Reforming Globalization

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Multinational firms have contributed to economic growth in the developing world. But the risk of growing corporate power is that it abuses this power. How does one balance the two concerns? Merely returning these countries to “localism” will not work, argues this economist. He offers his own reforms.

The pursuit of a just society involves carefully balancing two contradictory necessities with regard to the corporate sector. Since corporations are responsible for much of the wealth and many of the jobs in a modern economy, they must be nurtured. At the same time, however, even as the corporate sector is fostered, justice and fairness require that these firms not be permitted to exercise disproportionate power.

The need to encourage the corporate sector is rooted in the fact that corporate-driven economic development dramatically raises living standards and thereby reduces the injustices associated with deprivation. The increased volume and array of goods and services to which even moderate-income people in developed societies have access is a prized advance that they will not and should not be expected to concede. Similarly, the people who live in poor countries legitimately seek the broadly distributed improved levels of health, education, and material comfort that are promised by a future of economic development. But even as corporations and financial institutions contribute to material advances, the risk is that they will promote their own interests in ways antagonistic to the well-being of the society as a whole. Democratic norms therefore require that the corporate sector not be permitted to dominate other segments of society in determining the rules governing its behavior.

An anticorporate politics will not be able to attract extensive support if it requires economic retrenchment in the developed world or impedes the emergence of improved living conditions in poor countries. But at the same time, the left’s egalitarian commitments necessitate reducing disproportionate...
corporate power. The corporate sector must at once be economically encouraged and politically constrained. A careful balancing is needed in which excessive corporate power is curbed, but doing so does not put in jeopardy the prosperity that large firms help to create.

With globalization, this problem of balance has become an international one. In the past, individual nations were able to pursue their own balance without giving much consideration to how that same process was evolving in other societies. With the increased integration of global markets, however, this ability to pursue insular strategies with regard to corporate governance has become attenuated. Advances in the technology of information processing, communications, and transportation mean firms increasingly are able to locate production wherever they choose. This new corporate mobility means that if a country attempts to curb corporations by, for example, increasing business taxation or reducing their ability to retrench workers, it could be exposed to a loss of corporate investment. As Robert Kuttner has written, globalization “influences the domestic political balance” toward one in which “the global market trumps the domestic mixed economy” (Kuttner 2000, 155).

The objective of reining in corporate power nevertheless remains a goal that attracts large numbers of adherents all over the world. Indeed, globalization itself has provided a renewed impetus in this direction. As multinational firms extend the geographic sphere of their activities across nations and continents, their enhanced leverage over social and economic policy-making has been placed in bold and forbidding relief. Thus it is that in recent years anticorporate activism has intensified, even as corporate global ascendancy has been extended.

Though far from agreeing on a specific agenda of reform, the anticorporate activists share the pervasive sensibility that globalization should be slowed if not reversed. The geographic scale of production, investment, and distribution should be reduced from global to smaller geographic units. Localism is seen as the antidote to domination by multinational corporations. As Naomi Klein, a sympathetic observer of the antiglobalization movement, puts it, “There is an emerging consensus that building community-based decision-making power… is essential to countering the might of multinational corporations” (Klein 2000, 2). It is not hard to find evidence that Klein is right. For example, the Green Party platform on which Ralph Nader based his presidential candidacy called for a “community-based economics.” It advocated an agricultural system “that moves as rapidly as possible towards regional/bioregional self-reliance” and support for enterprises engaged in local production and consumption. The platform not only explicitly opposed the North American Free Trade Agreement (NAFTA), the General Agreement on Trade and Tariffs (GATT), and the World Trade Organization (WTO). In addition, it declared, “We reject any agreement which threatens the authority of states and local communities to establish more stringent...
health, safety and environmental standards” (Green Party Platform 2000, 26, 27, 31, 28, 32).

This same theme of support for localism is adopted by a task force assembled by the International Forum on Globalization, which includes prominent activists Lori Wallach, Walden Bello, Helena Norberg-Hodge, John Cavanagh, Edward Goldsmith, Martin Khor, David Korten, and Jerry Mander. The group’s draft document is quite explicit in explaining that it opposes “corporate-led economic globalization” because it “entails, first, and foremost, de-localization and disempowerment of communities and local economies.” Its position is that it is “necessary to reverse directions and create new rules and structures that consciously favor the local and follow the principle of subsidiarity, i.e., whatever activities can be undertaken locally should be” (International Forum on Globalization 1999, 3).

Unacknowledged in the argument for localism, however, are the costs that would be associated with it. By definition, that strategy would bar firms from taking advantage of the cost-reducing characteristics of advanced technologies in international communications and transportation. Lost, therefore, would be the efficiencies achieved when large multinational firms participate in international trade and global production networks. Favoring relatively small firms that are confined to local markets, as

Table 1:

<table>
<thead>
<tr>
<th>Country group</th>
<th>1998 GNP per capita¹</th>
<th>1997 HDI</th>
<th>1998FID1 per capita¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income countries</td>
<td>$23,420</td>
<td>0.919</td>
<td>$506.0</td>
</tr>
<tr>
<td>Group I: Mexico, Thailand, Turkey, Brazil</td>
<td>$6,580</td>
<td>0.751</td>
<td>$140.6</td>
</tr>
<tr>
<td>Group II: Philippines, China, Indonesia, Egypt</td>
<td>$3,133</td>
<td>0.697</td>
<td>$24.7</td>
</tr>
<tr>
<td>Group III: India, Pakistan, Bangladesh, Nigeria, Ethiopia</td>
<td>$1,787</td>
<td>0.514</td>
<td>$3.5</td>
</tr>
</tbody>
</table>


¹. Population-weighted mean.

the advocates of localization would do, involves choosing to confine production to lower amounts of a smaller range of goods at higher prices than would be the case in a globally integrated economy. The upshot would be a diminution in international living standards. Because localization involves
abandoning an important mechanism of contemporary economic development, there cannot be much doubt that it would put downward pressure on the well-being of the poor in the wealthy nations and on those who are seeking to escape poverty in the underdeveloped world.

Insight into the process by which multinational firms have contributed to growth and improved welfare is provided in Table 1, which mobilizes information for the world’s high-income nations and the thirteen largest poor nations. The three measures reported on for these countries are gross national product (GNP) per capita, adjusted for purchasing power parity (PPP), an indicator of economic development; the United Nations Human Development Index (HDI), a statistic designed to measure human well-being; and direct foreign investment (FDI) per capita, a measure of the productive capacity created by foreign firms. The goal is to find whether there is evidence that development, human welfare, and foreign direct investment are positively re-

_lated to each other. In other words, where there is a high level of development and high scores in the HDI, does there tend also to be a high level of FDI? If such a pattern is observed, it would support the view that multinational firms help to advance both economic development and human welfare._

_The pattern revealed in Table 1 is quite straightforward. Both the level of economic development and the level of human welfare are closely associated with direct foreign investment. This relationship prevails not only in a comparison of the developed with the poor nations, but also when the members of the latter group are ranked by their level of development. Thus, among the thirteen largest underdeveloped countries in the world, the human development index is lowest where direct foreign investment is least. Conversely, that measure of well-being stands at a relatively high level in the countries in the developing world where foreign investment is relatively high. To be sure, these relationships do not suggest that FDI is the only or even the most important determinant of development and well-being. Domestic economic policies clearly play the principle role in determining success in development. Nevertheless, the fact remains that foreign investment does play a role in the process, a role that is forgone to the extent that a society shuts itself off from such capital flows. While it is easy to show that FDI has an important role in economic development, there is virtually no track record of success with which to defend localization. Even William Greider, himself a critic of globalization, acknowledges that “the concept of development_
directed at the internal fundamentals has been advocated for many years, but the truth is that there are still not many living examples of success” (Greider 2000, 15). Decoupling and disengagement from the world economy have been attempted by a variety of third-world countries over the years. But in no case have economic modernization and rising standards of living been the outcome, and in a large majority of such countries the effort was ultimately abandoned in favor of greater global economic integration.

Thus the anticorporate movement, in endorsing localism, offers a model of growth that has substantial grounds for skepticism. It seems to be willing to put at risk the contributions made by multinational firms to global development. With that the case, the best that the movement can hope for is nuisance-value politics. There is enough hostility to multinational corporations to fuel disruptive demonstrations. But because the movement’s economic strategy threatens economic well-being, it will not attract enough supporters to impose a political discipline on international firms.

At this relatively early stage in the globalization process, success at constraining multinational firms while still promoting development is not an unrealistic possibility. The institutional structures associated with the global economy are still under construction. Because this is so, their shape is subject to influence.

In all market systems, laws defining acceptable and unacceptable behavior are required. A system to adjudicate conflicting claims is needed. To function effectively, markets also need mechanisms to facilitate the adjustments they require. Needed as well are systems to protect against damaging disruptions emerging from market failures. It is not, therefore, surprising that the integration of the global economy has been accompanied by the emergence of supportive institutions. Emblematic in this regard is the WTO. Established in 1995 as the culminating achievement of the Uruguay Round of trade negotiations, the WTO was created to provide a means by which to enforce rules of global trade.

A wide array of possibilities exists concerning the future content of the rules and administering institutions that will govern globalization. That array ranges from procedures that will tightly regulate the flow of goods and services between countries, to essentially a laissez-faire regime where such controls are maintained at minimal levels. The choice made with regard to the extent of market regulation is a political determination, in this case the outcome of negotiations among sovereign states.

The rules governing the global economy emerge from multilateral talks that reflect the bargaining power of the negotiating countries, power that in turn broadly corresponds to the size of each country’s economy. The larger the economy, the greater the damage that it could inflict by its withdrawal from the process of rules codification, and thereby the greater the ability to shape those rules. What this means specifically is that the United States, far more than any other country, has had a decisive voice in determining the
content of the rules and procedures that have accompanied globalization. Its voice is dominant in multilateral organizations such as the World Bank and the International Monetary Fund, and it was the most powerful influence in shaping the content of the rules that the WTO enforces.

The U.S. position with regard to the shape of the global economy has been remarkably consistent over the years. The transition from Republican administrations in the 1980s to Democratic ones in the 1990s caused no substantial change in its content. John Williamson is given credit for first labeling as “the Washington consensus” the package of policies the United States endorsed in trade negotiations and insisted upon in the councils of the World Bank and International Monetary Fund. With the Washington consensus, the United States unreservedly insisted on unregulated markets and a reduced role for governments in economic activity. In Williamson’s original formulation (1999, 2), the Washington consensus was composed of ten elements:

1. Fiscal discipline in government spending.
2. A redirection of public expenditure away from subsidies.
3. A reduction of marginal tax rates.
4. Decontrolling interest rates.
5. Moving away from fixed exchange rates to more market-determined ones.
6. Trade liberalization.
7. Liberalizing foreign direct-investment inflows.
10. Securing private property rights.

The policy orientation of the Washington consensus is unmistakable. Its intention is to advance the role of markets at the expense of other social institutions. In providing a high level of freedom to market participants—most particularly to multinational corporations and financial institutions—it clearly reflects the preferences of those firms themselves.

In some respects the Washington consensus has worked well. Policies to free FDI do seem to have helped at least some countries to accelerate economic growth. And the liberalizing of trade has advanced the interests of consumers throughout the world as flows of imports and exports have increased dramatically in recent years. But the reduction in the role of government that the Consensus calls for does not work equally well in all contexts. This weakness is particularly dramatic in the case of labor and financial markets. It is in these areas that the Washington consensus is most in need of reversal.

In the first place, globalization, to be fair, requires a strengthened, not a weakened, social safety net. The very act of engaging in cross-border trade
initiates a process of change that, though socially beneficial, imposes costs on specific sectors of the economy. Trade encourages nations to shift their production to those sectors in which they have a comparative advantage. What this means in a more negative sense is that, with trade, those industries in which a country does not have a comparative advantage face their demise. Global trade results in productivity advances raising living standards generally. But the industries that go bankrupt and their displaced employees become innocent victims of the process.

All this is well known to international trade economists and so, too, is the appropriate policy response. The standard remedy to the inequities caused by international trade, in the words of a recent publication of the Brookings Institution, “is to require that the winners share some of their gains with the losers through some form of compensation.” The authors add, “We take this seriously as a political requirement and a moral obligation” (Burtless et al. 1998, 131-32). Programs such as job retraining, temporary income supports, stipends or tax benefits for relocations associated with employment, and portable health care insurance all would reduce the burdens unfairly borne by individuals as a result of the changes created by international market integration. The problem is that there is precious little room in the Washington Consensus for this kind of social safety net.

A second area where there is a need for governmental intervention concerns financial capital flows. These movements of finance are distinct from the FDI undertaken by multinational firms. Financial flows represent the speculative placement of funds in capital markets. The movement of such funds by financial institutions can now be undertaken with lightning speed. As a result, cross-border and short-term flows of such funds have skyrocketed in recent years, and the fragility of global capital markets has increased as well. Investors engage in herdlike behavior: The movement into or out of markets occurs at a massive level as they take their cues from each other and act in lockstep. The result is very large swings in market prices, with little or no relationship to changes in output or product sales. Because transactions in overseas financial markets require the purchase of foreign currencies, these capital movements result in correspondingly large swings in exchange rates as well. The result is the risk of crises, as capital flows into a country and then is followed by a flight that leaves in its wake indebtedness and bankruptcy for both firms and banks. The 1997 financial crisis in Asia was only the most recent of an epidemic of such events, disruptions that have set back precisely the growth that is globalization’s promise to the world.

Jagdish Bhagwati, a preeminent trade theorist, argues that the desirability of “full capital mobility” is a myth. Bhagwati complains that “none of the proponents of free capital mobility have estimated the size of gains they expect to materialize, even leaving out the losses from crises that can ensue.” On the contrary, Bhagwati cites the economic historian Charles Kindleberger as teaching that capital flows are characterized by “panics and manias”
(Bhagwati 1998, 7, 9, 8). Bhagwati is joined by Joseph Stiglitz in this skepticism about the desirability of unregulated short-term capital flows. Even during his tenure as the chief economist at the World Bank, Stiglitz was critical of the Washington Consensus, arguing that “all too often the dogma of liberalization became an end in itself, not a means of achieving a better financial system.” Indeed, he writes that “the focus on freeing up markets may have had the perverse effect of contributing to macroeconomic instability by weakening the financial sector” (Stiglitz 1998, 8, 3).

If the Washington consensus were rejected and instead extensive support systems for dislocated workers were made available and hyper market mobility in financial flows were constrained, globalization would be both more stable and more equitable. Destructive economic downturns would become less likely. At the same time the costs associated with economic restructuring would be lifted from the shoulders of the innocent victims of the process and would be more widely shared. Indeed, it is easy to envision combining the two: If a policy were adopted to reduce speculative capital flows such as a tax on such transactions (the Tobin tax), the proceeds of the tax could be used to help workers in poor countries adjust to changed circumstances. Thus, for example, such tax revenues could be channeled to the Windward Islands banana farmers who are losing their preferential access to the British market in the name of the antidiscrimination rules of the WTO.

At the same time, the provision of income and job supports to dislocated workers in the developed world would help to reduce working-class protectionist pressures created by anxiety over the disruptions associated with increased global trade.

There is very little risk that either of these reversals of the Washington consensus would materially slow globalization. Avoidance of the lost production caused by financial panics would more than compensate for whatever reduction in investment might occur because of constrained short-term capital flows. And, while support systems will be costly, they earn goodwill for the globalization process where now there is suspicion and hostility. The laissez-faire content of the Washington consensus, in short, not only is not fundamental to globalization, but also probably acts as a brake to it. It contributes to the system’s instability and fuels its political opposition.

Globalization does not require unregulated markets, and the reduction of poverty is not advanced by localism. But because the anticorporate left ignores the costs of localism, it has adopted a politics inconsistent with the interests of the world’s poor. A more stable and more just globalization is what the poor need, not its wholesale rejection. In turning its back on a nuanced globalization as its goal in favor of an ill-defined localism, the movement has doomed itself to political marginality. The left’s message, obviously unacceptable to elites, is also unlikely to gain adherence from the very large numbers necessary to overcome official hostility because that message ignores the issue of economic development.
An alternative opposition politics to secure greater justice in the global economy is, however, feasible. Rather than regarding the international integration of markets as a process to oppose, such a politics would seek the adoption of policies that would stabilize globalization, ensure that its victims are protected, and make certain that its benefits are widely shared. The Washington consensus, the policy framework emerging from a corporate-dominated decision-making process, would be the obvious target of such a movement. Rather than opposing a process that raises standards of living, as the localism movement does, a new opposition could argue that it is the Washington consensus, not globalization, that limits improvements in well-being. In that way, it could endorse a position that values the wealth corporations create but at the same time develops interventionist policies that would bring greater justice and stability to the system.

A politics in opposition to the Washington consensus would have to focus most of its attention on policy formation in the United States. In this it would have to take on what Bhagwati describes as “the exceptional clout” that Wall Street possesses in Washington in defense of its “obvious self-interest in a world of free capital markets.” Bhagwati argues that Wall Street’s efforts at persuasion are particularly effective because there is “in the sense of a power elite á la C. Wright Mills, a definite networking of like-minded luminaries among the powerful institutions— Wall Street, the Treasury Department, the State Department, the IMF and the World Bank” (Bhagwati 1998, 11).

Cast in this light, the Washington consensus is but one manifestation of a more pervasive problem in American politics: the power of private wealth to shape the agenda and outcomes of policy debates. Our economic policies are excessively pro-corporate, not because corporations are economic agents, but because of their disproportionate influence on the political process. They set, to a great extent, the rules governing their own behavior. What is needed to correct the biases in policy created by such an obvious conflict of interest is a political rules-making context that is independent of the influence of the corporate and financial sectors. If that were in place, business firms could continue in their role of wealth creation, but they would do so in an environment reflecting the democratic will of the country.

In opposing excessive corporate influence in policy-making, a movement that is pro-globalization but anti—Washington consensus would call for the reform of American politics and in particular a reduction in the role of private wealth in our political processes. This approach would have considerable overlap with the localist movement that also calls for such reforms as the public funding of elections and the control over “soft money” political donations. But a new movement in favor of a just globalization would possess a much greater long-term potential than the localist one. A movement that endorses globalization, but seeks to control financial speculation and protect dislocated workers would identify with the hopes of both Americans and the people of the third world for improved living conditions. It thus might be
attractive enough to serve as a vehicle to reform and humanize globalization.

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For Further Reading


