Globalization and Egalitarian Redistribution

Pranab Bardhan, Samuel Bowles and Michael Wallerstein (Editors),
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Are pro-poor redistributive policies feasible in an increasingly integrated global market economy? That is the key question posed in *Globalization and Egalitarian Redistribution*. It is certainly a timely question. A recent United Nations University report reveals, for example, that the richest one percent of adults in the world owned 40 percent of global household wealth in 2000 – and that 64 percent of these adults lived in the United States and Japan. Meanwhile, the bottom 50 percent of the world's adults owned barely one percent of global assets. [1] Not only does the book investigate an important issue, but also many of its talented authors have made major contributions to left scholarship over the years. The book therefore arouses a keen interest and high expectations.

The book's principal conclusion is that globalisation does not rule out egalitarian redistributive reforms at the national level, provided such reforms also enhance productivity or at least do not lower the after-tax rate of return on capital. Reforms that have the effect of lowering returns to (financial, physical, and intellectual) capital are likely to fail, according to the book's editors, owing to capital's exit option in an open global economy. Although this conclusion provides some comfort to egalitarians, it also raises doubts as to how substantial such redistributive policies are likely to be and whether all their costs and benefits are calculable in advance.

Yet there are two deeper problems in the book's approach – at least in the chapters that relate to redistribution in the global South, the focus of this review. First, the analysis of 'globalisation' – what might, more precisely, be designated *neoliberal* globalisation – is quite superficial. [2] If the dynamics of globalisation generate increasing inequality, as appears likely, then those concerned with egalitarian redistribution cannot restrict their purview to the national and local levels. Global institutions must also be called into question. Second, politics and power relations are central to the success or failure of egalitarian redistribution. Rarely are such matters as land redistribution, the recognition of union rights, or the establishment of tax-supported universal social programmes governed merely by economic calculation of potential productivity effects or returns on capital. Instead, politics matters intensely, especially the autonomous organisation of the poorer classes in defence of their own interests. Even though half of the 16 authors are political scientists or sociologists, a focus on the politics of redistribution is largely lacking – if, by politics of redistribution, we are referring to a close analysis of political relations involving the grassroots.

Is global economic integration linked to growing inequality and, if so, what feasible changes in global institutions are required to reverse this tendency? In the book, globalisation is treated largely as a given, something to which people, communities and countries must adapt. Although the book's 16 authors are not of one mind, the general thrust is a benign view of globalisation. The editors' Introduction asserts that 'most of the economic constraints facing the poor in low and middle-income countries have little to do with globalisation and much to do with domestic institutions. Insofar as globalisation matters, the poor in the Third World suffer from too little rather than too much' (p. 6). It is certainly true, as Pranab Bardhan observes, that the rich countries' trade barriers and producer subsidies reduce the returns to developing countries of international trade, and thereby perpetuate poverty. In these instances, therefore, more global integration, effected by reducing these trade barriers and subsidies, would generate greater returns to the countries of the global periphery (though not necessarily to the poor). But unwarranted trade barriers are only part of the larger story of how the power dynamics of neoliberal globalisation generate inequality. Global markets, as Nancy Birdsall puts it, are 'inherently disequalizing.' [3]

It is unlikely to be coincidental, for instance, that income distribution in the United States perfectly tracks the waxing and waning of free-market economics. In the 1920s' 'gilded age' of speculative markets, the top one percent of taxpayers accounted for a high of 18 percent of national income. This share fell during the era of the regulatory state (the war and the Keynesian aftermath) to about eight percent. It then rose again during the triumph of neoliberalism from 1980 onwards; by 2004, the top one percent of taxpayers earned 16.5 percent of national income. [4] The 1990s and after represent a new 'gilded age' in the United States, as in many other countries.

The global market economy augments income inequality in three ways. [5] First, markets reward those economic agents that control assets in high demand, while penalising those that lack them. For individuals and firms, the assets that count are capital and knowledge. For countries, high competitiveness depends on such things as social peace, sound and stable institutions, the rule of law, modernised infrastructure, and a pool of highly educated workers. Second, the volatility of unregulated markets, especially financial markets, can produce financial collapses as investors panic and flee a country. Such crises – as in Mexico in 1994, East Asia in 1997-8, Brazil and Russia in 1998, and Argentina in 2001 – plunge many citizens into poverty and exacerbate income inequalities. Both of these effects are the spontaneous consequences of unregulated markets and, as such, might be considered legitimate (or inevitable) outcomes that, at least, encourage adaptive behaviour on the part of individuals, firms, and national governments.

The third way in which global markets buttress inequality is illegitimate: the application of preponderant political power by dominant economic agents to purposely and systematically skew the rules of competition in their favour. This political dimension obtains at both the international and intra-national levels. [6] Internationally, the core countries with high market power shape the rules in trade, investment and intellectual property rights to advance their own interests. *Globalization and Egalitarian Redistribution* acknowledges such international constraints on developing countries as unwarranted developed-country tariffs and subsidies on certain exports and intellectual property rules, but there are others. Robert Wade (among others) argues that 'the main international agreements from the Uruguay Round – TRIPS, TRIMS and GATS – systematically tip the playing field against developing countries,' and that 'the rules being written into multilateral and bilateral agreements actively prevent developing countries from pursuing the kinds of industrial and technology policies adopted by the newly developed countries of East Asia, and by the older developed countries when they were developing.' [7] If this is so, these global institutions warrant critical attention from scholars investigating egalitarian redistribution.

Globalisation also reflects shifts in *national* power balances in favour of capital and its allies. These shifts shape governmental policies and practices that further magnify the power and privileges of these classes within the national space. Several general mechanisms are conducive to this end:

1. The easier and less risky it becomes for capital to move across boundaries, the more credible is the 'exit' option and the greater the leverage of capital vis-à-vis national states, local communities, and employees.
2. The more global integration proceeds, the stronger the corporate case for mergers

on the grounds of 'competitiveness.' But the greater the economic concentration, the greater the national political influence of mega-corporations.

3. The greater the decline in the countervailing power of organised labour – as a result of shrinking industrial employment and/or restrictive labour legislation – the greater the relative power of capital.

A fourth mechanism operates in the case of the countries of the global South. The debt crisis that began in 1982, together with periodic financial crashes facilitated by financial and capital-account liberalisation, have propelled governments into the arms of the International Monetary Fund (IMF), the World Bank and Western donor agencies. All these institutions have been major forces in diffusing neoliberal doctrine to the developing world. In exchange for loans or debt relief, these organisations have required the fulfilment of certain market reforms. Whether to placate investors, to attract the personal or party support of powerful corporations, to acquire official loans and credits, or to satisfy deeply held ideological commitments, governments in the South as well as North have adopted facets of the neoliberal agenda. This agenda includes conservative fiscal and monetary policy, deregulation, privatisation, trade liberalisation, financial and capital-account liberalisation, and 'flexible' labour markets. These policies, in turn, by increasing the relative returns to capital – physical, financial, and intellectual – have underpinned income and asset inequality.

Of these four mechanisms, the authors of *Globalization and Egalitarian Redistribution* focus on the first. Minsik Choi ('Threat Effects of Capital Mobility on Wage Bargaining') examines the leverage that capital mobility affords capital, especially vis-à-vis low-skilled, and therefore immobile, labour. Layna Mosley ('Constraints, Opportunities, and Information: Financial Market-Government Relations around the World') argues that bond markets impose particularly severe constraints on the policy autonomy of governments in developing countries. Bond traders holding the bonds of these countries are wary of the risk not just of inflation (the major consideration in the case of industrial countries), but also of default. They, therefore, scrutinise a wide range of policies and government changes, and react strongly to any portends of defaults. To avoid a sudden, devastating capital flight, governments must stick to a narrow range of conservative policies.

Samuel Bowles and Ugo Pagano, in a bold and imaginative chapter ('Economic Integration, Cultural Standardization, and the Politics of Social Insurance), explore the 'exit' option as it shapes the political dynamics of social insurance. Although they refer to industrial countries, the dynamics they identify apply to developing countries too. Tax-supported social insurance schemes during the Keynesian era, they observe, grew out of particular circumstances: a sense of national solidarity arising from cultural homogenisation and national economic integration, combined with the shared risks associated with a liberal trading system. However, the dynamics changed in the era of globalisation. A globalised capitalism also fosters cultural homogenisation and economic integration, but this time on a worldwide scale. The main division is between the 'cosmopolitans' and the 'provincials.' The cosmopolitans form the main beneficiaries of globalisation. They are the global minority, found in virtually all countries, who have developed both a proficiency in the English language and a common system of meaning, and control a mobile factor of production – capital or scarce skills or knowledge. Provincials, on the other hand, constitute the majority who do not speak the universal language and do not control a mobile factor of production. Being immobile, they demand national social insurance to reduce the risks they face in the context of volatile export and capital markets. This demand brings them into conflict with the cosmopolitans, who do not face the same risks in a global market economy and do not want to bear the high costs of a welfare state. This contestation places social insurance schemes under pressure.

These versions of the exit option lead the book's editors and several of its authors to conclude that egalitarian redistribution remains feasible, but only in those forms that raise productivity or do not lower after-tax profits. Samuel Bowles ('Egalitarian Redistribution in Globally Integrated Economies,' p. 121, 134) contends that even policies that improve wages, employment prospects, and the economic security of the less well-off remain feasible, depending upon domestic political relations. Pranab Bardhan lists, in chapter 1 (pp. 21-2) the sort of policies in developing countries that fit the profile of redistribution with efficiency. These policies, he notes, should be funded through progressive consumption taxes (VAT) rather than taxes on capital or labour. Programs to assist the poor in the global South might include, depending on circumstances: land reform; extension of education and health facilities to the poor; micro-credit schemes; public works programs in hard times; and community management of local environmental resources. This nationally-focused 'redistribution with efficiency' approach makes eminently good economic sense, if globalisation is regarded as either given or benign.

However, if globalisation, irrespective of its potential economic benefits for some classes, systematically reinforces inequalities within countries and between North and South, as earlier suggested, the egalitarian must logically look to redistributive and governance changes at the international as well as the national level. Although some people have benefited from global economic integration, many others have not. It is not plausible simply to blame local institutions and power structures for national-level inequality, when the local and the global are intricately interrelated. If the agreements managed by the WTO – TRIPs, TRIMs, and GATS – do indeed 'tip the playing field against developing countries' as Wade (and others) contend, then an examination of these and other agreements should feature in a discussion of globalisation and redistribution. There are, also, grounds for considering reforms of global governance, especially of the World Bank, IMF, and WTO. These reforms would augment their democratic character and provide greater representation for the developing world, in the expectation that the organisations' negotiations and operations would serve broader interests than currently. And such widely discussed reforms as a Tobin tax on currency transactions, with the proceeds to be invested in poverty reduction or ecologically sustainable technologies in the global periphery, might find a place in such a book. Although it is obvious that none of these international reforms is feasible in the immediate future, a book on egalitarian redistribution that ignores them omits much of the story of redistributive change in today's world. Tackling vast inequalities in a globalised world requires a long-term strategy.

Not only does the book give short shrift to the disequalising consequences of neoliberal globalisation, it also underplays the politics of redistribution. The authors pay little attention to how the less well-off classes protest inequities and organise themselves to demand asset redistribution, access to health and educational services, and a modicum of economic security. Perhaps the book's predominant deductive model-building method does not readily incorporate the messy and contingent world of grassroots politics: of workers, peasants, small farmers, the heterogeneous urban poor, and the lower-middle classes. To bypass this part of the story, however, is to miss what is surely the key impetus to egalitarian redistribution at the national level.

To assert the feasibility of egalitarian policies that also raise productivity is to affirm that a rational economic approach to redistribution can still prevail. But will what is desirable and possible actually happen? Politics makes the difference. For example, several of the book's authors contend that even land reform is not ruled out by globalisation. It is widely accepted that land reform, if it breaks up large landholdings and redistributes land to smallholders, is economically rational in raising land productivity. But in the process the large and generally powerful landholders lose their power and privilege. So they resist land reform. It is usually only when peasants and landless agricultural workers organise themselves for political action, and attract the support of left-of-centre parties or guerrilla groups, that land redistribution happens. Also redistribution, in the form of improved educational and health facilities, or basic union rights, or social insurance, is a rational strategy in building national competitiveness in high value-added products and services. Yet corporations in the business of exporting agricultural products, textiles, or clothing will resist this new approach, as they depend on cheap, docile, and unskilled labour. Whether a government pursues the enlightened strategy depends on the balance of political forces, a balance that is not independent of global actors. Social-democratic governments, attuned to the pressure of organised workers and left-of-centre parties, have been particularly effective in achieving this transition in the developing world. [8]

One would expect the chapter on 'Social Democracy as a Development Strategy' (by Karl Ove Moene and Michael Wallerstein) to analyse the political feasibility of a strategy of redistributive reform in the developing world. However, it does not do so. Instead, it develops a model of social democracy based on the experience of the Nordic countries. It argues that wage compression, sustained by centralised wage-setting institutions, is the central social-democratic policy; that such compression would be as beneficial in Brazil or India as it has been in the Nordic countries; and that the conditions widely assumed to have facilitated the Nordic model – consensus, homogeneity, and affluence – are *products*, not preconditions, of social democracy. So far, so good. Only the first of these propositions is suspect: why is it necessary to identify the Nordic model only with wage compression? Social democracy is a complex phenomenon that includes: the supply of high-quality services to all as a right of citizenship; generous and universal social insurance to socialize various risks; active labour-market policies; and a state that orchestrates incentives to entice investors into industries generating 'good' jobs, in addition to wage compression.

More importantly, the authors have very little to say about the politics that might sustain this development strategy in the global South. Their concentration on the Nordic model and deductive model-building probably accounts for this lacuna. They conclude, on very little basis, that the political feasibility of wage compression in the developing world is 'open to doubt.' But such a broad conclusion is not very useful. Does it mean that a social-democratic path is unlikely in all countries of the global south? Are there not examples of social democracy there? Surely, one needs to begin by distinguishing the conditions that led to social democracy in Europe, and explore whether these, or similar, conditions are present in certain developing countries. This approach would allow one to conclude that the social-democratic strategy is more likely in certain categories of countries, and certain circumstances, than others. Or one might study existing social democracies in the global periphery – such as Kerala (India), Costa Rica, Mauritius, and Chile – to see what their experiences hold in common. Either approach would allow for a more nuanced conclusion about the strategy's political feasibility.

In essence, this book argues that egalitarian reforms that conform to the logic of global capitalism remain feasible. But it does not successfully probe the politics of egalitarian redistribution at either the global or the national level in the developing world. Missing is a sense of the process by which the subordinate classes organise encompassing movements to demand equitable development, and struggle to achieve this goal. Rarefied models distance the reader from the ugly reality of human suffering. Capitalism, red in tooth and claw, is not to be found in these pages.

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Notes

[1] The United Nations University, 2006-7.

[2] The book includes 13 disparate chapters written by 16 authors. I am not suggesting that none of these chapters touch on elements of globalisation as a system. However, the Introduction and Conclusion do not provide the context for understanding the forces that underpin inequality and the sort of political mobilisations that might counter these forces.

[3] Birdsall 2005. For further evidence of the link between global market forces and income inequality see Wade 2001, Cornia and Court 2001.

[4] *New York Times* Nov. 19, 2006.

[5] This paragraph draws heavily on Birdsall 2005.

[6] Birdsall 2005 refers only to the international aspect.

[7] Wade 2003. TRIPS refers to the Agreement on Trade-Related Aspects of Intellectual Property Rights, TRIMS to the Agreement on Trade-Related Aspects of Investment Measures, and GATS to the General Agreement on Trade in Services.

[8] Sandbrook, Edelman, Heller, and Teichman 2007, ch.8.

Why I Choose Nicolas Sarkozy

André Glucksmann

The big surprise of this presidential campaign has already happened. In advance of the vote, the French are undergoing a change in their mentality. Opinion polls vary, and the outcome is anybody's guess, but noticeable everywhere is the rejection of a France trapped in a decrepit sanatorium, susceptible to the same old hospital-acquired infections: self-interest, discrimination, rage, and depression.

Aside from their age, Ségolène Royal and Nicolas Sarkozy have little in common. Both, however, were selected thanks to a current of opinion amongst their respective supporters that rebelled against traditional structures and outmoded doctrines. Voters are no longer simply socialists or Gaullists: these days, you vote for some kind of tough awakening (the so called 'rupture').

During every winter for the last twenty-five years, the homeless people of Paris have frozen. They suddenly appear, their tents blight our gaze, public opinion gets involved and the government does something. But why doesn't it do anything beforehand? Just as in February 1954, the French sense that time is running out. De Gaulle once said that 'it only needed the extraordinary actions of one man for the French to go out onto the streets, but the cold was also necessary. Without the cold, there would have been no Abbé Pierre! ... When France feels the cold, I'll be able to act, too.' A lucid France is feeling cold again: the country is experiencing a Gaullist moment where daring to think (even if it means reconsidering one's own assumptions) and then daring to act is the proper thing to do.

The ideological battle is done. Curiously, it took place on the right. More than a clash of egos, the Sarkozy – Villepin debate was indicative of two visions of France and of the world. In confronting the conservatives, Sarkozy made a clear break from the vacuous part of the right that is so accustomed to hiding behind pious concepts. To take a case in point, he advocates positive discrimination, flouting abstract 'Égalité' in order to stamp out real inequalities deriving from people's skin colour, socio-economic background, or country of origin. Another example: he sets aside public money for building mosques, so adherents of the second biggest religion in France don't have to worship in cellars or in buildings purchased for them by rich fundamentalists. Even if it means offending an established conception