

# WHAT IS ECONOMIC GLOBALIZATION?\*

## INTRODUCTION

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In this essay, we introduce the complex subject of economic globalization. We hope that you will gain a greater understanding of a movement that has done more to change lives, cultures, philosophies and even religious beliefs than any other social force in more than fifty years.

While some people may think that “liberals” in the church tend to see mostly negatives in economic globalization and conservatives see mostly positives, the reality is much more mixed. The committee that produced this resource included both voices. It was our opinion, however, that the percentages were not our concern. Even if the present economic rules and their application benefited ninety percent of the world and harmed only ten percent (which they do not), we should still be concerned. As Christians our mandate is to stand with that ten percent. Christ calls us to feed the hungry and clothe the naked, whether their numbers are high or low and we need to keep that in mind when we are discussing ways to “tweak” the current system, modify it, or change it altogether.

## DEFINITIONS

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A short definition of economic globalization is “The trans-national increase in trade and capital transfers across national boundaries.” Let’s define those terms: Usually when we think of the global economy we think of “trade,” the buying and selling goods and services, such as cars, coffee, etc. But even larger is the movement of “capital,” meaning investing and speculating with money itself. Currently, the value of nations’ currencies bought and sold on international currency exchange boards every day total more than one trillion dollars. Most of this is not foreign direct investment (for example, the purchase of a factory), but simply speculation on the value of money, or “gambling.” Some have called it “Casino Capitalism.” This is seldom mentioned in the business pages, but it has ballooned over the past decades as controls on capital transfers were reduced or eliminated and now it is larger than all of the other international financial transactions combined. From 1980 to 1997, it grew by more than 6,000 percent.<sup>1</sup> It was a contributing element in the recent Argentine recession and the key factor in creating the horrendous collapse of many Southeast Asian economies in the late 1990s.

The word “trans-national” and the phrase “across national boundaries” also need explanation. The world has always known international trade, but what makes modern economic globalization different is that nations are coming to play a smaller and weaker role in it. Modern trans-national corporations have offices and production facilities in a dozen countries and swear allegiance to none of them. For example, “Fresh Del Monte” is thought of as an old U.S. company. However, it grows produce in twelve countries, processes it eight, and is owned by a Middle Easterner named Mohammad Abu-Ghazaleh who does not even live in the U.S. It maintains offices in Coral Gables, Florida, yet is incorporated in the Grand Cayman Islands so that it can avoid paying US taxes.<sup>2</sup> So what is the “nationality” of this company? To whose laws is it accountable?

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Modern corporations are increasingly “stateless,” as they answer to no one, and have economies larger and more powerful than many of the countries that host them.<sup>3</sup> They make their own international trade policy, intervene in national policy, and use campaign contributions to sway the votes of politicians. These corporations are undemocratic, secret societies, and apparently prefer to do business in undemocratic countries.<sup>4</sup> Their invisible, above-the-law behavior is of increasing concern to people of faith and justice advocates who work to push them toward more humane treatment of workers and respect for the environment.

Today’s model of economic globalization came into prominence in the early 1980s, sparked in part by the beginning of the third world debt crisis and the incoming administrations of British Prime Minister Margaret Thatcher and American President Ronald Reagan. Poor countries had found themselves caught in a “perfect storm” of bad economic forces and could no longer make payments on their external loans.<sup>5</sup> International financial institutions such as the World Bank and the International Monetary Fund (IMF)<sup>6</sup> stepped in to buy the bad debt from commercial banks and offer lower interest rates to the indebted countries.<sup>7</sup> In exchange for their help, the Bank and the IMF demanded dramatic structural adjustments in the economies of the indebted countries. Those demands eventually became the *de facto* rules by which today’s global economy is largely run.

By the end of the decade these rules had become formalized and even had a name. In 1989, an economist named John Williamson published an article pulling together a consensus of the generally agreed upon economic policy prescriptions of the various economic institutions based in Washington, D.C.—the IMF, World Bank, and U.S. government. He called his list the “Washington Consensus.” The title (though not necessarily its contents) has since taken on a life of its own and become short-hand for the radically deregulated and privatized free market system that is today assumed by the major media, military, and economic powers to be the only conceivable model for the global economy.

Williamson himself has complained that over zealous promoters of a near-radical agenda have taken over his term and contorted it into a much more harmful and punishing agenda than he had intended. He calls their policies “laissez-faire Reaganomics—let’s bash the state, the markets will resolve everything.”<sup>8</sup>

The policy prescriptions coming mainly from the IMF and World Bank have been described by both supporters and critics as harsh—though supporters say that they will eventually produce great benefits while the critics are not so sure. Now, after 25 years of forcing these prescriptions on nations around the world, there is increasing evidence that in those countries that followed them closely, the economy grew very little or not at all, while in those that ignored or modified them, the economy grew more rapidly.

It is helpful to note that even in Williamson’s original form the consensus was based on an underlying philosophy that—unless modified in response to protests by advocacy groups—was not very concerned with issues such as poverty, the environment, human rights or democracy. Williamson later admitted that he intentionally avoided any reference to poverty alleviation in his original policy list because such issues were simply not raised in the economic environment of the Reagan Administration and he would not have had a “consensus” had he attempted to add it.<sup>9</sup>

These “consensus” rules have become so revered by their followers that they are occasionally treated like a religion. They are frequently called “Market Fundamentalism” and the religious sound to that title is no accident. George Soros, a financier who made billions in global transac-

tions but who is now one of its harshest critics, calls the “magic of the marketplace” the “dominant belief in our society today.” It is driven by an emptiness in the human soul that cannot be filled by goods and services. “Unsure of what they stand for,” he says, “people increasingly rely on money as the criterion of value...The cult of success has replaced a belief in principles. Society has lost its anchor.”<sup>10</sup> Bill Moyers, host of the PBS program, *Now*, calls it “the ruling religion of America...Its god is profit. Its heaven is the corporate board room. Its hell is regulation. Its Bible is the *Wall Street Journal*. Its choir of angels is the corporate media. You’ve got a religion in this country of free markets that is established in the political culture as well.”<sup>11</sup> Economic globalization was, in fact, described as “a form of idolatry” in the General Synod resolution (see the paper at Tab 1 in this collection) that led to the creation of these resources. The resolution noted that in the hearts of some of its adherents, modern economic globalization “has developed its own totalizing, systemic view of the world, with clear definitions of good and bad, articles of faith, rituals of worship, and standards for salvation.”<sup>12</sup>

## RULES

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So what are the creedal “beliefs” behind the “religion” of economic globalization? Williamson’s original list had eight policy prescriptions, some of which would be considered mainstream by most economists and barely controversial. For example, one goal is to keep down inflation which could depress investment and growth, while another is to maintain a realistic foreign exchange rate. Another requires a country to avoid a negative current account balance since a country, like a household, cannot spend more than it takes in for long. These suggestions are *relatively* non-controversial. (In fact, some are such good advice that one wonders why our own federal government does not follow them.)

However, there are other global economic “rules” in the consensus that seem to have been driven more by ideology (that maintains, for example, that support for the wealthy is a fundamental goal) than empirical evidence or standard economics. These are the ones of most concern to people of faith and other justice activists.

One rule requires a country to open up its economy to the world by eliminating quotas and tariffs. This forces local fledgling businesses to compete on what is called an “even playing field” against huge, often subsidized, multinational corporations. Mexico, for example, accepted this rule when it signed the North American Free Trade Agreement (NAFTA) in 1994. One result was that its thousand-year history of growing corn was in ruins just a few years later. Indigenous farmers could not compete with highly subsidized U.S. agribusiness which began to dominate the Mexican market.<sup>13</sup> According to a 2000 study of the effects of NAFTA on Mexico, “two million *campesinos* were forced off their land in the first two years of NAFTA alone... Accelerated imports of cheap corn made Mexico dependent on U.S. agribusiness for one-fourth of its consumption of basic grains. But these cheaper imports did not reverse the decline in per capita food consumption as incomes fell after an estimated one million workers lost their jobs in 1995.”<sup>14</sup>

A second questionable provision requires a country to open up its financial markets and eliminate controls on capital flows. It is an article of faith among supporters of the Washington Consensus that lifting controls on money flowing in and out of a country will increase foreign direct investment, promote economic growth, and lift the poor from poverty. A number of recent studies have shown, however, that while the evidence is spotty on whether “liberalizing” (deregulating) the flow of money contributes significantly to economic growth, there is mounting evidence that it actually harms the poor. A country with a deregulated financial sector where fortunes can be made or lost by gambling on the value of its exchange rate has an economy that is poten-

tially very volatile. When the inevitable crisis occurs, international financial institutions (the IMF and World Bank) usually step in to bail out the nation. But the bail-out typically requires cuts in health care or education, services that mainly benefit the poor.<sup>15</sup> Meanwhile, the wealthy can safeguard their money by sending it out of the country (so-called “capital flight”) to protect it from the falling value of their currency. Thus, in these crises the suffering is seldom distributed equally across the population.<sup>16</sup>

A third provision urges the privatization of state-owned enterprises, that is, the sale of government-owned companies, utilities, and even health care facilities and schools to private corporations. Some state enterprises are clearly bloated and should be streamlined or sold to save money and become more competitive. But in the current system of globalization there appears to be a distaste for government itself. Governments are seen as inherently inferior to free markets and corporate-led globalization. Moreover, the ideology of market fundamentalism calls for rapid and radical privatization, a practice that is dangerous when carried out in the real world. Privatization is successful in some cases (usually where markets are already well developed and good information is available), but causes unparalleled suffering in others. In these countries, horror stories tell of hurried sales made without first putting in place protections to safeguard people from the inevitable damage. (The robber baron take-over of Russia is an extreme example.) Former World Bank Chief Economist Joseph Stiglitz argues that privatization can be beneficial when done as a part of a comprehensive set of reforms that include creating jobs for laid-off government workers and regulations for newly privatized companies. Otherwise the result is massive layoffs, a rise in user fees and a decline in services.<sup>17</sup> Stiglitz notes that the IMF (and occasionally the World Bank) focuses solely on selling the state-owned enterprises in order to raise money to balance the national “check book.” Instead, he argues, economists (and we) should be looking at the overall picture, one that includes the “costs” of massive unemployment, alienation, anxiety, increased street crime, and family violence. Cochabamba, Bolivia, is a famous example. The World Bank pressured the government of Bolivia to sell off the city’s public water system to a subsidiary of the California engineering giant, Bechtel. Immediately the price of water rose and became unaffordable for the poor. Protests broke out and over 1,000 heavily armed police were called in. People were shot. Some died. But the experiment with privatization ended.<sup>18</sup>

Finally, consider the Washington consensus provisions that require the deregulation of corporate management and governance, and the rules of trade and finance. Promoters of free trade-based globalization argue that deregulation, like the other rules, are not only good for business but eventually good for the poor as well—though some admit that the benefits to the poor must necessarily lag behind the benefits to the rich. The church and everyone concerned with justice should point out that even if this “economic eschatology” is correct (that when the kingdom finally arrives someday, all will be fed), we cannot in good conscience support the misery that occurs between now and then. Also, we need to understand that the evidence to support this view does not exist.

## **EVALUATION**

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One 2003 study using data from the World Bank, the IMF and the United Nations looked explicitly at the impact on the poor of the deregulation of trade and investment. Researchers found that while deregulation usually increased international trade flows, it seldom benefited the poor. The authors tested the impact of increased deregulation on the incomes of poor people and found that “global deregulation of trade and capital markets does hurt the poor [and that] trade flows in more *regulated* environments may be good for growth and, by extension, for the poor in the long-run.”<sup>19</sup> In addition they found that “income inequality between and within countries”

went up as countries deregulated their economies. They noted that “in 1980, median income in the richest 10 percent of countries was 77 times greater than in the poorest 10 percent; by 1999, that gap had grown to 122 times. Inequality has also increased within a vast majority of countries.”<sup>20</sup>

Another helpful study looked at World Bank and IMF reports on economic performance and social indicators among nations that followed the policies of the Washington consensus. Social indicators are not the only valid measurement of poverty reduction, but they do indicate whether standards of living in various societies have risen or fallen during a given period.<sup>21</sup> These studies found that, contrary to glowing reports in the press, economic growth around the world was actually better *before* the age of intense economic globalization than during it. Instead of triggering an explosion of rapid growth fueled by international economic integration, the era of economic globalization has actually been a time of economic slowdown in some regions of the world, with actual declines in others.

Even in those areas where growth rates rose, for example, in Southeast Asia, countries were nonetheless growing faster before the time of rapid globalization than afterward. For example, Hong Kong grew at 6.9% annually in the eighties, but only 5.6 % in the nineties. Korea grew at an annual rate of 9.4% in the eighties, but only 7.2% in the nineties. Indonesia grew at 7.6% in the eighties, but only 6.1% in the nineties. These numbers for the 1990s end prior to the collapse of the East Asian economies in 1997. Therefore, they should show a high level of growth. (If data had instead been collected throughout the 1990s, until, say, 2000, it would have shown negative growth.)

In the era of rapid globalization, low- and middle-income countries around the world experienced per capita GDP growth of less than half the average for the previous 20 years. Mexico would have had nearly twice as much income per person today if not for the growth slowdown during the increased globalization period of the last two decades. Brazil would have *more than* twice its current per capita income.

## CONCLUSION

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Despite the concerns raised in this essay, economic globalization *per se* is not a bad thing. And in any case it is probably inevitable. However, the philosophy and practice of this *particular* type of economic globalization disregards such values as the development of democracy, civil society, the equality of persons, and the protection of the environment. It is like the shark in the movie, “Jaws,” which the Richard Dryfuss character describes as not evil, but simply a “feeding machine.” It will eat anything in its path to stay alive. It does not have a conscience for either good or evil. Similarly, the present global economic system will consume anything in its path in order to continue to grow larger to benefit its creators. However, though it needs to eat to stay alive, it does not necessarily have to eat people or the environment. Its grazing paths were not “destined before the foundation of the world” (1 Pet. 1:20) as its creators would have us believe. Communities of faith and conscience *can*, if they work hard, work together, and learn the habits and feeding patterns of the shark, redirect it toward health, growth, and greater justice for all. Or they can sit back and let the various elected and unelected officials tell them that it is not really a problem and then watch their communities be slowly eaten away. Another world is possible.

## ENDNOTES

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<sup>1</sup> Doug Henwood, "The Americanization of Global Finance," *NACLA Report on the Americas*, Vol. XXXIII, No 1, pp. 13-20.

<sup>2</sup> Anthony Depalma and Diana B. Henriques, "Lawsuit Says Del Monte Sale Was Rigged," *The New York Times*, December 19, 2002.

<sup>3</sup> Sarah Anderson, and John Cavanagh, "Top 200: The Rise Of Corporate Global Power" Institute for Policy Studies, 2001, <http://www.ips-dc.org/top200.htm>.

<sup>4</sup> "Globalization Survey Reveals U.S. Corporations Prefer Dictatorships," R.C. Longworth, *International Herald Tribune*, November 19, 1999.

<sup>5</sup> See the article on the history of the debt crisis in this resource for more background on this.

<sup>6</sup> See descriptions of these institutions in the *Faithful Response* General Synod pronouncement.

<sup>7</sup> It's worth noting that most of the "rescue" packages designed during this time were designed to protect the banks in the one third wealthy nations, not help the poor in the two-thirds poor countries.

<sup>8</sup> John Williamson, "What Should the World Bank Think about the Washington Consensus?" *World Bank Research Observer*, v15 no2 (Ag 2000) p. 4.

<sup>9</sup> John Williamson, *Ibid.*, p. 251-64.

<sup>10</sup> Quoted in Wayne Elwood, *No-Nonsense Guide to Globalization* (Ontario: New Internationalist Publications, Ltd, 2001), p. 17.

<sup>11</sup> *Now*. Public Broadcasting System. Interview with author and economist Thomas Frank. Broadcast February 1, 2002.

<sup>12</sup> "Calling for a More Just, Humane Direction for Economic Globalization" (GS 23, 2001).

<sup>13</sup> Tim Weiner, "Corn Growing In Mexico 'Has Collapsed' As U.S. Imports Flood Country," *The New York Times*, March 8, 2002.

<sup>14</sup> *The Other Side of Mexico* #69, Sept.-Oct. 2000, cited in *Economic Justice Report*, "Towards an Economy of Hope: Proclaiming Jubilee!" Volume XII, No. 1, April, 2001.

<sup>15</sup> Alexander Cobham, "Capital Account Liberalisation and Poverty," Working Paper Number 70, Finance and Trade Policy Research Centre (April 2001). "While the growth benefits of liberalisation are far from clear for poorer countries, there may be significant costs in poverty terms." See also, By Mark Weisbrot and Dean Baker "The Relative Impact of Trade Liberalization on Developing Countries" (Washington: Center for Economic and Policy Research, June 12, 2002).

<sup>16</sup> Christian E. Weller, and Adam Hersh, "The Long And Short Of It: Global Liberalization, Poverty And Inequality" (Economic Policy Institute, June 2003).

<sup>17</sup> Stiglitz, *Op. Cit.*, pp. 54-59.

<sup>18</sup> William Finnegan, "Leasing the Rain: The world is running out of fresh water, and the fight to control it has begun," *The New Yorker* (August 8, 2002). "Bolivia: The Water War Widens," Jim Schultz, *NACLA: Report on the Americas*, Vol. XXXVI, No. 4, January/February, 2003, pp. 34-35. See also Wallace H. Ryan Kuroiwa, "Privatizing Water: Profits Over People," in *Privatization: A Challenge to the Common Good* (Cleveland: United Church of Christ, Justice and Witness Ministries, 2003), pp. 4-5.

<sup>19</sup> Weller and Hersh, *Op. Cit.*, p. 2

<sup>20</sup> *Ibid.*, p. 4. Emphasis added.

<sup>21</sup> Mark Weisbrot, Robert Naiman, and Joyce Kim, *The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization* (Washington: Center for Economic Policy and Research, 2000), p. 4.