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Article

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Editorial

The crisis of globalization

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As in recent years, the *European Journal of Economics and Economic Policies: Intervention (EJEEP)* documents key contributions to the latest annual conference of the Forum for Macroeconomics and Macroeconomic Policies (FMM), the 21st, which took place 9–11 November 2017 in Berlin, on ‘The crisis of globalization’. During three conference days more than 400 participants engaged in lively discussions with the presenters of about 140 selected papers in parallel sessions and in three plenaries. Here we document five of the plenary keynotes, supplemented by Tom Palley’s analysis given in a parallel session.

Globalization has been since the 1980s a prominent driver both of real-economic developments and of debates within economics. The impacts of the increasing interconnectedness of countries via goods-and-services trade, but also increasingly via financial ties and labour migration, on both advanced economies and developing countries, have been a source of much controversial debate. In particular, the question of whether globalization is a major factor driving within-country inequality has attracted much research interest.

A number of more recent developments have, however, increasingly led researchers to ask whether globalization has entered a crisis and, maybe, is going into reverse, either gradually or as a result of serious crises. The most obvious trigger for this reflection has, of course, been the global economic crisis of 2008 and subsequent years, which saw shock-waves emanating from the US echoing round the globe, causing substantial economic damage and hardship. The thesis of a globalization crisis is also supported by less immediately visible phenomena, such as declines in world trade growth, leading to a debate as to whether the ever greater division of labour and ever more complex international value-creation chains had reached their apogee. Last but not least, while there has long been a globalization-critical movement on the Left – opposed for example to free-trade deals such as the Transatlantic Trade and Investment Partnership (TTIP) – recent years have seen the rise of economic nationalism on the Right, most dramatically with the election of Donald Trump as US President. But also in Europe, populist forces have gained influence, often by portraying the EU as an agent of globalization, rather than a potential means to address its negative aspects.

The conference as a whole, and particularly the papers documented here, sought to assess how the globalization process can be explained, in which direction it may develop, and which policies are needed to make the global economy beneficial for all.

Jonathan Michie's article makes an important distinction between different forms of globalization. He reminds us that the current free-market form of globalization also characterized the period in the run-up to the First World War. Then, as now, this specific form was not driven solely by technological change but by political choices. He concludes that globalization at large should not be reversed, but that its current specific form can be changed for the better, in particular by pursuing more diverse forms of corporate ownership, by employees, customers and local communities, fostering a more sustainable corporate culture.

Also on the theme of different forms of globalization, but adopting a different perspective, Tom Palley challenges the mainstream view that there have been two globalizations in the modern era and in particular the theoretical interpretations of the recent period. Instead, he provides an alternative 'three globalizations' perspective of the history of the global economy over the past 150 years. Palley argues that the Victorian first globalization and the Keynesian-era second globalization were driven by gains from trade which increased real wages in industrialized countries, whereas the neoliberal third globalization has been driven by the global reconfiguration of production motivated by distributional conflict and aimed at increasing the profit share. He presents a theoretical explanation – 'barge economics' – of the neoliberal third globalization which can explain the changing pattern of foreign direct investment (FDI) flows, the de-industrialization process in the developed economies, the evolution of the US trade deficit, and the capital flow puzzle.

The paper by Jayati Ghosh argues that convergence of developing countries in the world economy has been only limited. In the present economic and political situation it is unlikely that this will change; indeed the situation for developing countries is even likely to deteriorate. World demand stimulation by the US is declining, Europe and Japan are not contributing to global demand and emerging countries such as China are not ready to take over the function of a demand locomotive. Mercantilist policies by countries like Germany, but also demand stimulation that depends on asset price bubbles, make things worse. What is needed for sustainable development is a more domestic demand-driven growth model within the framework of a reformed global governance.

In their paper, Barbara Fritz, Luiz F. de Paula and Daniela M. Prates discuss the policy implications of the international asymmetry in the monetary and financial system. They develop a Keynesian–structuralist perspective on the concept of currency hierarchy. They show that countries with currencies at the bottom of this hierarchy – as is the case for developing countries – have a severely limited space for Keynesian policies that aim at stabilizing and improving macroeconomic developments. They analyse how the policy constraints vary over time and space and depend on certain structures, such as the specific global monetary regime, as well as on domestic institutions and policy variables. Increasing financial globalization tends to amplify the asymmetric effects.

In his paper, Hansjörg Herr also focuses on developing countries, asking why most of them have failed in catching up to the real GDP per capita levels of developed countries. He portrays several factors that impede productivity improvements in developing countries. He shows that neither theoretical approaches to trade nor empirical observations provide a basis for market-based catching-up processes, nor even for trade in global value chains. He concludes that the free-market mechanism, especially in international trade, will reproduce the existing differences in economic development rather than promote harmonization. His approach can explain why development is only possible with

the support of comprehensive regulatory government policies and a change in global governance.

Focusing on advanced capitalist economies, Bruno Amable's article deals with the political-economy implications of globalization. It argues that globalization neither automatically leads to a uniform variety of neoliberal capitalism, nor does it result in a more pronounced specialization of coordinated and liberal market economies. Instead, a richer analysis needs to include the dynamics of the socio-economic model, the dominant 'social bloc', the political forces, and public policies. Inequality can be an important driver in forming a new dominant social bloc that can explain the emergence of a neoliberal regime in a country's institutions.