Top Institutions and Economists Now Say Globalization Increases Inequality

World Bank, IMF, BIS, NBER, McKinsey Now Admit that Globalization Increases Inequality

By Washington's Blog
Global Research, August 21, 2017
Washington's Blog 20 August 2017

Region: Asia, USA
Theme: Global Economy, Poverty & Social Inequality

We've all heard that globalization lifts all boats and increases our prosperity…

But mainstream economists and organizations are now starting to say that globalization increases inequality.

The National Bureau of Economic Research – the largest economics research organization in the United States, with many Nobel economists and Chairmen of the Council of Economic Advisers as members – published, a report in May finding:

> Recent globalization trends have increased U.S. inequality by disproportionately raising top incomes.
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> Rising import competition has adversely affected manufacturing employment, led firms to upgrade their production and caused labor earnings to fall.

NBER explains that globalization allows executives to gain the system to their advantage:

> This paper examines the role of globalization in the rapid increase in top incomes. Using a comprehensive data set of thousands of executives at U.S. firms from 1993-2013, we find that exports, along with technology and firm size, have contributed to rising executive compensation. Isolating changes in exports that are unrelated to the executive's talent and actions, we show that globalization has affected executive pay not only through market channels but also through non-market channels. Furthermore, exogenous export shocks raise executive compensation mostly through bonus payments in poor-governance settings, in line with the hypothesis that globalization has enhanced the executive's rent capture opportunities. Overall, these results indicate that globalization has played a more central role in the rapid growth of executive compensation and U.S. inequality than previously thought, and that rent capture is an important part of this story.

A World Bank document says globalization "may have led to rising wage inequality". It notes:

> Recent evidence for the US suggests that adjustment costs for those employed in sectors exposed to import competition from China are much higher than previously thought.
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> Trade may have contributed to rising inequality in high income economies….

The World Bank also cites Nobel prize-winning economist Eric Maskin's view that globalization increases inequality because it increases the mismatch between the skills of different workers.

A report by the International Monetary Fund notes:

> High trade and financial flows between countries, partly enabled by technological advances, are commonly cited as driving income inequality…. In advanced economies, the ability of firms to adopt laborsaving technologies and offshoring has been cited as an important driver of the decline in manufacturing and rising skill premium (Feenstra and Hanson 1996, 1999, 2003) ….
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> Increased financial flows, particularly foreign direct investment (FDI) and portfolio flows have been shown to increase income inequality in both advanced and emerging market economies (Freeman 2010). One potential explanation is the concentration of foreign assets and liabilities in relatively higher skill- and technology-intensive sectors, which pushes up the demand for and wages of higher skilled workers. In addition, FDI could induce skill-specific technological change, be associated with skill-specific wage bargaining, and result in more training for skilled than unskilled workers (Willem te Velde 2003). Moreover, low-skill, outward FDI from advanced economies may in effect be relatively high-skilled, inward FDI in developing economies (Figini and Görg 2011), thus exacerbating the demand for high-skilled workers in recipient countries. Financial deregulation and globalization have also been cited as factors underlying the increase in financial wealth, relative skill intensity, and wages in the finance industry, one of the fastest growing sectors in advanced economies (Phillipon and Reshef 2012; Furceri and Loungani 2013).

The Bank of International Settlements – the "Central Banks' Central Bank" – also notes that globalization isn't all peaches and cream. The Financial Times explains :

> A trio of recent papers by top officials from the Bank for International Settlements goes further, however, arguing that financial globalisation itself makes booms and busts far more frequent and destabilising than they otherwise would be.

McKinsey & Company notes:

> Even as globalization has narrowed inequality among countries, it has aggravated income inequality within them.

The Economist points out:

> Most economists have been blindsided by the backlash [against globalization]. A few saw it coming. It is worth studying their reasoning ….
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> Branko Milanovic of the City University of New York believes such costs perpetuate a cycle of globalisation. He argues that periods of global integration and technological progress generate rising inequality ….
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> Supporters of economic integration underestimated the risks … that big slices of society would feel left behind ….

The New York Times reported:

> Were the experts wrong about the benefits of trade for the American economy?
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> Voters' anger and frustration, driven in part by relentless globalization and technological change [has made Trump and Sanders popular, and] is already having a big impact on America's future, shaking a once-solid consensus that freer trade is, necessarily, a good thing.
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> "The economic populism of the presidential campaign has forced the recognition that expanded trade is a double-edged sword," wrote Jared Bernstein, former economic adviser to Vice President Joseph R. Biden Jr.
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> What seems most striking is that the angry working class — dismissed so often as myopic, unable to understand the economic trade-offs presented by trade — appears to have understood what the experts are only belatedly finding to be true: The benefits from trade to the American economy may not always justify its costs.
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> In a recent study, three economists — David Autor at the Massachusetts Institute of Technology, David Dorn at the University of Zurich and Gordon Hanson at the University of California, San Diego — raised a profound challenge to all of us brought up to believe that economies quickly recover from trade shocks. In theory, a developed industrial country like the United States adjusts to import competition by moving workers into more advanced industries that can successfully compete in global markets.
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> They examined the experience of American workers after China erupted onto world markets some two decades ago. The presumed adjustment, they concluded, never happened. Or at least hasn't happened yet. Wages remain low and unemployment high in the most affected local job markets. Nationally, there is no sign of offsetting job gains elsewhere in the economy. What's more, they found that sagging wages in local labor markets exposed to Chinese competition reduced earnings by $213 per adult per year.
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> In another study they wrote with Daron Acemoglu and Brendan Price from M.I.T., they estimated that rising Chinese imports from 1999 to 2011 cost up to 2.4 million American jobs.
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> "These results should cause us to rethink the short- and medium-run gains from trade," they argued. "Having failed to anticipate how significant the dislocations from trade might be, it is incumbent on the literature to more convincingly estimate the gains from trade, such that the case for free trade is not based on the sway of theory alone, but on a foundation of evidence that

illuminates who gains, who loses, by how much, and under what conditions."

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> The case for globalization based on the fact that it helps expand the economic pie by 3 percent becomes much weaker when it also changes the distribution of the slices by 50 percent, Mr. Autor argued.

And Steve Keen – economics professor and Head of the School of Economics, History and Politics at Kingston University in London – notes:

> Plenty of people will try to convince you that globalization and free trade could benefit everyone, if only the gains were more fairly shared. The only problem with the party, they'll say, is that the neighbours weren't invited. We'll share the benefits more equally now, we promise. Let's keep the party going. Globalization and Free Trade are good.
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> This belief is shared by almost all politicians in both parties, and it's an article of faith for the economics profession.
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> It's a fallacy based on a fantasy, and it has been ever since David Ricardo dreamed up the idea of "Comparative Advantage and the Gains from Trade" two centuries ago.
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> [Globalization's] little shell and pea trick is therefore like most conventional economic theory: it's neat, plausible, and wrong. It's the product of armchair thinking by people who never put foot in the factories that their economic theories turned into rust buckets.
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> So the gains from trade for everyone and for every country that could supposedly be shared more fairly simply aren't there in the first place. Specialization is a con job—but one that the Washington elite fell for (to its benefit, of course). Rather than making a country better off, specialization makes it worse off, with scrapped machinery that's no longer useful for anything, and with less ways to invent new industries from which growth actually comes.-
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> Excellent real-world research by Harvard University's "Atlas of Economic Complexity" has found diversity, not specialization, is the "magic ingredient" that actually generates growth. Successful countries have a diversified set of industries, and they grow more rapidly than more specialized economies because they can invent new industries by melding existing ones.
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> Of course, specialization, and the trade it necessitates, generates plenty of financial services and insurance fees, and plenty of international junkets to negotiate trade deals. The wealthy elite that hangs out in the Washington party benefits, but the country as a whole loses, especially its working class.

Some Big Companies Losing Interest In Globalization

Ironically, the Washington Post noted in 2015 that the giant multinational corporations *themselves* are losing interest in globalization… and many are starting to bring the factories back home:

> Yet despite all this activity and enthusiasm, hardly any of the promised returns from globalization have materialized, and what was until recently a taboo topic inside multinationals — to wit, should we reconsider, even rein in, our global growth strategy? — has become an urgent, if still hushed, discussion.
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> Given the failures of globalization, virtually every major company is struggling to find the most productive international business model.
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> Reshoring — or relocating manufacturing operations back to Western factories from emerging nations — is one option. As labor costs escalate in places such as China, Thailand, Brazil and South Africa, companies are finding that making products in, say, the United States that are destined for North American markets is much more cost-efficient. The gains are even more significant when productivity of emerging countries is taken into account.
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> Moreover, new disruptive manufacturing technologies — such as 3-D printing, which allows on-site production of components and parts at assembly plants — make the idea of locating factories where the assembled products will be sold more practicable.
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> GE, Whirlpool, Stanley Black & Decker, Peerless and many others have reopened shuttered factories or built new ones in the United States.

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