

**11th CONFERENCE OF THE INTERNATIONAL ASSOCIATION  
FOR THE ECONOMICS OF PARTICIPATION (IAFEP)**

*‘PARTICIPATION WORLD-WIDE’*

**Katholieke Universiteit Brussel – K.U.B.  
(Catholic University of Brussels)  
Brussels  
4-6 July 2002**

**GLOBALIZATION, DESTRUCTIVE TRADE AND REMEDIES  
THROUGH COOPERATION**

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## **1. INTRODUCTION**

Perhaps the most significant development in world economic policy of the recent decades is what we call globalization: more precisely, globalization based on free trade. The desirability of such a policy is taken just about for granted, because of the commonplace theory, known from all introductory courses of economics, of comparative advantage. This being an accepted “God-given” truth, it is very hard to question.

And yet, the purpose of this paper and its point of departure is precisely to offer such a basic critique. The critique is based on what I refer to as my theory of destructive trade. This will be summarized here, but has been developed much more carefully elsewhere. [1,2 ]

But our objective here, in a conference dealing with economic democracy, goes beyond the theory of destructive trade and negation of free trade globalization. The first of our main points is to seek remedies for the identified ill effects of globalization.

And it so happens that while there may be several remedial avenues, probably the most promising is based on the realization that cooperative work in the developing countries – as compared to profit-maximizing capitalism – can safeguard some of the rents of worldwide poverty for those who otherwise would work at starvation wages imputable to the overabundance of poor humanity in the world.

The explanation of how all this would work, and especially a concrete design of such a remedial action, is not an entirely straightforward matter. It will occupy the main part of this paper.

In concluding we must realize that true justice in the world – not the injustice of present-day multinational globalization – must entail other component parts than a cooperative effort which is our main subject. These “subsidiary” elements will also be outlined.

Even at this stage of our introduction, it must be said that our analysis is not utopian, rejecting or condemning the work of all capitalist multinationals. Rather we try to integrate them into a broader setting, which would be just, equitable, and especially efficient for all members of the human family, and not just advantageous for the few.

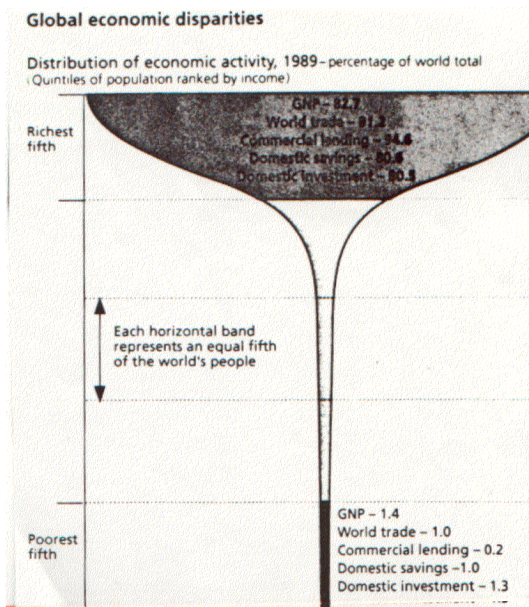
Of course it was a fantastic tragedy to see the World Trade Center go up in flames. But what must seriously preoccupy us is that the free trade globalization which was supposed to be symbolized or represented by the towers be repaired for the benefit of all.

## **2. DESTRUCTIVE TRADE AND FALSE GLOBALIZATION**

In its basic essence, the present-day policy of free trade globalization is based on the so-called theory of comparative advantage. The theory of comparative advantage is well known to all who have taken even basic courses in economics. It concludes that with full employment of all resources throughout the world, free international trade will lead to gains in output and efficiency for the world as a whole and no losses for any member of the trading community.

Of course, given such conclusions, free trade globalization should be commendable for the world as a whole. In fact, it should be even more strongly commendable on its assumptions, because under that theory it is the richest and dominant parts of the world which should gain least or not at all, and the smallest and weakest should gain most. Unfortunately these predictions, as is well known, are not verified by real world conditions, where the rich keep getting richer, and the poor poorer, or as poor as they ever were.

Let us take a glance at the UNDP diagram shown in the figure below, representing the state of the world as it looked in 1990. If we take the top 20 per cent of world population, representing nearly 90 per cent of world output and income, as the rich and dominant trading partner, the remaining world of the 80 per cent would have had to be gaining according to the theory of comparative advantage.



But it did not by any means. In 1990 the ratio between the income of the richest and poorest 20 per cent was about 60 to 1; in 1960 it was about 30 to 1, and by the beginning of our century, about 75 to 1. And it must be noted that in our crude and approximate analysis these measurements pertain to populations of richest versus poorest countries, and not individual people within those countries. If the latter scale of measurement were employed, all these results, both the absolute levels and rates of change, would appear more dramatic.

Obviously another theory, if it exists, must be found to explain these dramatic phenomena and to help us to seek remedies to the tragedy of humankind we are witnessing today. This is what I call the theory of destructive trade.

The first thing to realize is that international trade can be a result of all kinds of other things besides comparative advantage. There was in history slave trade. There was trade in guns, gutta-percha and ivory initiated by the king of Belgium. The theory of destructive trade identifies with neither of these, but may be a kind of a modern version of these earlier ones. It is possible to explain what follows using the same formal analysis as that of the comparative advantage, and I have done so elsewhere. [1] Here let us note just what is most essential.

Suppose that humanity like that in the UNDP diagram is divided between a minority of the rich and a majority of very poor living near subsistence, corresponding to, say, a 10 cents wage. All economic happenings are governed by decision makers of giant international corporations who start out paying 10 dollar wages in the rich countries, but who observe that they can find virtually unlimited amounts of labor (billions) at 10 cents or other very low wage rates, as shown in the diagram. It will not

take a degree from Harvard business school to figure out that the best strategy is to shut down in the rich world and produce in the poor, importing all products therefrom and exporting machinery and well-protected technologies, and possibly food to feed the overseas poor labor.

This is a much better theory, not only because it reflects the trade and capital flows of today, but also because it is consistent with the trends indicated by the UNDP data.

The key conclusions of this destructive trade theory are that:

1. The only guaranteed gainers in the operation are the owners of the corporations, with their top brass and management staffs.
2. Nothing guarantees any gains for the former employees in the advanced economies whose jobs are being destroyed;
3. Nor is there any guarantee of gains for the over-abundant labor in the poor countries. In fact they may even be losing if they have to lose their farm livelihood under competition with genetically modified agribusiness to work in maquiladoras, or risk their lives trying to emigrate into the top of the UNDP chalice. The inefficiencies that can be covered by our symbolic 10,000 per cent wage differential are so enormous that no one can say whether on net balance the destructive trade is beneficial to the world as a whole, even if the gains of the rich are discounted by the losses of the others.
4. Last but perhaps most important is that this type of world disequilibrium situation must be explosive in the long haul, pointing to disasters far worse than that of the World Trade towers. This is so because the forces governing destructive trade are the stronger, the greater the differentials between the rich and the poor. But destructive trade itself leads (as in the dynamics of the diagram) to ever more imbalance. It is as if the swings of a pendulum were increasing (not diminishing) with the distance of the pendulum from its equilibrium vertical position.

Thus in our view, present-day globalization based on free trade is ill conceived, and at best is beneficial to those who promote it. There is another form of global economic solidarity which is in harmony with the findings of the destructive trade theory, and this is what we want to speak of here.

## **1. BROAD PARAMETERS OF SOLIDARITY-BASED GLOBALIZATION**

We live in a post- Cold War world with only one superpower left – the United States. This causes several difficulties if we look for a leader of the world solidarity solution. First of all, the United States seems to have assumed, or stolen, such a position, but because it primarily deals with law and order as a policeman, it turns out to be a heavily armed bully in the world.

A true leader of solidarity-globalization would have to assume also the other key role of world leadership, that of economic justice; as indeed without such a role, violence and terrorism in the world can only increase. The other main problem is that the remaining superpower, the United States, is far too provincial or on the border -- sometimes in world politics standing alone with Israel among some 200 nations. Obviously if there is to be a leadership for a global solidarity solution, it would have to come from somewhere within the fat top of the chalice in our diagram, and not from its margins.

It may be suitable to take the analogy with the national welfare states as they developed in the twentieth century, based on three key precepts: law and order, democracy, and economic justice. The leadership of a solidarity globalization must be based on all three.

It is the third leg of the solution, economic justice, that concerns us in this paper. In the capitalist advanced world, this is often thought of as the condition of minimum wage, social security, et cetera. But the minimum wage which we know so well is a child and product of capitalism, which in itself is undemocratic because power rests in the dollar and not in the person.

In our analysis, we take heed of the democracy principle and try to go beyond the minimum wage into the world where labor is not a marketable commodity but a free democratic agent working and creating value under market conditions of everything but itself. This is the substance of our discussion below. Thus all three conditions – law and order, democracy, and economic justice – are fulfilled simultaneously, and not merely the law and order of the present world.

## **1. THE RESOURCES FOR THE SOLIDARITY – BASED GLOBALIZATION**

Of course to begin to implement solidarity-based globalization one needs considerable resources. As we will see starting with section 5, the most functional ones are an integral part of our democratic economic justice solution. But there are others also potentially very significant and logically inherent in the world situation of today:

1. If we start promoting true social justice – reversing the trends behind the Fig. 1 chalice – there will be gradually diminishing need for the presently horrendous military budgets in the world. The moneys spent on the military and military research can gradually be diminished and devoted to the multifarious tasks behind turning the guns into plowshares.

2. We should not forget that the enormous wealth and living standards of the top 20 per cent of humanity were secured from limited and non-renewable resources of our earth. In particular those are resources of energy, which at the time of fifty to one hundred years ago were building up America and the rest of the rich world, to the tune of one dollar a barrel of petroleum. Such resources will never again be available for the development of the 80 per cent of the poor. Using some objective calculation, it would be desirable to assess corresponding compensatory transfers from the rich to the poor; and that not on the basis of charity but on the basis of inter-solidarity rights.

1. Here I return to the arguments of destructive trade presented above, referring to a more careful discussion elsewhere. [2] It is unthinkable that in a rational world the 10-cent wage, or any other of that low magnitude, could be out-competing labor in the advanced countries at the level of 10 dollars an hour. It is imperative, at least for a limited, but quite extensive period of time (perhaps dozens of years) to protect domestic industries through import duties of appropriate size. BUT, the revenues of such protection should not go into the national government coffers of the wealthy, but be made available for the solidarity-based globalization strategy as our third resource.

## **5. SOLIDARITY-BASED GLOBAL ORDER: I. NATIONAL CONSIDERATIONS**

We have already indicated that to deal with the injustice of the chalice diagram, we can be inspired by something like the minimum wage policy of the rich countries. But our solution is not the minimum wage, itself the product of the capitalist system, which keeps producing and reproducing the chalice; but rather a fair income solution inherent in a democratic participatory economy.

There are several key points to be made on this subject, and they can usefully be clustered under two headings of I. national and II. international. We turn in this section to the first of the two.

By “national” we understand all aspects of the democratic solution pertaining to a given national, regional or local economy of the less developed part of the world. Of course, the policies here discussed would have to be applied simultaneously in all of the low income countries as seen in the chalice.

There are two characteristics of the national democratic solution of formidable advantage to the task at hand. First, it so happens that we are not entirely in the dark from the practical point of view, there being a well-known and extensive and amply described experience of what we have in mind in the history and case of Mondragon. Second, it so happens that the optimal form of a democratic economy – such as that of Mondragon – is also optimal by far in the context of seeking a just and equitable global order based on international solidarity.

The essential aspect of any democratic economy is the existence of a support structure, and this support structure can play a number of essential roles for both the national economy and the quest for a just global order. It would take another place to expose all such roles: here let us focus only on the principal ones.

First of all, there is the administration of some fair target wage or income for the country or region. It cannot be a minimum wage, because labor incomes in the democratic solution are not wages. But a fair democratic labor income (such as 50 cents instead of 10 cents in the present world order) can be entered for all cooperative firms of the nation or the region administered by the support structure as a target, or “accounting” income in preparing plans or feasibility studies for all the firms of the region.

Second, because cooperative firms in the poor countries tend to be small, and lacking in human capital and business know-how, another combined role for the support structure is that of an “incubator,” project evaluator and designer, financial adviser and many others.

Third, also related to the primitive state of the poor economies, there is the role of functional education, whether related directly to productive activity or to more formal classroom training.

Last but not least, the support structure, perhaps in cooperation with other support structures of other regions or nations of the poor world, must focus on energy, ecological, and technology aspects of the poor world. This task is one that the profit-maximizing multinational corporations, seeking their self-interest, are totally neglecting.

## **6. SOLIDARITY-BASED GLOBAL ORDER: II. INTERNATIONAL CONSIDERATIONS**

What we have called the “international role” for the support structures is as significant as the national or regional roles. The first significance will be immediately apparent from the fact that the administration of the support structures must reflect all interests involved in them, not only the national but also the international factors.

Thus, first of all, it is understood that the free motivation of large international corporations (who today are the “sharks” of destructive trade) would be invited to act through the national support structures. This implies a more civilized action, participating in the governance, together and with the national factors in a common dialogue leading to more optimal and fair solutions for investment, technology choices, factor-proportions, and so forth.

Second, there would be the problem of optimal allocation of the scarce transfer-resources, as noted above, originating in 1) military budget reductions; 2) ecological equity transfers to the poor countries; and 3) partial protective tariff revenues (see above). Such transfers would be channeled through the support structures, under supervision of the donor countries to prevent corruption.

The most significant aspect of such transfer allocations would be to choose investments consistent with local employment needs (e.g. see administration of various Grameen banks), local renewable energy, irrigation, food, medical, educational supply needs, and so on. This would counteract – even if wage injustices were done away with -- the often unsuitable projects based on the multinationals’ profit motive.

In a similar manner, orientation to internal needs would also involve “capturing” domestic highly-skilled talent not to emigrate (as in the “brain-drain”) but rather work on innovations and technologies and organizational patterns (such as coops) most beneficial to the poor home-economies.

## **7. CONCLUSION**

The intention of this paper was to offer a very broad view of inter-related major problems of globalization, and to outline possible remedies. The efficacy of such a brief statement should be obvious. Of course, each of the arguments made could be elaborated virtually *sine limite*, by this author or others, if such elaboration would be of interest.

[1] “Comparative Systems, Destructive Trade and World Distributive Justice”.

[2] “Destructive International Trade: from Justice for Labour to Global Strategy,” International Journal of Development Planning Literature, Vol. 13, No. 1, January-March 1998. [1] made available to the IAFEP conference.