Globalization's Major Inconsistencies

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Advocates of globalization want goods, services, and capital to flow without restriction across national boundaries. They contend that global gains are made from free trade. But what about the free migration of people? The same economic logic of global gains from trade applies with equal force to free movement of labor (or human capital). Globalization and free trade advocates, along with such powerful organizations as the World Trade Organization (WTO), the International Bank for Reconstruction and Development (IBRD), and the International Monetary Fund (IMF) all support the free flow of goods, services, and capital. Yet they do not support the free migration of people.

Although *people* do not migrate freely, many *jobs* do. Recently, for instance, the task of writing welfare checks to New Jersey's unemployed was "outsourced" to India, prompting an alert politician to publicly wonder whether at least some unemployed citizens of New Jersey could not be employed writing welfare checks to remaining unemployed citizens. But such common sense is ruled out by the reality of low wages in India and the "logic" of global efficiency. This "logic" is mistakenly held by many free trade advocates to derive from eighteenth century economist David Ricardo's theory of comparative advantage. The purpose of this article is to examine why the view of free trade advocates and some supporters of globalization is mistaken. One can usefully begin by recalling several essential elements of the view of comparative advantage to see the mistaken logic of one aspect of efficiency.

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Absolute versus Comparative Advantage

Briefly, a country has an *absolute* advantage in producing a good if it can produce that good with less labor and capital per unit than can other countries. A country has a *comparative* advantage if it can produce that good more cheaply (with less labor and capital) relative to other goods than is the case in other countries. In the first case one compares absolute costs *across* countries; in the second case one compares absolute costs *within* each country and compares ratios of internal national costs between countries. Ricardo showed that countries can mutually benefit from free trade so long as their internal cost ratios differ, regardless of absolute cost differences. This is considered by some to be the "deepest and most beautiful result in all of economics." As a result, according to this view, capital and labor should be devoted in each country to producing those goods that are relatively cheapest for it to produce, and a country should trade for those goods that are relatively more expensive to produce internally. However, if capital (and labor) can cross borders to pursue *absolutely* lower cost, then the whole reason-to-be for comparative advantage as a clever adaptation to the constraint of internationally immobile capital and labor completely disappears!

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The question thus arises: why constrain labor; that is, why prevent people from moving as free economic actors in the new, global economy? One reason for the restraint on migration has much to do with the fact that placing constraints on the mobility of a factor of production puts that factor at a competitive disadvantage in the distributive struggle. Because capital is more mobile than labor, capital has more options, increasing its bargaining power in wage negotiations. Companies threaten to move to another country—an easy transfer of capital—and workers relinquish their wage demands because it is impossible for them to move as well. Further, since the WTO, IBRD, and IMF are friendlier to capital than to labor, they promote the international mobility of capital but not of labor. (The *Wall Street Journal*, typically friendly to capital interests, surprisingly yet consistently favors free migration of labor. However, when one looks closer, perhaps what the *Journal* actually favors is free immigration of *cheap* labor into the US.)

The Free Trader's Misgivings about Open Migration

At a deeper level, free trade advocates perhaps recoil from free migration because they can see that it would lead to massive relocation of people between world regions of vastly differing wealth, creating a tragedy of the open access commons. The strain on local communities, both the sending and the receiving, would be enormous. In the face of unlimited migration, they might ask, how could any national community maintain a minimum wage, a welfare program, subsidized medical care, or a public school system? How could a nation punish its criminals and tax evaders if workers were free to emigrate? Indeed, one wonders, would it not be much cheaper to encourage emigration of a country's poor, sick, or criminals, rather than run welfare programs, charity hospitals, and prisons? (Fidel Castro took precisely this course of action in opening Cuba's jails in 1980. His policy encouraged a mass migration of prisoners and others that became part of the wave of "marielito" immigrants to the US.) Further, one might reasonably wonder how a country could reap the benefit of educational investments made in its own citizens if those citizens are free to emigrate. Would nations continue to make such investments in the face of free migration and a continuing "brain drain"? Would a country make investments in education if it experienced massive immigration pressures, which would dilute the educational resources of the nation? Would any country any longer try to limit its birth rate, since children who migrate abroad and send back remittances can be a good investment, a fact that might *increase* the birth rate? (With unfettered

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migration, a country could never control its numbers anyway.)

Few would deny that some migration is a very good thing—but this discussion concerns *free* migration, where `free' means *deregulated, uncontrolled, unlimited,* as in "free" trade or "free" capital mobility. One must also be mindful that immigrants are people, frequently disadvantaged people. It is a terrible thing to be "anti-immigrant." Free migration is a policy, and one can be "*anti-immigration*," or more accurately "pro-immigration limits" without in the least being *anti-immigrant.* One kind of globalization advocate, the global cosmopolitan, thinks that it is immoral to make any policy distinction between citizen and noncitizen and therefore favors free migration. Global cosmopolitans also suggest that free migration is the shortest route to their vision of the *summum bonum,* equality of wages worldwide. Their point is fair enough— there is some logic in their position, so long as the global cosmopolitan is willing to see wages equalized at a *low* level. But those who support free migration as the shortest route to equality of wages worldwide could only with great difficulty try to contend with problems of an open-access commons, and the worry of the destruction of the existing local culture and economy, and other issues raised in the preceding paragraph.

A more workable moral guide is the recognition that one's obligation to non-citizens is to do them no harm, while one's obligation to fellow citizens is *first* to do no harm, and *then* try to do positive good. The many dire

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consequences of globalization—such as over-specialization in a few volatile export commodities (petroleum, timber, minerals, and other extractive goods with little value added locally, for instance), crushing debt burdens, exchange rate risks and speculative currency destabilization, foreign corporate control of national markets, unnecessary monopolization of "trade-related intellectual property rights" (typically patents on prescription drugs), and not least, easy immigration in the interests of lower wages and cheaper exports—amply show that the "do no harm" criterion is still far from being met.

The Erasure of Economic Policy?

If globalization and free trade advocates refuse to accept that their own view entails embracing free migration, then perhaps they might consider whether their reluctance has a solid basis. They might ask themselves if some of their misgivings about the free flow of people might also apply to the free flow of those elements that are vital to people, especially capital, but also goods and services. Markets abhor boundaries, but public policy in the interest of community *requires* boundaries. Markets require policy and laws for their functioning, so indirectly even markets ultimately require boundaries.

Since globalization is the erasure of national borders for economic purposes, it also comes close to being the erasure of national economic policy as well. In addition, globalization even implies the erasure of international economic policy. For example, suppose all nations agreed to the Kyoto Accord on Global Warming. Now try to imagine how these nations could enforce domestically what they had agreed to internationally if they have no control over their borders. Institutions of control would have to be global because the unit being controlled would be global. And `global' is not to be understood in the federated sense of cooperation among individual nations that control their borders, but in the cosmopolitan sense of formerly separate economies now integrated into a single borderless world economy. The strength of global integration might be expressed in the following analogy: International interdependence is to global integration as friendship is to marriage. All nations must be friends, but they probably should not attempt multilateral marriage.

Opposing *free* trade does not necessarily entail supporting *no* trade at all in a world of self-sufficient nations. The opposite of *free* trade is not *no* trade, it is *regulated* trade. Rather, one reasonably can advocate for *regulated* trade, which is certainly the historical norm. The term"free trade" has become a rhetorically persuasive label for deregulated trade. No one is against freedom, or against trade, but many are against the total deregulation of international commerce. Consider recent examples: Was deregulation of the savings and loan banks such a good idea? Has deregulation of financial markets, stock markets, and energy markets been such a success? Given these fiascos, one wonders why the traditional regulation of international commerce in the national interest has become anathema to most economists. Do they want to abolish the nation and institute a world government? Perhaps they want to create a global open-access commons for corporations to competitively plunder? Given the arrogance and closed mindedness of the free trade establishment it is understandable that the streets of Seattle, and subsequent venues of WTO meetings, have become battlegrounds.

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The recent breakdown of WTO talks in Cancun, Mexico, lamented by many, was nevertheless encouraging to others—people are waking up! One source of the breakdown was the absurd, yet long standing, practice of the US and Europe to insist to developing nations that they should practice free trade policies, while the US and Europe massively subsidize their own agricultural concerns. Such subsidies ruin farmers of the developing world and deny them any hope of even relative food self-sufficiency. Developing nations might reasonably respond by enacting countervailing tariffs on agricultural imports, thereby protecting their own agriculture (i.e., negating the advantage of the US and European domestic subsidies). Subsequently, developing countries might negotiate reductions in import tariffs for corresponding reductions in export subsidies. But one sees none of these innovations because the developing world too is entranced by the global model of export-led growth rather than import-substitution. They seem to prefer expending their efforts in forcing open the markets of other countries rather than in developing their own internal markets under legitimate protection. Developing internal markets requires a broader distribution of income as well as temporary protection for nascent industries. These are politically difficult meeasures, and are also often opposed by the IMF. "Protection" is considered a pejorative among trade economists, but when pressed on their inconsistency—why they do not favor the "invigorating competition" of free migration—free trade advocates resort to some form of protectionist argument. Yet historically one sees that all developed countries have resorted to protection, most obviously of infant industries and of agriculture.

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Comparative Advantage Misapplied

Advocates of globalization and free trade inconsistently hold that migration of labor should not be free. The inconsistency is important, but there exists a crucial subtlety that requires clarification. Once one extends the traditional comparative advantage argument for free trade in goods and services to free trade in capital, then one must realize that it is inconsistent not to apply the comparative advantage argument to other factors, such as labor, as well. But here is the question: Was the first extension, from goods to factors such as capital, legitimate in the first place? The answer is no, since within the context of the traditional comparative advantage argument for free trade, the argument explicitly accepts as a premise the immobility of capital between countries! Both labor and capital must stay at home for Ricardo's comparative advantage argument for free trade to work. If capital and labor, as well as goods and services, are free to move between trading units then we are in the realm of interregional trade, not international trade. For interregional trade the operative principle is absolute advantage, not comparative advantage. If different countries are integrated—that is, they allow for the free flow of capital and labor—they essentially become different regions of the same "country" and comparative advantage gives way to absolute advantage.

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One may certainly make a reasonable argument for free trade and specialization in a world of capital mobility and absolute advantage. Alternatively, if one wishes to keep the world safe for comparative advantage and free trade in goods, one must also argue for immobile capital and labor. Yet today's free trade advocates base their case on comparative advantage without being willing to accept the necessary premise of capital immobility. They reason that if free trade in goods is beneficial, then adding free trade in capital just makes it all the more beneficial. However, this view is contrary both to Ricardo and, one might add, logical argumentation, since one cannot use the conclusion of an argument to deny one of its premises.

Further, the reason free traders do not make the free trade case in terms of absolute advantage is because they then would lose the theoretical guarantee that *each* nation is better off as a result of free trade. Under absolute advantage, free trade does not necessarily benefit both partners, although it does benefit the world as a whole in net terms; under comparative advantage free trade does benefit both partners, although not equally. Now one can begin to understand the attitude not just of free trade advocates, but of organizations such as the WTO, IMF, and IBRD. The mutual benefit of free trade is a trump card that these advocates and organizations do not want to give up. Without that trump card they would have to face the political question of distribution of these global gains, and they would have to explicitly acknowledge that some countries could lose from free trade.

Who Benefits?

Unwillingness to face this issue is ultimately what led to the failure of the Cancun talks. The South has come to suspect that it is a net loser under the *de facto* absolute advantage regime of globalization, while the North hides behind the irrelevant theoretical truth that in a comparative advantage regime free trade must necessarily benefit both parties. The theoretical truth is rendered irrelevant by the globalization advocates' insistence on free capital mobility, thereby negating a fundamental premise of comparative advantage. The free trade view chooses to see some aspects of trade and ignore others. They consider only the global sum of individual gains from trade, but they ignore how these gains (and losses) are distributed among individuals or communities, even national communities.

In theory, global gains are even greater under absolute advantage than under comparative advantage because the former removes the constraint of factor immobility. The absolute advantage argument is also considered a very high-minded position, untainted by the sordid vestiges of "nationalism" logically required for comparative advantage. However, if free trade advocates such as the WTO, IMF, and IBRD too explicitly proclaim their globally individualistic cosmopolitan view that only global net gains from trade matter, not *how* gains and losses are distributed among nations—then they are left with an important and problematic consideration.

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Consider the IMF, which is a federation of members and which exists to serve the interests of its members. But the IMF's members are *nations*, not individuals, not cosmopolitan, global individuals, and not even transnational corporate "individuals." By vigorously promoting globalization, the IMF has long subverted the independence of its member countries, serving instead the vision of a cosmopolitan, globalized, integrated world economy, rather than the vision of its charter—a federation of nations cooperating as sovereign units to advance the *national* interests of all members.

Working contrary to its charter, the IMF promotes integration at the global level but at the cost of disintegration at the national level. As the old saying goes: to make an omelet, you have to break some eggs. And to carry the analogy forward, one might say that to integrate the global omelet you have to dis-integrate the national eggs. This is the agenda adopted by the IMF, aided by the WTO and the World Bank. Certainly, the IMF should explain to its member countries that their interests as nations are no longer of concern to the cosmopolitan world citizens who run the IMF. One can reasonably wonder: if the IMF no longer serves the interests of its member nations, then whose interests is it serving? This was the tacit question raised to the IMF's partner, the WTO, in Cancun. The developing South, and many in the developed North, would have preferred an answer rather than the evasions they received. Rest assured that question and others raised in this present discussion will be present at the next WTO meeting, along with protesters in the streets.

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Sources: For another discussion of the problems of globalization, see "Globalization and Its Discontents," *Philosophy and Public Policy Quarterly,* vol. 21, no. 2/3, (Spring/Summer, 2001) pp. 17–21. The description of Ricardo's result as the "deepest and most beautiful result in all of economics" occurs in R. Findlay, *The World of Economics* (The New Palgrave, 1991), p. 99; for further discussion of the economist Ricardo and his insights, see, see: H. Daly and J. Cobb, *For the Common Good* (Beacon Press, 1994), Chapter 11.