

## Supplementary Reading for

### **Chapter 6 Lesson for Europe from the Quebec Trade Summit**

## **A Changing World Economy**

**An Excerpt From *The Conflicts of Globalization***

**By Charles O. Lerche III**

The economic dimensions of globalization have attracted the most popular attention, much of which has been negative due to the frequency and variety of conflicts for which the process is blamed. The economic realm is also an area in which it can be argued that conflict has led to some creative responses from the international community.

First, it should be acknowledged that, as Austrian economist Joseph Schumpeter argued, capitalism inevitably involves a process of "creative destruction." Competition stimulates firms to innovate, both in products and in production, in order to outdo their rivals. However, entire industries and regions can be "destroyed," or at least marginalized, as more innovative competitors take the lead in a given sector. This is demonstrated, for instance, by the change from the horse and cart to the automobile, or from canals to railways. The liberal argument has always been that, despite the rather Darwinian way this process produces "winners" and "losers," society as a whole benefits from constant improvement in the quality and range of goods and services available to consumers. In this sense economic globalization is viewed as the logical extension of this process to an increasingly unified global market.

However, as MacEwan has forcefully stated: Losers... are not simply impersonal firms or abstract inefficient technologies. In the real world, losers are people, sometimes capitalists, but always workers, individually and as communities. Creative destruction means the unemployment of real workers, the destitution of real communities, devastation of the environment, and disempowerment of the populace.

This has, in a sense, always been the case since capitalism replaced feudalism as the dominant system of production. But the contemporary period is also characterized by a reduction in both the willingness and ability of governments to keep employment high through public expenditure or to pay the unemployment and welfare benefits which, to some degree, protected workers in the industrial countries from the creative destruction of capitalism during the decades immediately after World War II. Rather, the increasing importance of international finance capital in the world economy has compelled governments to be much more concerned about the "investment climates" in their countries, and to insure that financial markets "approve" of their macroeconomic policies.

Put very simply, globalization has radically shifted the balance of economic power in favor of capital, which is highly mobile and thus able to move where profits are to be gained; and against labor, which is much less mobile (even in an economic community like the European Union), and whose basis of organization is still more national than international. As Ethan Kapstein has argued: The forces acting on today's workers inhere in the structure of today's global economy, with its open and increasingly fierce competition on the one hand and fiscally conservative units--states--on the other...Growing income inequality, job insecurity, and unemployment are seen as the flip side of globalization.

Kapstein and MacEwan are writing primarily about the industrialized countries, but the situation of those former "Third World" countries who cannot find a place in the new world economy is even more grave:

... with the absolute costs of labor becoming less and less important as a competitive factor (versus low labor costs relative to a certain level of technological sophistication and economic integration in the world economy), many countries and regions face a process of rapid deterioration that could lead to destructive reactions. Within the framework of a new informational economy, a significant part of the world population

is shifting from a structural position of exploitation to a structural position of irrelevance.

He goes on to describe what form these "destructive reactions" might take: ...first...is to establish new linkages with the world economy via the criminal economy ... A second reaction is the expression of utter desperation through that widespread violence, either individual or collective, which has transformed major cities in the Fourth World (and entire regions in some countries) into savage, self-destructive battlegrounds...A third reaction, rapidly developing in the Fourth World...is the rise of ideological/religious fundamentalism, easily associated with terrorism and/or semi-religious war.

In his third point, Castells links the cultural reaction discussed earlier to the deteriorating economic conditions of what he calls "Fourth World" societies. He suggests that movements of reaction--whether ethnic, fundamentalist or Marxist have in common a wish to:

...cut all bridges with the 'the Other' (i.e. the developed world and its logic in the developing world), since there is little chance that the excluded can ever become true partners in a system that is so extraordinarily inclusive of economies and somewhat exclusive of societies.

Significantly, social deterioration and reaction are not confined to the Third/Fourth World as Steve Hellinger, Executive Director of The Development GAP organization, points this out:

What has been the reality across the Third World for more than a decade is now coming home to roost. Declining incomes, growing inequalities, job insecurity, drugs, crime--these are the forces that are tearing at the social fabric of communities across the Northern hemisphere.

Furthermore, both Hellinger and Kapstein argue that such conditions have been fertile ground for demagoguery in the United States, Europe (both Western and Eastern) and the former Soviet Union. As Kapstein puts it:

It is hardly sensationalist to claim that in the absence of broad-based policies and programs designed to help working people, the political debate in the United States and many other countries will soon turn sour. Populists and demagogues of various stripes will find 'solutions' to contemporary economic problems in protectionism and xenophobia. Indeed, in every industrialized nation, such figures are on the campaign trail.

These domestic tensions also contribute to conflicts among states. Domestic manufacturers threatened by free trade frequently lobby their governments for legal protection from foreign competition. When they succeed, though some element of domestic political support is gained by the national leadership, relations with the state(s) whose exports are restricted, necessarily suffers. Or, states (such as the U.S.A.) which have fairly open markets for a variety of industrial imports pressure other states which are perceived as not as reciprocally open (such as Japan), for "fairer" trading arrangements--with the threat of retaliation never very far in the background. The accelerated creation and expansion of regional trading blocs reflects the same tensions between a need to increase free trade, and a concern to safeguard traditional economic activities from overseas competition by guaranteeing regional producers an expanded market.

Despite the fact that global free trade is far from an accomplished fact, there is nonetheless evidence that many governments have understood the need to avoid a return to the type of extreme economic nationalism and "beggar thy neighbor" policies often portrayed as having contributed to the onset of World War II. This explains why international economic relations are characterized by an institutional structure which is more comprehensive than anything yet existing in the political realm. In this regard, the International Monetary Fund and the World Bank have

recently been joined by an even more supranational organization, the World Trade Organization, which has a well-developed dispute settlement mechanism and the authority to impose substantial penalties on those member states which flout its decisions. These developments demonstrate that in regard to a wide range of economic matters, many of the world's political and economic elites have concluded that the benefits of submitting to these organizations outweighs the benefits of a more independent policy.

Such advances in global collective action could be seen as harbingers of similar initiatives in other areas. However, Rosenau's "global authority crisis" should be kept in mind. The average people around the world increasingly feel they have suffered from economic globalization, and they are increasingly doubtful about the wisdom and motivation behind many contemporary international "trade deals". It is hardly surprising, therefore, that the promotion of further free trade has become a divisive political issue. For instance, a poll by the Bank of Boston showed that 51% of U.S. citizens believed free trade pacts cost U.S. jobs and 57% opposed any new trade agreements with Latin America. Furthermore, 73% wanted labor and environmental issues included in negotiations for any new trade agreements.

### Questions for Discussion:

1. Austrian economist Joseph Schumpeter argues that capitalism inevitably involves a process of "creative destruction.". Do you agree with him? If yes, why? If not, why not?
2. According to this article, what is inevitable in the process of capitalism replacing feudalism as the dominant system of production? And why is it inevitable?
3. Do you agree with the author when he says "Growing income inequality, job insecurity, and unemployment are seen as the flip side of globalization"? And why?
4. What are the "destructive reactions" and to what extent do you think they are important?
5. What are the forces that are tearing at the social fabric of communities across the

Northern hemisphere? And where do the forces come from?

6. Do you think there is some truth in protectionism and xenophobia? Why or why not?
7. There seem to be some tensions between a need to increase free trade, and a concern to safeguard traditional economic activities. What do you think is the solution to the problem?
8. The author of this article argues that the average people around the world increasingly feel they have suffered from economic globalization, and they are increasingly doubtful about the wisdom and motivation behind many contemporary international "trade deals". Do you agree with the author? Why or why not?