A strategy to promote healthy globalisation

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Last week, in this column, I **argued** that making the case that trade agreements improve economic welfare might no longer be sufficient to maintain political support for economic internationalism in the US and other countries. Instead, I suggested that opposition to trade agreements, and economic internationalism more generally, reflected a growing recognition by workers that what is good for the global economy and its business champions was not necessarily good for them, and that there were reasonable grounds for this belief.

The most important reason for doubting that an increasingly successful, integrated global economy will benefit US workers (and those in other industrial countries) is the weakening of the link between the success of a nation's workers and the success of both its trading partners and its companies. This phenomenon was first emphasised years ago by Robert Reich, the former US labour secretary. The normal argument is that a more rapidly growing global economy benefits workers and companies in an individual country by expanding the market for exports. This is a valid consideration. But it is also true that the success of other countries, and greater global integration, places more competitive pressure on an individual economy. Workers are likely disproportionately to bear the brunt of this pressure.

Part of the reason why US workers (or those in Europe and Japan) enjoy high wages is that they are more highly skilled than most workers in the developing world. Yet they also earn higher wages because they can be more productive – their effort is complemented by capital, broadly defined to include equipment, managerial expertise, corporate culture, infrastructure and the capacity for innovation. In a closed economy anything that promotes investment in productive capital necessarily raises workers' wages. In a closed economy, corporations have a huge stake in the quality of the national workforce and infrastructure.

The situation is very different in an open economy where investments in innovation, brands, a strong corporate culture or even in certain kinds of equipment can be combined with labour from anywhere in the world. Workers no longer have the same stake in productive investment by companies as it becomes easier for corporations to combine their capital with lower priced labour overseas. Companies, in turn, come to have less of a stake in the quality of the workforce and infrastructure in their home country when they can produce anywhere. Moreover businesses can use the threat of relocating as a lever to extract concessions regarding tax policy, regulations and specific subsidies. Inevitably the cost of these concessions is borne by labour.

The public policy response of withdrawing from the global economy, or reducing the pace of integration,is ultimately untenable. It would generate resentment abroad on a dangerous scale, hurt the economy as other countries retaliated, and make us less competitive as companies in rival countries continue to integrate their production lines with developing countries. As Bill Clinton said in his first major international economic speech as president, "the United States must compete not retreat".

The domestic component of a strategy to promote healthy globalisation must rely on strengthening efforts to reduce inequality and insecurity. The international component must focus on the interests of working people in all countries, in addition to the current emphasis on the priorities of global corporations.

First, the US should take the lead in promoting global co-operation in the international tax arena. There has been a race to the bottom in the taxation of corporate income as nations lower their rates to entice business to issue more debt and invest in their jurisdictions. Closely related is the problem of tax havens that seek to lure wealthy citizens with promises that they can avoid paying taxes altogether on large parts of their fortunes. It might be inevitable that globalisation leads to some increases in inequality; it is not necessary that it also compromise the possibility of progressive taxation.

Second, an increased focus of international economic diplomacy should be to prevent harmful regulatory competition. In many areas it is appropriate that regulations differ between countries in response to local circumstances. But there is a reason why progressives in the early part of the 20th century sought to have the federal government take over many kinds of regulatory responsibility. They were concerned that competition for business across states, and their ease of being able to move, would lead to a race to the bottom. Financial regulation is only one example of where the mantra of needing to be “internationally competitive” has been invoked too often as a reason to cut back on regulation. There has not been enough serious consideration of the alternative – global co-operation to raise standards. While labour standards arguments have at times been invoked as a cover for protectionism, and this must be avoided, it is entirely appropriate that US policymakers seek to ensure that greater global integration does not become an excuse for eroding labour rights.

To benefit the interests of US citizens and command broad political support, US international economic policy will need to focus on the issues in which the largest number of Americans have the greatest stake. A decoupling of the interests of businesses and nations may be inevitable; a decoupling of international economic policies and the interests of American workers is not.

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