Debating globalisation and finance for development

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FOR THOSE AFFLICTED with the ability to see shades of grey, the globalisation 'debates' can be enormously frustrating and perplexing. Entrenched interests on both sides slug it out with tired slogans and endless papers, speeches, meetings and marches.

Here, I want to discuss some possible ways of strengthening the quality of the debates on globalisation and how some of these injustices can be addressed.

1. Avoid the genetic fallacy

In philosophy, the genetic fallacy is the logical mistake of dismissing an argument simply because of where it comes from, rather than considering it on its own merits. Try: 'Well what would you expect from the IMF?', or alternatively: 'Here they go again–they wouldn't know a cointegrating vector if it hit them in the face, and they presume to question us!'

I fear a lot of the debate is conducted in this manner. Some in the global institutions don't listen to the protestors because they think all they're offering is a clamorous mess of poorly articulated arguments. Some of the protestors won't listen to anyone in a suit who's 'sold out' to the demon capitalism. Both sides suffer as a result.

Of course, we must be guarded and check our information. But in an age of information overload, the temptation to listen only to those views that agree with ours is very great indeed. The issues are complex–maybe we can learn some things from our opponents too.

Technocrats have a particular responsibility here. Nobel-prize winning economist Amartya Sen made an important point in a speech in Melbourne when he said that the anti-globalisation protestors don't have to be able to articulate a clear, alternative vision for their protests to be legitimate. Pointing to the problems and injustices in the current system is an important service.

The legitimate challenges the protestors raise should not be disingenuously side-stepped simply because they may not understand the technical nuances. The stories and experiences of grass-roots activists can reflect important local realities in a way that aggregate statistics and cross-country regressions simply can not.

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2. Articulate your theory of wealth creation

One of the striking features of the anti-globalisation movement is its strong anti-corporate streak. This is hardly surprising. The three biggest corporations have revenues exceeding the GDP of sub-Saharan Africa. Their power is growing and national laws often are weak. Some corporations also misuse their power terribly, with abuses ranging from the violation of local labour, tax and environmental laws, to spending millions manipulating the public with slick PR campaigns.

Even so, surely there are also some benefits from the globalisation of business as well? The growing density of knowledge networks? The greatly reduced real costs, and increased variety of basic goods for millions of people? The spread of technology and technical expertise?

Clearly, the appropriate role of corporations is a divisive issue, and one of the fundamental issues underlying this division is conflicting understandings of wealth creation. Two extremes are false:

First, there is the assumption that wealth comes only through the exploitation of others–so if you're rich, it's only because you made someone else poor. This zero-sum labour theory of value assumes that those providing the capital (the 'capitalists') and the ideas–and who assume much of the risk–provide nothing. This is much too simplistic. New wealth–real wealth–arises from a complex mix of ideas, capital, labour, land, entrepreneurship, risk-taking, natural resources, technology and tastes.

Second, from the 'all tax is theft' lunatics, we have the view that wealth is created purely though *my* hard work, *my* entrepreneurship and the smart use of *my* private property. They forget, of course, the embedded social nature of institutions, infrastructure and specialisation, and the gifts of health, intelligence, and opportunity, which make wealth-creation possible.

Neither extreme serves us well. Let's have a more serious debate about how wealth is created. Without it, our calls for greater redistribution will be dismissed with vapid rhetoric about the need to 'grow the pie not divide the pie'–and business's pleas for understanding will be drowned out with slogans and megaphones.

But let's also be sure to look carefully at where wealth and jobs are being created most. Is it really in the few thousand biggest corporations, who have been laying off staff at an astonishing rate since the economic downturn began? Or is it in the millions of small businesses, farms and corner stores that wield little power in national capitals, but which are in fact the backbones of our economies?

3. Ask to see their cost-benefit analysis

As any economist worth her salt knows, the important question to ask of any project or policy is not just its accounting price, but its opportunity cost. What does it cost us in real terms to use resources in this way, foregoing another possible use? Likewise, the important prices to consider in a cost-benefit framework are not just market prices, but what are termed 'shadow prices.' Shadow prices attempt to capture these opportunity costs, and 'externalities'–the good and bad things that market prices just don't capture, like the real costs of pollution or forest destruction. Often, of course, you can't put a real figure on some of these things, but it's important to describe and articulate them in detail and weigh their significance as best we can.

Ask about the assumptions

So, when economists try to snow you with policy recommendations based on particular models or simple accounting frameworks, ask them about the assumptions. Get them to articulate them. Ask to see their cost-benefit analysis. Ask how they decided on that particular discount rate, and how they determined the distributional weights to decide whether or not a dollar is worth the same to a millionaire as to a poor farmer. Oh, they've assumed all people value an extra dollar equally? How interesting. Ask about how they evaluated the externalities. Are they using shadow prices that incorporate social, environmental and opportunity costs, or are they simply using market prices? Ask if their model is static or dynamic. And, about that government budget deficit they're criticising–have they adjusted for inflation? For asset sales? For the stage of the economic cycle? Are they classing primary health and education spending as current expenditure (bad) or an investment in human capital and therefore a capital expense (good)?

The questions are endless, but the basic message is the same: Don't believe everything you hear. But then–from my first point–don't dismiss everything either, just because it comes from an economist. When they do their jobs well, they're often right.

Unfortunately, many are not doing their jobs well. Twelve years ago, at the World Bank's 1990 Annual Bank Conference on Development Economics, two of the founders of cost-benefit analysis, Little and Mirrlees, described its shameful neglect by the Bank as a 'shattering indictment.' Since shadow prices are nothing less than the marginal effects on social welfare of any quantity change, their use is fundamental to informed economic decision making. They are the true opportunity costs of resource use: 'Shadow prices and cost-benefit analysis are inseparable. Sometimes actual prices coincide with their shadow values, as if on the equator in the midday sun. Only then is financial analysis also cost-benefit analysis.'

Leaders of vision

The pitiful neglect of the craft of cost-benefit analysis is one of the dirty little secrets of governments and the international financial institutions. If policy-makers took it remotely seriously, we would get some very different recommendations emanating from the halls of power. For one thing, our leaders would recognise the staggering opportunity cost and waste of leaving a couple of billion people to languish in poverty. They would recognise the folly of toying with the world's climate. And they would shake their heads in wonder at the sheer mind-numbing economic stupidity of cutting aid budgets, under-funding research in tropical agriculture and medicine, and gutting reconciliation and peace-building programmes.

Where are our leaders of vision?

Most people I speak with are immensely frustrated with the quality of political debate–the endless pandering to our basest instincts. 'More tax cuts? Sure, why not–as long as you still fix up those schools and hospitals like you promised.' Perhaps it's a function of writing in Australia during election campaign, but my American and British friends tell me much the same thing.

Where are the political leaders who can articulate a vision for a better world? If you find one, be sure to tell me. I am surrounded by poll-driven media-chasers. ■