

## Is Larry Summers the canary in the mine?

By Devesh Kapur, Pratap Mehta and Arvind Subramanian

Published: May 14, 2008

Is a liberal international economic order losing intellectual support? Should developing economies be worried? If Larry Summers is the canary in the intellectual mine, his two columns in the Financial Times (April 28 and May 5) suggest that the answers to both questions are yes.

The liberal economic order of the last several decades was premised on two assumptions. First, that the proliferation of prosperity across countries was a good thing. Second, there would be winners and losers but, on balance, a majority of people in both developing and developed countries would benefit. Mr Summers now appears to be questioning both assumptions. He has not stated outright that the proliferation of prosperity is undesirable but his -columns do suggest that globalisation creates competition for America.

This is an obvious fact. For the first time since the 17th century the west's economic pre-eminence is being seriously challenged. But he goes on to draw the disturbing conclusion that the process of globalisation should be attenuated, precisely because it poses potential threats to the US. In doing so he, perhaps unwittingly, presents the rise of the poorer parts of the world (whose standards of living are still a fraction of US levels) more as a threat than an opportunity to the US. In effect, globalisation is justified only when it serves American interests.

This apparently nationalist argument is couched in appealing distributional terms. The losers in the process are US workers. The structure of globalisation is such that their bargaining power is considerably weakened, while mobile capital reaps all the benefits.

Mr Summers is right to worry that US workers have not benefited as much from globalisation as US capital; stagnant median wages and rising inequality are proof enough. He is also right to assert that globalisation requires democratic legitimation.

But the argument would be more persuasive if he did not privilege the demands for political legitimation within the US. The terms of what constitutes just globalisation cannot be determined unilaterally from the standpoint of the gains and losses within the US. It has to be determined co-operatively, involving discussions over the costs and benefits to all, especially those least able to defend their interests in both rich and poor countries.

The problem Mr Summers identifies, the hyper-mobility of capital, was an outcome that he and the US actively promoted. Attracting foreign capital was one of the *raisons d'être* of the Washington Consensus-based reforms. Developing countries were forced to change their intellectual property laws. At the US Treasury, Mr Summers was a leading proponent of capital account liberalisation by developing countries. Having swallowed those bitter pills of intellectual property protection and capital mobility as a necessary price for a better future, developing countries are now told that those medicines cause problems that need more - in this case protectionist - medication.

That globalisation needs appropriate regulation is hardly in doubt. But blaming globalisation preponderantly for the ills of American workers runs the risk of providing an alibi for the sins of omission in domestic policy that have had a much bigger impact.

It is undeniable that the best line of defence for protecting workers has to be overwhelmingly domestic - through progressive taxation, improving education, strengthening the bargaining position of labour and improving the safety nets. Since the Ronald Reagan years, the headlong embrace of market solutions has systematically undermined each of these policy responses.

One reading is that Mr Summers' angst about globalisation is motivated by desire to maintain the environment for the continuing spread of prosperity: a need to tweak the rules - through regulatory harmonisation - to bolster the fraying consensus among the US middle class in favour of globalisation.

But the manner in which his position is framed, the inconsistencies of the arguments across time, the inappropriate transferring of the burden of any response from domestic actions to international ones, and the susceptibility of the proposed remedies to protectionist misuse point to a more alarming prospect for developing countries. The ground is shifting under their feet. They would do well to take notice.

*The authors are respectively, director, Center for the Advanced Study of India at the University of Pennsylvania; president, Center for Policy Research, New Delhi; and senior fellow, Peterson Institute for International Economics*

[Copyright](#) The Financial Times Limited 2008

"FT" and "Financial Times" are trademarks of the Financial Times. [Privacy policy](#) | [Terms](#)  
© Copyright [The Financial Times](#) Ltd 2008.