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Ethical Dilemmas of globalization

BY SYLVAIN EHRENFELD

We are in the midst of an unprecedented transformation, even larger than the Industrial Revolution. Because of technological changes our world is becoming more and more interconnected.

The dynamic force of globalization will continue to change our perceptions, as it reshapes our lives, the way we make a living and the way we relate.

The changes are economic, technological, cultural and political. Incidentally, Karl Marx, in the Communist Manifesto predicted that the relentless search for markets will alter older social structures. As he put it "all that is solid will melt". Some say it is a runaway world. To quote Ralph Waldo Emerson, commenting on the Industrial Revolution in his day, "things are in the saddle and ride mankind"

I will look at the economic impact of this story and the contentious issue of globalization in trade and its effects on the poor as well as the rich.

The gap between rich and poor in the world is still very large. The bottom 2.5 billion ,40% of the worlds population live on less than \$2 a day and receive only 5% of the worlds income.

There are still too many people who die because they are too poor to live. Can trade help? Aid and a fairer trading system are crucial. As we will see, it can be an enormous help to poor countries. It can start them on the first steps of the ladder of progress. Tremendous changes are also occurring in the richer countries.

Let's examine trade and globalization.

Globalization, free trade and outsourcing are very controversial issues. They have been much in the news but they have not been seriously discussed in the media.

Thinking on this subject falls basically into two camps. There are the gung-ho free traders and the anti-globalists who strongly oppose international institutions like the World Bank, the International Monetary Fund (IMF) and particularly the World Trade Organization (WTO). The anti-globalists come in two varieties. The protectionists, as for example Pat Buchanan, are extreme conservatives who think American nationalism suffers from the commands of the global economy. This approach is essentially economic nationalism. They believe that international institutions undermine the sovereignty of the nation and make the country more beholden to transnational corporations. Buchanan opposes multiculturalism and immigration, claiming it leads to a moral decline of the nation.

The opposite pole of anti-globalists are much more radical in their thinking. They oppose the WTO, the World Trade Organization, claiming that it is undemocratic, and ignores environmental problems and labor conditions such as child labor and workplace safety. Finally they claim that globalization increases inequality and further impoverishes the poor. The anti-globalist movement has grown in passion and strength. They have staged numerous protests. The one in Seattle involved some violence, but mostly they are peaceful. The one recently in Hong Kong however was not peaceful.

The pro-globalists claim that free trade creates wealth, and this increase trickles down and improves the condition of the poor.

Firstly--what is globalization? It is the increasingly closer integration of countries and peoples of the world brought about by the enormous reduction of transportation and communication costs and the breakdown of barriers to the flow of goods, services, capital and knowledge. Think of it as a tidal wave of change brought about by the impact of new technologies. Television, the internet and other forms of rapid communication have increased mobility and commercialization of ideas. Different aspects of globalization include free movements of capital, trade, cultural and political differences.

With these changes come many problems which cross national boundaries: terrorism, disease, refugees, environmental problems, and rapid flow of capital. No nation can be totally immune. In the past many people lived in small areas. Some people never went further than 20 miles from their homes. Now if there is genocide in Rwanda and Darfur, or a suicide bomber in Jerusalem, we see it on TV, We live more and more in a global community, and are experiencing a global economic order.

Is globalization new? Not really. The scope and worldwide reach of our present globalization is new. However, from 1860

to 1914 there was a significant globalization trend which was also spurred by developments in transportation and communication. It came about because of railroads, cars, telephone and telegraph.

World War I stopped this trend. Between the two world wars, there was much protectionism. After World War II a major economic conference took place in Bretton Woods, a sleepy New England town. It was there the World Bank, the International Monetary Fund (IMF) and GATT were created. GATT stands for General Agreement on Tariffs and Trade. In 1995 this became the World Trade Organization (WTO). By 2002 it accounted for 97% of world trade.

The ancient world was always aware of the enormous benefits of trade. Ships constantly crossed the Mediterranean. The Silk Road between China and the Roman Empire had an enormous effect on the enrichment of cultures as well as wealth.

Why is trade beneficial? If I have something you need and you have something I want--if we bargain and come to a deal--we both benefit. Of course one of us may be in a stronger bargaining position. Nevertheless we can both benefit.

Adam Smith, and later, Ricardo, British economists, made the case for the free exchange of goods and services. This allows individuals to specialize in what they do best, to everybody's benefit. As an example-- the tailor does not attempt to make his own shoes but buys them from a shoemaker. In turn, the shoemaker doesn't attempt to make his own clothes, but employs a tailor. The ideal was that no country should produce anything it could import more cheaply from abroad. Countries should concentrate on industries in which they are low cost producers or to use economic language, they should produce where they have a relative advantage.

A classic example involved the Lancaster textile mills which exploited the climate of northern England, and Portuguese vineyards which prospered in the southern sun. In the presence of prohibitive tariffs of imports and exports which were prevalent at the time, England would have been forced to make its own wine, and Portugal to manufacture cloth. This is obviously a waste of resources. This concept is a powerful argument, and it has worked up to a point. However it omits the effects of changing technologies. The country with weaker bargaining power remains committed to its own industry and may be unable to develop. This has occurred in Central and South America, which for years traded only in a few crops and were totally dependent on the price of those crops.

There is much talk about free trade. We must remember that every free trade agreement is a negotiated document. It involves all kinds of bargaining about different products and tariffs. For example, for the North American Free Trade Agreement, NAFTA, the results were uneven. US corn producers benefited, while textile workers have not. Mexican farmers were devastated by US corn imports, and their textile workers lost out. Part of the reason is textile products from China and US subsidies for agriculture. It is estimated that the growth in Mexico and Latin America has benefited the upper 30% but the bottom gained little.

The great inequalities in Latin America and the lack of gains in the world trading system have brought forth radical leaders in recent elections as Chavez in Venezuela and Morales in Bolivia. The irony of democratic elections.

There are many charges against the WTO. Here are three of the main criticisms.

1. WTO places economic considerations ahead of concern about labor conditions and the environment.
2. WTO is undemocratic
3. WTO increases inequality and makes the rich richer and leaves the world's poor worse off.

WTO has a set of rules which all member states must accept. (There are about 30,000 pages of them.) If a dispute arises, and a complaint is made about unfair practices, there is a dispute panel. If the complaint is upheld and the nation continues to act in breach of the rules they are subjected to severe penalties--including tariffs against its own goods and perhaps a fine of money compensation. These are secret panels of trade organizations and lawyers.

Rulings are mostly based on the idea that a country can't embargo a good because they object to the process by which it is made. Only the quality or content is relevant. This has become known as the "product" versus "process" principle. If a product is made by child labor, in unsafe conditions, or is damaging to the environment, it cannot be rejected. This makes it difficult for a country to impose environmental labor or health standards. WTO rules prohibits countries from treating physically similar products differently on the basis of how they are made. So-- anti-globalists have a strong case.

However, free traders say WTO is ill equipped to rule on labor conditions and environmental situations. These decisions are complex. They claim that this is neither their role nor their mission. They are only concerned with trade. Rules concerning labor laws and environmental conditions are the province of international labor conventions of the International Labor Organization (ILO) and international environmental treaties. Globalists say protesters should focus their pressure on countries to abide by international laws. The final irony is that underdeveloped countries do not want to be pressured to impose labor and environmental standards as it will make their products more costly. They want and need the business. They also say that many people in the west may regard low-paying jobs at Nike factories as exploitation but for many people in the underdeveloped world factory work is far better than growing rice and risking hunger. They also add that child labor is the only way a family may have as protection from starvation.

Obviously labor laws and environmental rules are hard to enforce. We will say more about this later.

A charge against the WTO is that decisions there are usually made by consensus. Rule by consensus can also be called rule by veto. It takes the opposition of only a single member to stop an overwhelming majority from making changes. Developing countries make up the majority of members of WTO. But not every country has the same bargaining power. In practice the agenda is set in informal meeting of the major trading powers: the US, the European Union, Japan, and Canada. Once these powers have reached agreement these are presented at a formal meeting usually as a fait accompli. Not in the least democratic. Finally, dispute panels are not selected democratically. Even if WTO decisions were taken by the majority of states that are members it would not be really democratic since for example India, representing a billion people would have the same number of votes--one-- as Iceland which has 275,000,

A third charge and perhaps the most serious is that globalization makes the rich richer and the poor poorer. It takes from the poor to the rich--Robin Hood in reverse.

Let us separate the issues into two parts. Firstly--has inequality increased? The UN reports that gaps in income between the poorest and richest countries have continued to widen. In 1960 the 20 percent of the world's people in the richest countries had 30 times the income of the poorest 20 percent. In 1997, the gap has more than doubled-- it is now 74 percent. This widening of the gap is happening at a faster pace. The assets of the 200 richest people are more than the combined income of 41 percent of the world's people. Just imagine that visually --the 200 people can fit into our local libraries' auditorium.

The gap in income within countries has also widened. In the US, according to the US Census Bureau, the top and bottom tiers are growing and the middle shrinking. The top 20% held 85% of the country's wealth. An interesting illustration of this is the recent two years of the holiday shopping season. Retailers that cater to lower and middle income shoppers like Walmart, Sears and Kohl's had disappointing results, even with the lower prices. The higher end chains like Nordstrom did well.

Obviously, income gaps have widened both within countries and between countries. A recent UN study by ILO called for a fair globalization. They show that global trade increases wealth but the trade benefits are uneven. Like most economic changes there are winners and losers. What is a fair division of the growing pie? This raises ethical questions.

Are the very poor worse off? The world's population is currently a little over 6 billion. About 1.2 billion live in absolute poverty (about \$1 per day) and many more even below that. About 3 billion--that is nearly half the world's population--have about \$2 per day. About 820 million lack adequate nutrition, more than 850 million are illiterate and almost all lack access to basic sanitation. In rich countries less than one child in a hundred dies before the age of five. In the poorest countries one child in five dies. Every day three hundred thousand young children die from preventable causes. Life expectancy in rich nations averages 77 years whereas in sub Sahara Africa, it is 48 years.

The number of absolute poor has decreased by 200 million. Most of the improvement has been in China and India. In sub Sahara, Eastern Europe, and central Asia, poverty is up. In Latin America and the Caribbean there has not been much change. So--to disagree with both sides of the argument-- globalists' claim that the increase in wealth has helped the poor--the trickle-down theory is certainly not true. The claim that poverty has increased is also not true, although the level of misery that exists already could hardly in any imagination be worse.

To sum up the anti-globalization charges-- WTO does ignore labor rights and the environment. It is most certainly not democratic. Finally the changes created by globalization taking over the world, with increasing inequalities is ultimately a dangerous situation.

What then, do we need? What we need to do is achieve some progress in halting the dangerous increase in inequality world-wide and fair trade--not the so called free trade. Trade can be a particular thorn in the flesh for poor countries. The developed world spends over a billion dollars a day on farm subsidies and only one-seventh of that in development aid. Much of that goes to rich country exports and sales of technology. Rich countries' subsidies for their farmers make it difficult for poor countries that rely on exports to compete. Other subsidized products include textiles and cotton. The IMF estimates that a repeal of the subsidies would improve global welfare by about 120 billion. If we put together interest on the debt

owed by poor countries together with trade barriers, more money flows from the poor countries to the rich, than the other way.

A recent UN report states that rich countries trumpet the virtues of open markets and free trade even as they put up barriers against goods from poor countries and spend hundreds of billions that benefit large scale farmers .The recent Hong Kong meeting did not change that.

About outsourcing and outbasing -a hot issue. Because of tremendous changes in technology, many more jobs can be outsourced. Some examples are radiologists who examine x-rays, reservation agents, computer programming, accounting, data base management, financial analysis, tax preparation. Companies can comparatively easily move production to other parts of the world.

With outsourcing and outbasing who gains and who loses? Some American gain: consumers enjoy lower prices, and stockholders see profits rise. Some Americans lose: workers whose jobs are displaced, the owners of firms whose contracts are transferred to foreign suppliers.

Recently, Paul Samuelson the renowned economist and very much for free trade has revised some of his ideas. He pointed out that free trade can hurt an advanced country. When a poor, but ambitious nation, is trading with a wealthy advanced economy free trade can undermine the wage level in the advanced economy. He cites the example of China and the US. This explains why the US hourly wage, discounted for inflation, has been stagnant for many years and has aggravated inequality in the US. Monthly wages are 11% lower than in 1973 adjusted for inflation in spite of rising productivity. A revealing statement by Wal-Mart's chief executive, urging Congress to raise the minimum wage:

"our customers simply don't have the money to buy basic necessities between paychecks", ironic coming from Wal-Mart.

Other gainers are employees abroad who get jobs. Still, as we said, other gainers are US consumers who get cheaper goods, It is estimated that since the 90's cheap imports have saved US consumers around \$600 billion and US manufacturers many billions in cheaper parts and services for their products. We have a conflict here. Consumers are saving money but at the expense of US jobs. Wal-Mart has set the standard by their drive for cheap prices using imports from China. They give their workers low wages and minimal benefits. To compete other companies are driven to do the same thing. We are both consumers but also citizens, this presents us with a conflict. Another concern is the growing trade deficit which may become a serious problem.

Overall is this good or bad? What criteria should we use to judge? Some economists talk about a compensation principle. If the gainers can compensate the losers the economy gains. Of course, the compensation is never made. It leads me to think that the gainers have some moral obligation to the losers.

In any case the process seems unstoppable. We can however ease the bounce and provide springs for a rough ride. Income support and retraining for workers outsourced can help. This may not be effective for older and less educated workers. Another suggestion is wage insurance which companies resist. For this we need governments and international agencies with some moral clout and power. Other policies which would help much are: public investment in education, universal affordable health care and more federal financing for research in the sciences and engineering which has

declined in recent years. China and India are now graduating more engineers and computer scientists than from all American and European universities.

A story to illustrate. Recently Toyota decided to put up a new assembly plant in Ontario Canada. Why there and not in the US? One reason cited is the comparative quality of the work force, compared to the south. Unionization may also be a factor.

Another reason was Canada's National Health System. To support this consider the GM claim that it pays \$1525 in health care costs for each car that comes out of its assembly line- more than it pays for its steel. Recently GM, like many other companies, has made deals with unions to cut benefits, lay off workers and cut pensions. Even well off companies like IBM are doing the same thing. Times are getting tough for working people. I find it difficult to understand why companies do not support universal health care as it makes them more competitive.

Globalization could be an engine for growth and great benefit to all groups if guided with some attempt at fairness. I am reminded of the early stages of industrialization in England, US and Europe. Working conditions were horrible. After much struggle laws regulating worker safety, child labor, and the right to form unions were developed. The question arises--how well can a global free market--an essentially unregulated market--function in the absence of a global authority to set minimum standards on issues like child labor, worker safety, union rights, and the environment? What we have now on the international scene is early capitalism in the raw.

What to do?

All trade agreement should include minimum ILO (international labor organization) standards.

International conventions on these issues exist. They can be checked by rapporteurs, a method now used in the human rights area. The WTO can enforce these standards as they do now in trade disputes. If a country cannot afford to meet the standards they should be helped.

For the well being of our society and the health of our economy we need a universal health care system.

We should support the growing fair trade movement. They support more than 5 million people in Africa and Latin America in socially responsible trade. We should buy these products like fair trade coffee. It costs a little more but we are not only shoppers but also citizens. Oxfam America has a campaign for fair trade. They have a website providing much information (www.maketradefair.com) on how to get involved.

We are in the historic process of becoming one world. There are precedents in which governments come to relinquish some of their sovereignty for the benefits of cooperation. Regional organization already takes place in the form of WTO and the European Union. Such groupings are likely to increase in the future because of the necessity of avoiding the chaos and suffering of the vast disparities between the haves and the have-nots, and perhaps the side effects of competition between the great economic powers.

Globalization can be a great boon. It is not globalization per se, but the unfairness and damaging results from the way it is developing that is the moral and humanitarian problem.

In the meantime, we need to hang on tight because there's a rough ride ahead of us.