

The argument for globalization worthy of support

BY ROBIN HAHNEL
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If neither the neoliberal globalization peddled by establishment political parties, nor xenophobic protectionism preached by right wing populists like Donald Trump is the answer, what kind of international economic program would serve the interests of the vast majority?

It is important to make two things clear at the outset: Only when a greater international division of labor increases global productivity should we allow it to happen: And when there is an efficiency gain from globalization it must be distributed so as to reduce inequality between and within countries.

Because if in our haste to compete against right-wing populism we search for a program which benefits only workers in more developed countries we will unnecessarily betray fundamental principles of fairness and lose global allies.

Fortunately, the global economy can be reorganized to benefit majorities in both more and less developed countries.

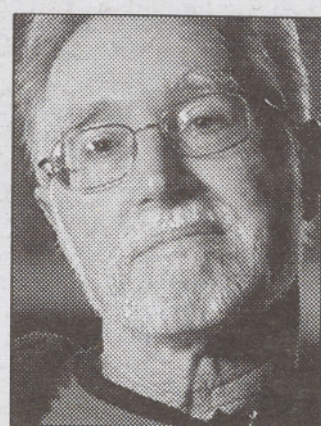
It is also important to focus attention where it is most needed:

International finance and direct foreign investment are far more responsible for current problems than international trade. Reformers need to focus on these culprits and not be distracted by the media and politicians who invariably frame the discussion as a debate about trade policy.

Over a 30-year period the U.S. government weakened and removed regulations on the mortgage industry, the insurance industry, the rating industry, and the banking industries in the US. The financial crisis of 2008 which spread from the US to Europe was the predictable result. And just as the financial crisis of 1929 triggered the "Great Depression" of the 1930s, the financial crisis of 2008 triggered the "Great Recession" from which Europe has yet to recover.

Safeguards put in place after World War II to prevent international financial crises, however, they were eliminated when the finance industry was deregulated. So restoring prudent regulation of international as well as domestic finance before another crisis erupts is the first order of business.

Properly regulated, the financial industry can provide a useful service and help the real economy perform better. But when unregulated, the financial industry becomes the tail that wags the dog – to its own delight, but to the detriment of the dog.



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Unfortunately, as we discovered in 2008, the dog is the real economy where the rest of us live and work. Similarly, when properly regulated, international financial investment can promote global efficiency gains. But when left to its own devices theory predicts – and experience confirms – that international debt and currency crises will follow. The historic task of the IMF when founded was to help country governments regulate and manage international financial capital flows so as to avoid debt and currency crises. Unfortunately beginning in the 1980s, the IMF, at the insistence of the U.S. Department of the Treasury, has pressured countries to abandon capital controls. Unless new capital controls suitable to 21st century conditions are established, we will continue to live in fear of the next international financial crisis.

When capital is free to pick up and move plant and machinery to any country where wages are lower – while labor is not free to migrate to any country where wages are higher – labor is put in an untenable

bargaining position: Do you want to keep your job? Then sign a contract for lower wages and benefits.

Capital has always been more mobile than labor, but neoliberal globalization has magnified the difference. In the mid-20th century when unions were organizing workers in the Northeast and Midwest, they only had to worry about companies picking up and moving to the South where there were no unions and wages were lower. Now unions anywhere in the U.S. must worry that if they do not capitulate to employer ultimatums, companies that are even more footloose will pick up and move to Mexico or China where wages are even lower than the depressingly low U.S. minimum wage.

On Dec. 1, less than a month after becoming president-elect, Donald Trump announced to great fanfare that he had met with Carrier, a unit of United Technologies, and convinced them to keep 1,100 jobs in Indiana that they had previously scheduled to move to Mexico. The number of jobs saved turned out to be only 730 as 1,873 jobs were still lost, and the concession to keep 730 jobs in Indiana was made only after the state of Indiana, where Vice President-elect Mike Pence was still governor, promised Carrier an additional tax break of \$7 million. One has to wonder if the 730 who kept their jobs would not have preferred to simply receive a payoff of \$96,000 each (\$7,000,000 divided by 730)!

But it was not improper for a U.S. president to try to intervene to save American jobs. The problem was that Trump's claims of success were over exaggerated and deceptive. The problem was that what he achieved was a drop in the bucket rather than a systematic approach to saving significant numbers of jobs. The problem was that it was merely a publicity stunt by our self-declared "great negotiator."

The Carrier gas furnace plant in Indianapolis, Indiana was the center of global regulation arguments when President-Elect Donald Trump said he saved the jobs from moving to Mexico. Carrier is in the process of moving the production and most of the jobs to Mexico, but did preserve around 800 positions after receiving \$7 million in tax breaks from the state.

As long as capitalism is with us, the only solution to this problem is to erect barriers to deter companies from changing location when they are already earning a reasonable rate of return and moving would be detrimental to the communities where they are located.

At a fundamental level this means challenging the notion that stockholders should always be free to do whatever they wish. This means distinguishing between a legitimate rate of return and the notion that any rate of return one can achieve is what is fair and legitimate and beyond challenge or rebuke.

In the case of monopolies it is an established economic principle that if left to do as they please, stockholders would charge prices and enjoy profits that are unwarranted and unfair. The accepted response is regulation, where regulators restrict prices to yield a fair rate of return lower than what the monopoly would otherwise achieve. We must make the same case about large employers in our communities. If leaving would seriously damage communities where they operate, and if they are making a reasonable rate of return, they should not be free to take advantage of their greater mobility to move abroad to earn an even higher rate of return elsewhere.

Just as federal legislation requires an environmental impact review, we can pass legislation that requires a community impact review when companies wish to move operations abroad. Nor is there anything preventing the federal government from passing legislation to authorize a division of the Justice Department to monitor and prosecute U.S.-based firms which want to move plants abroad, just as the anti-trust division of the Justice Department monitors and prosecutes firms for price fixing.

This is the second in a series of columns addressing the economics of globalization. You can read the others as they are published at news.streetroots.org.



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