

# Globalization's Government

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NEW YORK – We live in an era in which the most important forces affecting every economy are global, not local. What happens “abroad” – in China, India, and elsewhere – powerfully affects even an economy as large as the United States.

Economic globalization has, of course, produced some large benefits for the world, including the rapid spread of advanced technologies such as the Internet and mobile telephony. It has also reduced poverty sharply in many emerging economies – indeed, for this reason alone, the world economy needs to remain open and interconnected.

Yet globalization has also created major problems that need to be addressed. First, it has increased the scope for tax evasion, owing to a rapid proliferation of tax havens around the world. Multinational companies have many more opportunities than before to dodge their fair and efficient share of taxation.

Moreover, globalization has created losers as well as winners. In high-income countries, notably the US, Europe, and Japan, the biggest losers are workers who lack the education to compete effectively with low-paid workers in developing countries. Hardest hit are workers in rich countries who lack a college education. Such workers have lost jobs by the millions. Those who have kept their jobs have seen their wages stagnate or decline.

Globalization has also fueled contagion. The 2008 financial crisis started on Wall Street, but quickly spread to the entire world, pointing to the need for global cooperation on banking and finance. Climate change, infectious diseases, terrorism, and other ills that can easily cross borders demand a similar global response.

What globalization requires, therefore, are smart government policies. Governments should promote high-quality education, to ensure that young people are prepared to face global competition. They should raise productivity by building modern infrastructure and promoting science and technology. And governments should cooperate globally to regulate those parts of the economy – notably finance and the environment – in which problems in one country can spill over to other parts of the world.

The need for highly effective government in the era of globalization is the key message of my new book, *The Price of Civilization*. Simply put, we need *more* government nowadays, not less. Yet the role of government also needs to be modernized, in line with the specific challenges posed by an interconnected world economy.

I wrote *The Price of Civilization* out of the conviction that the US government has failed to understand and respond to the challenges of globalization ever since it began to impact America's economy in the 1970's. Rather than respond to globalization with more government spending on education, infrastructure, and technology, Ronald Reagan won the presidency in 1980 by pledging to slash government spending and cut taxes.

For 30 years, the US has been going in the wrong direction, cutting the role of government in the domestic economy rather than promoting the investments needed to modernize the economy and workforce. The rich have benefited in the short run, by getting massive tax breaks. The poor have suffered from job losses and cuts in government services. Economic inequality has reached a high not seen since the Great Depression.

These adverse trends have been exacerbated by domestic politics. The rich have used their wealth to strengthen their grip on power. They pay for the expensive campaigns of presidents and congressmen, so presidents and congressmen help the rich – often at the expense of the rest of society. The same syndrome – in which the rich have gained control of the political system (or strengthened their control of it) – now afflicts many other countries.

Yet there are some important signs around the world that people are fed up with governments that cater to the rich while ignoring everyone else. Start with the growing calls for greater social justice. The upheavals in Tunis and Cairo were first called the Arab Spring, because they seemed to be contained to the Arab world. But then we saw protests in Tel Aviv, Santiago, London, and now even in the US. These protests have called first and foremost for more inclusive politics, rather than the corrupt politics of oligarchy.

Moreover, US President Barack Obama is gradually shifting toward the left. After three years in which his administration coddled corporate lobbyists, he has finally begun to emphasize the need for the rich to pay more taxes. This has come late in his term, and he might well continue to favor the rich and Wall Street in exchange for campaign contributions in 2012, but there is a glimmer of hope that Obama will defend a fairer budget policy.

Several European governments, including Spain, Denmark, and Greece, also seem to be moving in the same direction. Spain recently imposed a new wealth tax on high-net-worth taxpayers. Denmark elected a center-left government committed to higher government spending financed by new taxes on the rich. And Greece has just voted for a new property tax to help close its yawning fiscal deficit.

The European Commission has also called for a new Financial Transactions Tax (FTT) to raise around \$75 billion per year. The Commission has finally agreed that Europe's financial sector has been under-taxed. The new FTT might still face political opposition in Europe, especially in the United Kingdom, with its large and influential banking sector, but at least the principle of greater tax fairness is high on the European agenda.

The world's most successful economies today are in Scandinavia. By using high taxes to finance a high level of government services, these countries have balanced high prosperity with social justice and environmental sustainability. This is the key to well-being in today's globalized economy. Perhaps more parts of the world – and especially the world's young people – are beginning to recognize this new reality.