel**

☞ **R. Aron**

☞ **M. Foucault**

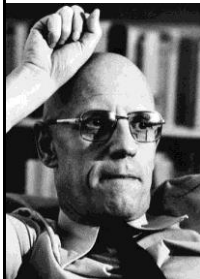
☞ **P. Bourdieu**

☞ **C.A. Michalet**

☞ **B. Stiegler**

☞ <http://www.youtube.com/watch?v=Z3UwC5omnce>

☞ **T. Piketty**



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THOMAS PIKETTY: INCOME INEQUALITY AND WEALTH DISTRIBUTION IN XXI^o CENTURY CAPITALISM

- ☞ Marx: capital accumulation leads to wealth concentration
- ☞ Kuznets: growth, competition, and technological progress lead to reduced inequality and greater social harmony
- ☞ Piketty: rate of return on capital (r) $>$ overall growth rate of output (g), hence rising ratio of capital/income, reflecting the rising size of countries' total wealth stock relative to the income generated ($K = 5 \times Y$)

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