Funding the Future

Glossary entry: Globalisation

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It was pointed out to me earlier this week that the glossary lacked an entry on globalisation.

The following list makes up for that deficiency.

The related entries on the Washington Consensus (which I might update) and the Tax Justice Consensus are related to this.

Globalisation is the process through which economic activity, political influence, culture, and communication become increasingly integrated across national borders. In economic terms, it describes the chosen growing interdependence of national economies through trade, investment, supply chains, finance, migration, and the international governance arrangements that facilitate them.

It is important to say at the outset that globalisation is not one thing. There is a version of globalisation that reflects the quite ordinary truth that human beings trade, share ideas, travel, cooperate, and learn from each other. That is not controversial, and in many ways is profoundly positive. This has happened for millennia.

But there is another version, that has dominated policy debate since the 1980s, in which globalisation is presented as an unavoidable economic destiny, governed by financialised markets, and in which democratic choice is treated as an inconvenient obstacle. It is this second meaning that matters most in modern political economy, because it is the version that has reshaped labour markets, weakened states, empowered multinational corporations, and entrenched inequality.

In this context, globalisation is not merely a technological phenomenon, nor is it simply the result of container shipping, fibre-optic cables, or the internet. It is, instead, a deliberately chosen political policy. This version of globalisation has been characterised by several related changes.

First, there has been the reorganisation of production. Manufacturing and service activity has been split across borders into complex supply chains designed to minimise cost and maximise profit. This has increased efficiency in some sectors, but has also produced fragility, exposure to external shocks, and the systematic exploitation of regulatory and wage differences between countries. The result has been the weakening of national economic security in many cases, and the transfer of risk to working populations who previously enjoyed relative economic stability.

Second, there has been an expansion of multinational corporate power. The modern multinational is not simply a firm that trades internationally. It is often a structure designed to locate production in one place, sales in another, intellectual property in a third, and taxable profit in a fourth, with the whole arrangement optimised to reduce effective tax rates, weaken accountability, and shift risk away from owners and onto workers and states.

Third, there has been a notable liberalisation of the law and regulations governing capital flows. Globalisation in its late-20th-century form has been defined at least as much by the free movement of capital as it has been by the movement of goods. This has had profound consequences. Mobile capital can be used to either discipline or influence governments, force policy shifts, trigger crises, and demand favourable treatment. It often does so without ever producing anything at all. Tax haven activity is a characteristic of this phenomenon.

Fourth, labour market discipline has been weakened by globalisation, which has been used to create a persistent threat in the form of “accept lower wages and weaker rights or your job will move abroad”. The important point is that this is not only about jobs actually moving. It is also about the bargaining power that comes from the possibility of relocation.

Fifth, globalisation has deliberately been used to weaken democratic choice. Trade treaties, investor protection agreements, privatisation rules, and fiscal constraints have all been used to present core economic policy as non-negotiable. This matters because a society cannot meaningfully be democratic if the most important economic choices are treated as outside the scope of political decision-making.

Globalisation has, as a result, had decidedly contradictory effects. It has contributed to rising incomes in some countries, most notably in parts of Asia, and it has also facilitated the spread of knowledge and the availability of some goods at lower monetary prices. But it has also been associated with:

* Rising inequality in many states.
* Wage suppression and weakened labour rights.
* Asset price inflation (especially in housing).
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Rising corporate concentration and growing monopoly power.

* Increased tax competition between states.
* Recurrent financial crises driven by cross-border capital mobility.
* Disregard for climate-related issues.

What these suggest is that the question is not whether international integration is possible or desirable. The question is on what terms we might wish for it, because globalisation as practised has never been neutral. It has, instead, always been shaped by ideology, and that ideology has been selective as to whom it seeks to favour, with the majority of the world's population being excluded from gain as a consequence. The result has been that from the 1980s onwards, globalisation became closely associated with the belief that:

* The state should withdraw from economic planning.
* Markets should be trusted to allocate resources.
* Labour and environmental regulations are economic distortions.
* Public ownership is inefficient by definition.
* Taxes on wealth and profit are obstacles to growth.
* Capital should move freely across borders.
* Trade should be liberalised regardless of domestic consequences.

This is not simply an interpretation of global economic integration. It is a political programme, and it has a name. It is, in essence, the Washington Consensus, which is the subject of its own glossary entry.

Globalisation is not, in that case, a historically observed phenomenon that has taken a modern form: it is instead a current political choice made to sacrifice the well-being of many in the world to advance the gain of a few. It is, in other words, a political construct intended to distort the allocation of rewards in the world, and it has done so.