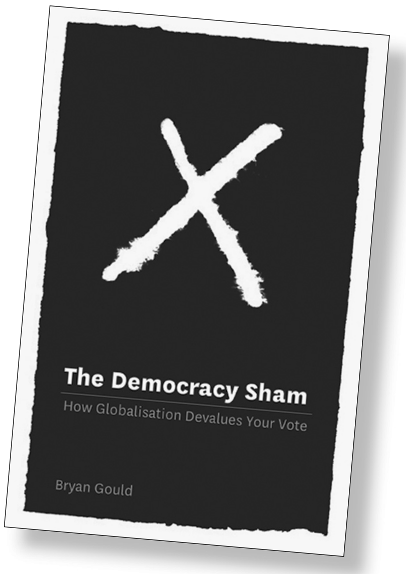
GLOBALISATION, PROGRESS AND POLITICS: BACK TO THE FUTURE



The Democracy Sham: How Globalisation DevaluesYour Vote

by Bryan Gould

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Reviewed by John Goodman

The globalisation 'triumphalists' have been enjoying a good innings in debate. Recently, however, the sceptics have started to claim a few wickets. They say statistics show untrammelled liberal market capitalism has failed to deliver. And stealing some of the triumphalists' own clothes, they say it is hollowing out democracy and dissolving social cohesion.

The interesting and wide-ranging *The Democracy Sham* weighs in for the sceptics. Although it gives a nod from time to time to the achievements of the market, it mainly agrees with criticisms and seeks to compile a more objective balance sheet. It calls for a 'return to Keynes', greater 'nationalism', greater government involvement in the economy and for a new 'Bretton Woods'. Along the way broader questions of destiny are raised: is history, for example, just a 'swing of the pendulum' every forty years? Are people now suffering a kind of existential malaise?

Indeed, the main value of the book lies less in its rational arguments, which don't stand up to scrutiny, than in its capture of a public unease that may be only imperfectly understood. Contemporary writers in other genres have expressed a similar malaise, Thomas Pynchon, among others. Technocrats are apt to be dismissive of such sentiments but politicians cannot be so relaxed. Whatever technocrats think, emotion plays a powerful role in politics, as Julius Caesar, an earlier political rationalist, discovered late.

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The book may be something of a siren call. Nevertheless, as many people may now have little memory of pre-reform New Zealand or of why changes were made, the critique should be answered. It would be a pity if the call were heard, at least without being strapped to the mast.

A more objective balance sheet ...?

It's hard to see the general flavour of the writing in this light. The following is typical:

> Uncertainty has fed on the evidence that economic development has slowed, that essential investment remains sporadic and capricious, that crisis is endemic, and that we are only a heartbeat away from a global crash.[1]

This is simple rhetoric. Rather than identifying real issues, it aims to create certain kinds of emotional attitudes to globalisation and to liberal policies.

... for New Zealand?

Rhetoric creates traps for the unwary, especially with such a general term as 'globalisation'. By most generally accepted measures, New Zealand is not unduly exposed to globalisation. One recent overseas study based on wide cultural and other criteria rates New Zealand at eleventh among nations in terms of exposure to globalisation, below comparable small countries such as Singapore, Switzerland, Ireland and Denmark.[2] On narrower economic criteria, New Zealand would be further down the list. Domestic studies back this view. The New Zealand Institute series, *Dancing with Stars*, awards low marks on the role of trade in the formation of GDP, on inwards and outwards foreign direct investment and the like.[3] In fact, the developments that have probably played the greatest role in shaping contemporary New Zealand have been the domestic reforms of the mid-1980s and modern technology change, although it is admittedly difficult to disentangle the influence of technology from globalisation.[4]

Our key problems are not those of other larger countries. To assume we are like them is apt to overlook the real policy concerns. The global economy—fairly successfully on the whole—has underpinned economic progress since World War II but it continues to be less open than it should be for a small trading country such as New Zealand. On its principal agricultural exports, New Zealand has experienced significant economic disadvantage from defects in the trading system—primarily protectionism, government interventionism and hypocrisy, in major developed country markets. As a consumer of international services, New Zealand has been disadvantaged by the high cost of international transport and financial services. As a knowledge economy, New Zealand has encountered barriers to selling skills in many foreign markets. The natural handicap of geographical isolation has reinforced barriers. The problem for New Zealand is that we have experienced too little globalisation rather than too much.

In setting its face against liberal policies, therefore, *The Democracy Sham* runs counter to New Zealand's strategic choice of seeking progress and economic prosperity through pursuit of an open and rules-based global trading system, which has been a largely bipartisan policy of the last fifty years. This would limit efforts just when they are most necessary. With the rise of prosperous new markets in the region, New Zealand may now, for the first time in its history, be poised to overcome historical disadvantages.

Re-visiting Keynes

This sounds useful but begs the question of which version of Keynes to revisit. According to Alain Minc's recent book, Keynes comes in several modes.[5] The 'leftist' Keynes focuses on raising wages, especially low wages as kind of 'motor' for the economy. In 'nationalist' mode, Keynes gives priority to investment, especially in public infrastructure, by incurring debt now and, with the aid of low interest rates, paying them back out of future revenue and taxes. As 'liberal', he would focus on the lowering of taxes. There is no regard paid to the size of deficits or to exchange rate stability. There is, in short, little on the long term, in which Keynes was famously uninterested. Is this really good enough for New Zealand, a small economy up against long run issues such as protectionism and discrimination? Moreover, given all the different forms of 'Keynes', Minc says it is interesting that the left has tended to claim him as spiritual father while liberals shy well clear. A true son, *The Democracy Sham* keeps the liberal closeted.

Selective readings of history

Urging a return to Keynes because growth was higher during the post-war boom creates an intrinsic puzzle. If the policies were so successful, it may be unclear to the reader why they were ever abandoned. In fact, post-war recovery conditions were exceptional and the good Keynesian years eventually ended in a blind alley—economic uncertainty in the 1960s, stagflation and unemployment in the 1970s. In the mid-1980s, after New Zealand reached the brink of technical bankruptcy, liberal, 'more market' reforms were introduced, aimed at more sustainable long term kinds of growth. After a shaky start, the reforms and later pragmatism have thus far delivered a 'resilient' economy.[6] By contrast, countries that pursued state-directed policies either collapsed or seem about to—think Eastern Europe or, more recently, Thailand, Bangladesh and Zimbabwe.

The quest seems quixotic. For a book with a mission to overturn 'monetarism' as unworkable, the book seems unaware that 'monetarism', introduced in the UK in 1979 and in the US a year later, had been abandoned by 1982 by both countries as unworkable. Since then most developed countries have in fact followed prudent but more pragmatic monetary and/or fiscal policies, some of which might almost be called 'Keynesian'. For example, in the US during the 2001–02 'dot com' crash, when the Federal Reserve pumped money into the economy, and in New Zealand in late 2006–07, when the government was increasing government spending at twice the rate of GDP growth.[7] In advocating greater monetary and fiscal flexibility, the book seems to have missed the day of the race.

Goodbye to all that?

Believers in the progress of economic knowledge and of law are likely to be dismayed at the book's disregard of the last sixty years of experience. The *Fiscal Responsibility Act 1994* (now folded into the *Public Finance Act 1989*) was passed to encourage fiscal prudence by government. But for the book, the Act is 'too prudent' by half. Liberal market policies are damned with faint praise—the only thing they do is 'work' successfully. The book acknowledges the role of law in establishing well-run markets but glides over how vital the protection of legal property rights—and enforcement of duties—are to good governance and to economic development. To paraphrase Churchill's celebrated remark on democracy, the liberal market economy is the worst possible way of organising economic life, until you consider the alternatives.

Has inequality increased around the world?

One view, shared by *The Democracy Sham*, is that globalisation 'tends to lessen inequality among countries and increase it within them.'[8] Another is that rising inequality within countries needs to be offset against an overall rise in wealth for those who have moved from rural poverty to booming cities. Detailed World Bank studies show greater care is needed on both sides of the debate.[9] However, is the latter kind of 'inequality' the same as in previous eras when the economic pie was more static? With dynamic growth, over one billion people globally now enjoy a reasonably advanced lifestyle under the rule of law, a number greater than half the entire world population a hundred years ago.

Has New Zealand society become less cohesive and more unequal?

Strains exist and structural change has clearly produced 'winners' and 'losers'. But it is misleading to suggest the old policies did not have their privileged groups or that returning to them would benefit everyone equally. In the 1980s, New Zealand society was divided along several peculiar fault lines, some of which had to do with the command and control economy to which ordinary New Zealanders were captive. One axis was a subsidised rural and/or import licence-owning elite, another was a protected domestic import substitution industry. Yet another was the distinctive political antagonism generated by 'Muldoonism', a debilitating national divisiveness that the electorate eventually dumped in a landslide in 1984.

Against that background, it could be hard to say New Zealand society has now become less cohesive. New Zealand continues to adhere to policies that seek to combine 'free-ish' markets with a fairly high degree of social justice. One rough check on this is the size of government spending as a proportion of GDP. In the year before the reforms, this was around 50% while in 2006 the OECD put it at 40%, not far behind the 45% for the UK, and above Australia at 34% and the US at 36%. Total government expenditure including state-owned enterprises would be higher again. Social expenditure at current levels should procure extensive public welfare for a long time to come, if money is well spent.

In any case, the real standard of living has generally risen. It is a fallacy that any given monetary level always equates to the same living standard over time. Cheaper and better consumer items such as cars, electronic equipment, foreign films and new foods as well as vastly cheaper services such as international air travel automatically produce improvements.[10] Greater opportunity to live and work abroad has given Kiwis more skills and better aggregate life opportunities while a more cosmopolitan diversity provides challenges and interest at home. The latest rankings of cities on quality of life, globally, bear this out—Auckland and Wellington are in the world's top twelve.[11]

On the fringe

From this point on, *The Democracy Sham* seems more tempted by conspiracy theories involving the IMF and similar bodies than easily fits the realities of international life. The plot is familiar: a internationalising political 'right' pitted against a 'left' that favours 'nationalism' and 'national identity' as 'inescapable guides' to the 'quest of self-determination, self-government and democracy'.[12]

Setting aside the mayhem and murder of many nationalisms, it is true the key parts of the post-war international economic 'system'—the IMF/World Bank and the GATT/WTO—do have broadly common aims: to enhance the opening of markets for trade in goods and services, to ensure the effective functioning of the international payments system and so on. (Equitably, the mandate also aims to assist the development of poor countries through the World Bank, though national aid programmes are also significant for development assistance.) It is also true the ideas owe more to liberal conceptions of the then US Treasury than to Keynes and that there is much ongoing consultation or 'statecraft' between governments, organisations and stakeholders on policy.

But as a glance at the founding treaties confirms, these objectives have been *public* from the beginning. US multilateral leadership in the aftermath of World War II was welcomed (just as its apparent renunciation of such leadership this century has been widely regretted). The main professional complaint one hears is of the 'fragmentation' of the international order, not of its subjugation to a central mind-set, *pensee unique* or conspiracy. Turf wars flowing from institutional and national rivalries may be intense. In a celebrated remark, Mike Moore, a former Director-General of the WTO, once likened that organisation to a car with one engine and 150 brakes. If there's any plot, it's the one in danger of being lost.

Foreign investment is an old, indeed tedious, political football. As a former colony we have always been dependent on foreign capital to develop but the book's rhetoric is designed to make 'dependency' of any sort sound bad. Countries generally see investment as a source of strength, either contributing new capital or adding new enterprise, employment, goods, services, and intellectual stock to the economy and to citizens' lives. In this, New Zealand is in competition with other countries for the same quantum of global capital and, since we have our own multinationals, for investment opportunities abroad.

Developing countries compete keenly too, or would like to. In our own Pacific region, Papua New Guinea has recently gone on record to complain that, because of a lack of investment, 'the economic good times sweeping across Australia, thanks to the boom in mineral prices, have barely touched PNG.'[13] The report, which goes on to list the disincentives to investors there—instability, HIV disease and the like—dispels any notion that foreign investment is 'capricious'.

Have changes made nation states weaker?

It is undeniable that multinationals seek to influence governments on social, fiscal and environmental matters—as the record shows, for the better as well as sometimes for the worse. None of this, however, began with globalisation and nor is it limited to international business. Domestic groups—in industry and in civil society—also pitch for the ear of government. Dialogue is essential for agreement. The bottom line is that negotiations rarely result in governments having to do what they would not need or wish to do anyway.

It makes no sense to attribute greater 'control' to companies than they actually have. Private companies, including large multinationals however large their revenues, 'control' only their own private business assets and their personnel. Governments determine and legislate on all matters of state within their jurisdiction. Presence in the country clearly does not give a private company any 'control' over that jurisdiction, even in the smallest of nation states, although it is likely to give rise to an obligation to pay rates and taxes as well as submit to the local competition watch-dog that referees the rules of the game.

It is true that in some developing countries, creditors have been fickle. Equally, though, it might be thought borrowers have their strengths. Argentina reached settlement with the IMF and private creditors, in part by declining to pay 40% of debt due. Interestingly, this has not seemed to impair their capacity to negotiate further investment. So much for the weakness of governments.

Finally, on the respective roles of the 'left and 'right' in globalisation, the book contains what are usually called delicious ironies. In the Keynesian 1960s, it was the left that advocated 'internationalism' and the right 'nationalism'. In between times, the two have swapped sides but the book seems not to have noticed. *Pensee unique*, anyone?

A new Bretton Woods?

On international prescriptions, there seem to be some good proposals, particularly those on enhanced prudential supervision. There may also be some scope for new regional monetary bodies, although no reason is offered as to why the same countries would do better regionally than they have managed in the IMF. Other ideas entail all the risks we have already lived through. 'Considered devaluations' sounds good but by the early 1970s was a problem because governments entered into competitive devaluations. Fixed exchange rates and capital controls were policies that made it harder to attract investment. No reason is given why such policies would now be rational for New Zealand, a country that seeks further investment.

Is there a malaise?

The Democracy Sham thinks so and the point has to be taken seriously. Even Jeremy Bentham, driest legal philosopher of the dries, knew better and centred himself on 'happiness'. As historian Peter Watson says, the nineteenth century discovered 'individual liberty, in an economic sense, or applied to conscience or opinion … is not the same as true political or psychological liberty.'[14] However, history has moved on from the heyday of socialism. Media polling in early 2007 gives lie to the fear: citizens of our major towns feel well satisfied overall with their lifestyle.[15] Social and economic mobility means many workers are now likely to be middle class owners of property, shares and investments. Indeed, citizens no longer necessarily think that 'government knows best', not a bad sign of political and psychological liberty.

The real questions are whether globalisation is the cause of malaise and/or whether governments, having helped make citizens prosperous, have a duty to make them happy too. Current research into 'happiness' casts a little light but not much. The rich, as Jay Gatsby implied, are happier than the poor, though they have problems of their own. But as *The Economist* has recently reported, it appears that the citizens of rich countries have not necessarily become much happier as they have grown even richer.[16] This is not new. Not quoted by *The Economist* is one early observer of the US, Alexis de Tocqueville, who found in America, 'so many lucky men, restless in the midst of abundance.'[17]

In fact, any malaise may be less a consequence of globalisation than of the human condition. If so, ancient wisdom may need invoking, not government intervention. Man can possess all material things yet not know himself. Aldous Huxley, who knew this, said:

> Progress may perhaps be perceived by historians; it can never be felt by those actively involved in the supposed advance. The young are born into the advancing

> circumstances, the old take them for granted within a few months or years. Advances aren't *felt* as advances.[18]

Much as any local authority, IT manager or, indeed, sitting parliamentarian might confirm, any improvement in anything quickly becomes the benchmark for a new demand.

Conclusion

The Democracy Sham rightly emphasises that globalisation is not a goal in itself, people are. Precisely. For people, New Zealand has overall become a more lively and dynamic place to live and work, with new networks, markets and skilled migrants to add sparkle and variety to local life. *The Democracy Sham* aims to take New Zealand back across the Rubicon. Those who know ferrymen from thereabouts are bound to be concerned.

Endtnotes

1 Gould, *The Democracy Sham*, p 47.
2 AT Kearney & Co, 'The Globalization Index', *Foreign Policy* (November/December, 2006), p 74.
3 David Skilling and Danielle Boven, *Dancing with the stars?* (Auckland: New Zealand Institute, December 2005).
4 Jagdish Bhagwati, 'Technology, not globalisation is driving wages down', *Financial Times*, 4 January, 2007, p 15.
5 For this analysis, I am indebted to Alain Minc, *Une Sorte de Diable. Les Vies de John M Keynes* (Paris: Grasset, 2006).
6 OECD, New Zealand (Paris: OECD, April 2007).
7 Bob Edlin, 'Point scoring as economic policy debate rages', *The Independent*, 14 March 2007, p 13.
8 'Special Report', *The Economist*, 3 February 2007, p 1.
9 Martin Ravaillon, 'Competing Concepts of Inequality in the Globalization Debate', World Bank Policy Research Working Paper 3243 (World Bank: Washington DC, March 2004).
10 Studies that deal only with salary levels and not with changes in purchasing power can be misleading, here as much as in the United States where similar claims of static middle class incomes have been advanced.
11 'The World in Figures', 2007 edition, *The Economist*, p 24.
12 *The Democracy Sham*, p 145.
13 James Regan, 'PNG richer in reserves, but lacking investors', *Dominion Post*, 9 December 2006, p C11.
14 Peter Watson, *Ideas: a History from Fire to Freud* (New York: Phoenix House Ltd, 2006), p 705.
15 'Healthy lifestyle but crime a concern', *New Zealand Herald*, 23 February 2007, p A7.
16 *The Economist*, 23 December 2006, p 13.
17 Alexis de Tocqueville, *De la Democratie en Amerique*, II (Paris: Gallimard, 1840, 1992), p 648.
18 Aldous Huxley, *Eyeless in Gaza* (London: Carroll and Graf Publishers, 1936), p 3.