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What Might Globalization's Critics Believe?

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Critics of globalization object to many things, some of which can be easily understood within standard economic models, but others of which seem to reflect a view of the world that economists generally do not share. In this paper I attempt to identify several alternative frameworks for analysis within which some of their criticisms may be understood. My ultimate aim, though not achieved in this paper, is to extract testable implications that differ from standard models and that might make it possible to distinguish among them empirically.

One does not need an alternative model to understand several objections to the configuration of the current global economic regime. Economists can easily subscribe to criticisms that industrialized countries have failed to open their markets sufficiently to the exports of developing countries, in textiles and apparel most obviously, but also in their use of administered protection and their agricultural subsidies. Many of us are also critical of the Trade Related Intellectual Property (TRIPs) agreement of the World Trade Organization (WTO), which provides incentive for innovation and creativity at the cost of a massive transfer from poor countries to rich countries. And many trade economists, at least, have become increasingly skeptical of the benefits of unfettered international mobility of short-term financial capital. All of these are objections that appear in at least some of the writings of globalization's critics.

But other criticisms that have been voiced in that abundant literature make little sense in terms of standard economic models. These criticisms mostly seem to be focused on the role of large corporations and on the owners and managers of corporate capital, to whom are ascribed perverse motivations and/or excessive power that the critics believe have enabled them to hold down wages, worsen working conditions, and despoil the environment. These criticisms reflect a view of the world that is clearly different from the economists' standard model of profit-maximizing, price-taking, perfectly competitive firms, and it is not clear that customary allowance for imperfect competition will help much. Thus the need for alternative models to reflect the critics' views.

Three such alternative models are suggested here, all of which focus mainly on the behavior of owners and managers of corporate capital. The first is an "anti-labor model," in which capitalists are willing to sacrifice some of their own profits for the chance to make labor worse off. Adding this assumption to an otherwise standard economic model yields at least two implications that diverge from standard theory. With this anti-labor motivation, firms that have the potential for making profits will choose to employ less labor and produce less output than they would if they were maximizing profit. Potentially observable conditions for profit-maximizing behavior are therefore violated. Second, if such firms experience an exogenous increase in labor productivity, then, subject to an assumption on demand for their product, they will reduce employment when a profit-maximizing firm would increase it.

The second model is a "labor-monopsony model" in which capitalists cooperate globally to increase profits by depressing wages. This assumption, also placed in an

otherwise standard economic model, likewise has implications that distinguish it from both the standard model and the anti-labor model.

The third alternative model discussed here is really more of a suggestion for a class of models rather than a well-formulated model in itself, and I call it an "international political economy model." In it, capitalists use their resources to influence the political process for more than just obtaining import protection, as they would in the standard models of the political economy of trade policy. This third framework has capitalists seeking policies such as export subsidies and other means of promoting market access. It also, more importantly, has them influencing the international negotiations that set the rules of international agreements and organizations, such as the NAFTA and the WTO. Examples of the latter sort of influence are discussed, including the rules of origin and Chapter 11 of the NAFTA, and the TRIPs and GATS (General Agreement on Trade in Services) agreements in the WTO.

Although the paper does not include any formal analysis or testing of these alternative models, attention to these issues has led me to some change in views, or at least in emphasis, regarding globalization. I am less comfortable than before in dismissing my own criticisms of the global system as mere anomalies. And I am now much more attuned than I was before to the role that corporate capital seems to play in setting the rules for the international economy. That role is not necessary bad; corporations have been a powerful forcing in pushing the world economy towards freer trade and open markets, as well as advancing technology and satisfying the needs of consumers. But the self interest of corporations is just that, self interest, and when they exert that influence outside of markets there is no guarantee – no invisible hand – that can be counted on to make that influence beneficial.