

Globalization and Its Discontents

Herman E. Daly

Every day, newspaper articles and television reports insist that those who oppose globalization must be isolationists or—even worse—xenophobes. This judgment is nonsense. The relevant alternative to globalization is internationalization, which is neither isolationist nor xenophobic. Yet it is impossible to recognize the cogency of this alternative if one does not properly distinguish these two terms.

"Internationalization" refers to the increasing importance of relations among nations. Although the basic unit of community and policy remains the nation, increasingly trade, treaties, alliances, protocols, and other formal agreements and communications are necessary elements for nations to thrive. "Globalization" refers to global economic integration of many formerly national economies into one global economy. Economic integration is made possible by free trade—especially by free capital mobility—and by easy or uncontrolled migration. In contrast to internationalization, which simply recognizes that nations increasingly rely on understandings among one another, globalization is the effective erasure of national boundaries for economic purposes. National boundaries become totally porous with respect to goods and capital, and ever more porous with respect to people, who are simply viewed as cheap labor—or in some cases as cheap human capital.

In short, globalization is the economic integration of the globe. But exactly what is "integration"? The word derives from *integer*, meaning one, complete, or whole. Integration means much more than "interdependence"—it is the act of combining separate although related units into a single whole. Since there can be only one whole, only one unity with reference to which parts are integrated, it follows that global economic integration logically implies national economic *disintegration*—parts are torn out of their national context (dis-integrated), in order to be re-integrated into the new whole, the globalized economy.

As the saying goes, to make an omelet you have to break some eggs. The disintegration of the national egg is necessary to integrate the global omelet. But this obvious logic, as well as the cost of disintegration, is frequently met with denial. This article argues that globalization is neither inevitable nor to be embraced,

much less celebrated. Acceptance of globalization entails several serious consequences, namely, standards-lowering competition, an increased tolerance of mergers and monopoly power, intense national specialization, and the excessive monopolization of knowledge as "intellectual property." This article discusses these likely consequences, and concludes by advocating the adoption of internationalization, and not globalization.

The Inevitability of Globalization?

Some accept the inevitability of globalization and encourage others in the faith. With admirable clarity, honesty, and brevity, Renato Ruggiero, former director-general of the World Trade Organization, insists that "We are no longer writing the rules of interaction among separate national economies. We are writing the constitution of a single global economy." His sentiments clearly affirm globalization and reject internationalization as above defined. Further, those who hold

Globalization is the effective erasure of national boundaries for economic purposes.

Ruggiero's view also subvert the charter of the Bretton Woods institutions. Named after a New Hampshire resort where representatives of forty-four nations met in 1944 to design the world's post-World War II economic order, the institutions conceived at the Bretton Woods International Monetary Conference include the World Bank and the International Monetary Fund. The World Trade Organization evolved later, but functions as a third sister to the World Bank and the International Monetary Fund. The nations at the conference considered proposals by the U.S., U.K., and Canadian governments, and developed the "Bretton Woods system," which established a stable international environment through such policies as fixed exchange rates, currency convertibility, and provision for orderly exchange rate adjustments. The Bretton



A World Trade Organization protester stands among flaming trash bins during protests in downtown Seattle on November 30, 1999. Police in riot gear fired pepper spray at demonstrators, who blocked streets and forced a delay in opening ceremonies of the largest trade event ever staged in the United States. (AP Wide World Photo/Peter Dejong)

Woods Institutions were designed to facilitate *internationalization*, not *globalization*, a point ignored by director-general Ruggiero.

The World Bank, along with its sister institutions, seems to have lost sight of its mission. After the disruption of its meetings in Washington, D.C. in April 2000, the World Bank sponsored an Internet discussion on globalization. The closest the World Bank came to offering a definition of the subject under discussion was the following: "The most common core sense of economic globalization. . . . surely refers to the observation that in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries (rather than in the same country)." This ambiguous description was not improved upon by Mr. Wolfensohn, president of the World Bank, who told the audience at a subsequent Aspen Institute conference that "Globalization is a practical methodology for empow-

ering the poor to improve their lives." That is neither a definition nor a description—it is a wish. Further, this wish also flies in the face of the real consequences of global economic integration. One could only sympathize with demonstrators protesting Mr. Wolfensohn's speech some fifty yards from the Aspen conference facility. The reaction of the Aspen elite was to accept as truth the title of Mr. Wolfensohn's speech, "Making Globalization Work for the Poor," and then ask in grievous tones, "How could anyone demonstrate against that?"

Serious consequences flow from the World Bank's lack of precision in defining globalization but lauding it nonetheless. For one thing, the so-called definition of globalization conflates the concept with that of internationalization. As a result, one cannot reasonably address a crucial question: Should these increasing transactions between people living in different countries take place *across national boundaries* that are economically signifi-

cant, or *within an integrated world* in which national boundaries are economically meaningless?

The ambiguous understanding of globalization deprives citizens of the opportunity to decide whether they are willing to abandon national monetary and fiscal policy, as well as the minimum wage. One also fails to carefully consider whether economic integration entails political and cultural integration. In short, will political communities and cultural traditions wither away, subsumed under some monolithic economic imperative? Although one might suspect economic

In globalization, power is drained away from national communities and local enterprises, and aggregates in transnational corporations.

integration would lead to political integration, it is hard to decide which would be worse—an economically integrated world *with*, or *without*, political integration. Everyone recognizes the desirability of community for the world as a whole—but one can conceive of two very different models of world community: (1) a federated community of real national communities (internationalization), versus (2) a cosmopolitan direct membership in a single abstract global community (globalization). However, at present our confused conversations about globalization deprive us of the opportunity to reflect deeply on these very different possibilities.

This article has suggested that at present organizations such as the International Monetary Fund and the World Bank (and, by extension, the World Trade Organization) no longer serve the interests of their member nations as defined in their charters. Yet if one asks whose interests are served, we are told they service the interests of the integrated “global economy.” If one tries to glimpse a concrete reality behind that grand abstraction, however, one can find no individual workers, peasants, or small businessmen represented, but only giant fictitious individuals, the transnational corporations. In globalization, power is drained away from national communities and local enterprises, and aggregates in transnational corporations.

The Consequences of Globalization

Globalization—the erasure of national boundaries for economic purposes—risks serious consequences. Briefly, they include, first of all, standards-lowering competition to externalize social and environmental costs with the goal of achievement of a competitive advantage. This results, in effect, in a race to the bottom so far as efficiency in cost accounting and equity in income distribution are concerned. Globalization also

risks increased tolerance of mergers and monopoly power in domestic markets in order that corporations become big enough to compete internationally. Third, globalization risks more intense national specialization according to the dictates of competitive advantage. Such specialization reduces the range of choice of ways to earn a livelihood, and increases dependence on other countries. Finally, worldwide enforcement of a muddled and self-serving doctrine of “trade-related intellectual property rights” is a direct contradiction of the Jeffersonian dictum that “knowledge is the common property of mankind.”

Each of these risks of globalization deserves closer scrutiny.

1. Standards-lowering competition. Globalization undercuts the ability of nations to internalize environmental and social costs into prices. Instead, economic integration under free market conditions promotes standards-lowering competition—a race to the bottom, in short. The country that does the poorest job of internalizing all social and environmental costs of production into its prices gets a competitive advantage in international trade. The external social and environmental costs are left to be borne by the population at large. Further, more of world production shifts to countries that do the poorest job of counting costs—a sure recipe for reducing the efficiency of global production.

We enter a world foreseen by the nineteenth-century social critic John Ruskin, who observed that “that which seems to be wealth is in verity but a gilded index of far-reaching ruin.”

As uncounted, externalized costs increase, the positive correlation between gross domestic product (GDP) growth and welfare disappears, or even becomes negative. We enter a world foreseen by the nineteenth-century social critic John Ruskin, who observed that “that which seems to be wealth is in verity but a gilded index of far-reaching ruin.”

Another dimension of the race to the bottom is that globalization fosters increasing inequality in the distribution of income in high-wage countries, such as the U.S. Historically, in the U.S. there has been an implicit social contract established to ameliorate industrial strife between labor and capital. As a consequence, the distribution of income between labor and capital has been considered more equal and just in the U.S. compared to the world as a whole. However, global integration of markets necessarily abrogates that social contract. U.S. wages would fall drastically because labor is relatively more abundant globally than nationally. Further, returns to capital in the U.S. would increase because

Civil Society, Democracy, and Civic Renewal

Robert K. Fullinwider, editor

Civic society is receiving renewed attention from academics, politicians, journalists, community leaders, and participants in the voluntary sector. *Civil Society, Democracy, and Civic Renewal* brings together several of America's leading scholars—of history, sociology, political science, and philosophy—to explore the meaning of civil society, its positive and negative effects, its relation to government, and its contribution to democracy.

The chapters range widely, taking up the connection between social trust and civic renewal, the role of citizen councils in environmental decision making, the growth of self-help groups and their impact on community, historical patterns of civic activity by women and African Americans, and the place of expertise in public deliberation on scientific and medical issues.

Civil Society, Democracy, and Civic Renewal is a project of the Institute for Philosophy and Public Policy and the National Commission on Civic Renewal. It was written and edited with the support of the Public Policy Program of the Pew Charitable Trusts.

430 pages
\$69.00 (cloth)
\$26.95 (paper)

Rowman and Littlefield Publishers, Inc.
<http://rowmanlittlefield.com>
Tel.: 800.462.6420
FAX: 800.338.4550
For examination copies, call
800.273.5720

capital is relatively more scarce globally than nationally. Although one could make the theoretical argument that wages would be *bid up* in the rest of the world, the increase would be so small as to be insignificant. Making such an argument from the relative numbers would be analogous to insisting that, theoretically, when I jump off a ladder gravity not only pulls me to the earth, but also moves the earth towards me. This technical point offers cold comfort to anyone seeking a softer landing.

2. Increased tolerance of mergers and monopoly power. Fostering global competitive advantage is used as an excuse for tolerance of corporate mergers and monopoly in national markets. Chicago School economist and Nobel laureate Ronald Coase, in his classic article on the theory of the firm, suggests that corporate entities are "islands of central planning in a sea of market relationships." The islands of central planning become larger and larger relative to the remaining sea of market relationships as a result of merger. More and more resources are allocated by within-firm central

*Globalization demands that workers accept
an ever-narrowing range of ways to
earn a livelihood.*

planning, and less by between-firm market relationships. Corporations are the victor, and the market principle is the loser, as governments lose the strength to regulate corporate capital and maintain competitive markets in the public interest. Of the hundred largest economic organizations, fifty-two are corporations and forty-eight are nations. The distribution of income within these centrally-planned corporations has become much more concentrated. The ratio of the salary of the Chief Executive Officer to the average employee has passed 400 (as one would expect, since chief central planners set their own salaries).

3. Intense national specialization. Free trade and free capital mobility increase pressures for specialization in order to gain or maintain a competitive advantage. As a consequence, globalization demands that workers accept an ever-narrowing range of ways to earn a livelihood. In Uruguay, for example, everyone would have to be either a shepherd or a cowboy to conform to the dictates of competitive advantage in the global market. Everything else should be imported in exchange for beef, mutton, wool, and leather. Any Uruguayan who wants to play in a symphony orchestra or be an airline pilot should emigrate.

Of course, most people derive as much satisfaction from how they earn their income as from how they spend it. Narrowing that range of choice is a welfare loss uncounted by trade theorists. Globalization assumes either that emigration and immigration are costless, or that narrowing the range of occupational choice within a nation is costless. Both assumptions are false.

While trade theorists ignore the range of choice in *earning* one's income, they at the same time exaggerate the welfare effects of range of choice in *spending* that income. For example, the U.S. imports Danish butter cookies and Denmark imports U.S. butter cookies.

Although the gains from trading such similar commodities cannot be great, trade theorists insist that the welfare of cookie connoisseurs is increased by expanding the range of consumer choice to the limit.

Perhaps, but one wonders whether those gains might be realized more cheaply by simply trading recipes? Although one would think so, *recipes*—trade-related intellectual property rights—are the one thing that free traders really want to protect.

4. Intellectual property rights. Of all things, knowledge is that which should be most freely shared, since in sharing, knowledge is multiplied rather than divided. Yet trade theorists have rejected Thomas Jefferson's dictum that "Knowledge is the common property of mankind" and instead have accepted a

*Of all things, knowledge is that which
should be most freely shared, since in sharing,
knowledge is multiplied rather than divided.*

muddled doctrine of "trade-related intellectual property rights." This notion of rights grants private corporations monopoly ownership of the very basis of life itself—patents to seeds (including the patent-protecting, life-denying terminator gene) and to knowledge of basic genetic structures.

The argument offered to support this grab is that, without the economic incentive of monopoly ownership, little new knowledge and innovation will be forthcoming. Yet, so far as I know, James Watson and Francis Crick, co-discoverers of the structure of DNA, do not share in the patent royalties reaped by their successors. Nor of course did Gregor Mendel get any royalties—but then he was a monk motivated by mere curiosity about how Creation works!

Once knowledge exists, its proper price is the marginal opportunity cost of sharing it, which is close to zero, since nothing is lost by sharing knowledge. Of course, one does lose the *monopoly* on that knowledge, but then economists have traditionally argued that monopoly is inefficient as well as unjust because it creates an artificial scarcity of the monopolized item.

Certainly, the cost of production of new knowledge is not zero, even though the cost of sharing it is. This allows biotech corporations to claim that they deserve a fifteen- or twenty-year monopoly for the expenses incurred in research and development. Although corporations deserve to profit from their efforts, they are not entitled to monopolize on Watson and Crick's contribution—without which they could do nothing—or

on the contributions of Gregor Mendel and all the great scientists of the past who made fundamental discoveries. As early twentieth-century economist Joseph Schumpeter emphasized, being the first with an innovation already gives one the advantage of novelty, a natural temporary monopoly, which in his view was the major source of profit in a competitive economy.

As the great Swiss economist, Jean Sismondi, argued over two centuries ago, not all new knowledge is of benefit to humankind. We need a sieve to select beneficial knowledge. Perhaps the worse selective principle is hope for private monetary gain. A much better selective motive for knowledge is a search in hopes of benefit to our fellows. This is not to say that we should abolish all intellectual property rights—that would create more problems than it would solve. But we should certainly begin restricting the domain and length of patent monopolies rather than increasing them so rapidly and recklessly. We should also become much more willing to share knowledge. Shared knowledge increases the productivity of all labor, capital, and resources. Further, international development aid should consist far more of freely-shared knowledge, and far less of foreign investment and interest-bearing loans.

Let me close with my favorite quote from John Maynard Keynes, one of the founders of the recently subverted Bretton Woods Institutions:

I sympathize therefore, with those who would minimize, rather than those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national.

Herman E. Daly
Professor
School of Public Affairs
University of Maryland
hd22@umail.umd.edu

This article arose from a discussion given at the Aspen Institute's 50th Anniversary Conference, "Globalization and the Human Condition," held in Aspen, Colorado on August 20, 2000.

