

The Promise of Globalisation

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Universal capitalism still seems a distant dream. Despite the widespread rejection of Marxism, and the extremer forms of socialism, there is still hostility to the basic features of the free market, little public understanding of its mechanics and an eagerness to support any glamorous campaign that promises to reduce the alleged excesses of economic liberty. The latest target is globalisation or the *natural* spread of free trade throughout the world; the exchange of goods, services, firms and products across the arbitrary barriers of political boundaries and insular national institutions. The apparently remorseless progress of the market is a threat to local cultures and businesses, the environment and other favoured causes of the intelligentsia and purely self-interested sectional group, such as trade unions. Thus, at recent world gatherings to advance free trade, for example, at Seattle and Genoa, we have seen idealistic Harvard graduate students, concerned about the deprived of the world, in alliance with hardnosed steel union bosses to prevent the importation into advanced countries of cheap foreign steel from poorer lands. This concerted and violent

attack on modernity was coordinated with the use of sophisticated mobile phones and other gadgets of the electronic age. But these anachronistic movements have received success in the political arena: President Bush has just imposed heavy tariffs on steel imports into the United States. The anti-globalisation agitators seem not to have noticed that this harms poorer countries.

But there is nothing new about globalisation or about the logic, if you can call it that, of the protesters. Globalisation is simply the extension of the principles of the market to wider realms and its opponents are straightforward statist and socialists. Globalisation is another, less elegant name, for what Friedrich von Hayek called the 'extended order'. Adam Smith had pointed out long ago that the limits to progress and prosperity were set by the limits of the market. To the extent that there are artificial, politically-determined, barriers to trade it means that there are limits to the advantages of specialisation and the division of labour. To the extent that each group of people is prevented from profiting from what it does best, the natural progress of mankind is stunted and stagnation is likely. Countries A and B only trade if it is to their

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mutual advantage; A might produce wool cheaper than B while B could produce corn more economically than A: if they trade the wellbeing of everybody is advanced. Prosperity comes about not through accumulating gold or foreign currencies but by expanding trade.

In nineteenth century Britain, the import of cheap foreign corn was forbidden until the price of home corn reached a certain level. This was very good for British landowners and farmers but very bad for everybody else. Something like this operates in the Common Agricultural Policy of the European Union today. Of course, in the contemporary world it is equally likely that the workers in industries threatened by foreign competition will manipulate the political system for sectional advantage and will use the rhetoric of socialism to further their cause.

The Attack on Globalisation

The critics argue that because of globalisation, poverty on the world scale has increased dramatically and inequality between nations has reached inhumane and unsustainable levels. The spread of the West economically, and of its ideas, have both contributed to the misery and suffering of the Third World. Apparently, billions of people in the world struggle to live on less than \$1 a day and less than 20% of the earth's population own 85% of its wealth. Furthermore, Western technology is rapidly depleting resources and destroying the environment.

The West has not achieved its success by fair means but by systematically exploiting the rest of the world, especially the less well-developed part. America is especially blamed for the plight of the poorest nations. It has allegedly used its power to fix markets and to drive the deprived to abject poverty. European countries have suffered a little less

from this self-righteous wrath, largely because many of their intellectual spokesmen have been only a little less viscerally anti-American than Third World critics, but have been conventionally classified as exploiters. In fact, some of the strictures levelled against the West have, ironically, some validity but not for the reasons proclaimed by the anti-globalisers. It is the West's failure to extend globalisation to all aspects of economic life that has prolonged the misery of the Third World.

In theory, the spread of trade should advance prosperity. As the most spirited defender of global capitalism, Johan Norberg¹, says, the liberalisation of world trade opens up the opportunities for individuals to develop their creativity, their entrepreneurial skills and to discover new markets. Poorer nations do so much better economically the *less* they are dependent on foreign aid; which invariably goes to the parasitic rulers rather than to the deprived. Or is as likely to be spent on weapons of war as on the needs of the people. When they have not been corrupt, such governments have adopted some of the worst strategies of the West, including the illusion that wealth can be created by laws and regulations.

However, despite many man-made obstacles, the less developed countries have shared in the prosperity of the recent decades. So much so that the proportion of the world's population in absolute poverty has fallen from 30% to 20%, and much if this is attributable to the growth in world trade.² The remarkable success stories here are China and India. Although the former country still has an oppressive political communistic regime the economy itself has largely been privatised. India, while basically a liberal democ-

¹ Published by Timbro, Stockholm, 1972.

² Martin Wolf, "Are Global Poverty and Inequality Getting Worse?", *Prospect*, March, 2002, pp. 16-21.

ocracy (just), suffered from decades of close regulation, import controls and a plethora of other interventions on the market but it has now been liberalised substantially. The relative prosperity that India and China have enjoyed undoubtedly comes from the growth in free trade brought by the historic World Trade Agreement.

Critics of globalisation will undoubtedly say that much of the progress in India and China preceded world trade liberalisation and was a consequence of technological investment. But this is a more than a little disingenuous. Growing prosperity was a result of many types of liberalisation, of which one important one was the emergence of freer trade. Others were the belated encouragement given to innovation and entrepreneurship and the easing of regulations. All the causes of the success of China and India are due to the market, and none to the state.

And it would be unwise of the critics of globalisation to rest their case on technological determinism, for there are far too many examples of countries making very little progress despite technological investment, the Soviet Union and a number of African countries being obvious examples. Trade is much more important than 'investment', which often involved the construction of plant and equipment to make goods for which there was no demand. Investment in Africa often took place where there was excess labour. Study after study has revealed that economic growth tends to occur in those economies in which the ratio of trade to Gross Domestic Product has been high.

However, there are too many poor in the world and for historical and economic reasons the developing countries will take a long time to catch up with the West. One lesson to be drawn from recent events is that so far from globalisation contributing to the

misery of the Third World it has not gone far enough. There are still far too many impediments to free trade between the advanced North and the backward South, especially in agriculture. It is a rarely appreciated fact that the successful economies spend very nearly \$1 billion a day in agricultural protection. It is spent on products in which the developing countries would have a comparative advantage. But governments find it politically easier to appease known and powerful interest groups at home rather than advance the goals and ambitions of anonymous individual citizens of the world economy.

The Obsession with Equality

All data about equality are inherently contestable and there seems to be no objective facts that could settle a dispute between egalitarians and their rivals about the extent of income variations, or other types of equality or inequality, in society. The data about poverty, although unlikely to resolve all issues, itself seem much more tractable. All sensible observers seem to agree that there has been some improvement, no matter how slight, in the alleviation of poverty but is the world becoming more or less equal? In fact, there is a growing body of evidence that indicates that the move towards globalisation has not led an intensification of inequality. A recent World Bank³ study reports a decline in inequality since its peak in the 1970s, certainly between countries, even if not within them. An important point is the reduction in inequality between China and India taken together and the rest of the world (the former are fast catching up with South America and the middle range countries) and this must be to do with the rapid industrialisation that is going ahead there.

³ Wolf, p. 17.

But one should ask the question: why the overriding concern with equality? Is it not better that the very poorest should have their suffering relieved rather than some abstract goal of equality be so sedulously pursued? Indeed, some increase in inequality might be necessary if the right incentive structure is to be provided which will enable the overall of economic well-being to be raised. Entrepreneurs and innovators require the motivation of inequality if they are to make improvements and we all benefit from this. Two hundred years ago Britain was a much more equal country than it is now but which era should we approve of? Obviously the present day world: and the important point here is that the *worst off* are now better placed economically than they have ever been before.

It is crucial to note that economic development will always be unequal. There will be some losers as well as beneficiaries from any economic process. And they cannot be identified in advance by some master planner. The economic world is in a constant state of flux so that there can be no guarantee that the current market for goods and services will survive into the future. Tastes change, production possibilities are altered by innovation, so that what is a profitable line of activity today might not be tomorrow. This means that, regrettably, the fortunes of whole nations may be affected, favourably or adversely, by the vicissitudes of the market. Not only individuals but whole countries may have to adjust to change and uncertainty. But only in a proper globalised economic regime can that adjustment take place efficaciously.

Some Doubts Resolved

It is often said that protection might be justified in some circumstances to enable new industries to develop in some security. If they were exposed too quickly to the rigours

of international free trade they might be strangled at birth, leaving a country without an industrialised base: in the long run, apparently, we all would suffer. This, the 'infant industries' argument, goes back to the mid-nineteenth century. But it has no economic credibility. Any protection for the weak and inefficient is bought at the cost of the successful economic activities. How does the government know which enterprises will be successful in the 'long run'? Are not consumers being unfairly penalised before this imaginary nirvana is reached? They are forbidden from buying goods at the cheapest price.

But even if these purely economic arguments were not persuasive, the 'infant industries' case is irredeemably flawed. It depends on there being a wise, omniscient and benevolent government always acting in the public interest. But public choice theory tells us that government does not act *disinterestedly*. It will always act in a self-interested manner, normally to stay in office and to keep its supporters in employment. These obvious motivations that influence the behaviour of governments will drive them to take decisions that are not in the public interest. The economically wrong 'infant industries' will always be protected.

If the developing world it to take advantage of globalisation, which is the only sure route to prosperity, it must do something to make itself attractive to overseas investors. It noticeable that the area in which the abject poverty still prevails is sub-Saharan Africa; a part of the world where law and order does not exist, in which governments are little more than predators who prey on their populations and where large parts of the land and resources have been reduced to a type of commons on which brigands and robbers roam at will. India and China have proved attractive to direct foreign investment because they pro-

vide security for economic transactions and guarantee a legal environment in which trade can prosper. But far too often African governments spend too much time enriching themselves, salving their consciences by indulging in pointless anti-Western propaganda and making their countries inhospitable venues for capital.

Globalisation has not been without its conservative critics, but these turn out to be the very same people who have always distrusted the individualism of market theory, feared the threat that markets in practice pose to established institutions and have always used the state to protect industries and enterprises that allegedly have some significance to the nation as a whole. They especially dislike the spread of the 'Macdonald's culture', the habit of historic towns being defaced by cheap, fast food restaurants. The French are particularly sensitive to this issue and are unduly concerned that the cultural history and literature of France are under threat from Americanisation and the English language. It is said that since the market and the extended order know no boundaries or social distinctions, valuable communal practices, whose true worth cannot be expressed in price, are permanently under siege from the globalisation.

Some of these arguments are merely aesthetic and cannot be subject to rational appraisal. But if people really did prefer traditional practices they would express their preferences by boycotting the 'Macdonald's culture'. But this has not happened and one suspects that the cultural practices that the critics of globalisation want to protect from the ravages of the market are merely the preferences of the elite, whether it is socialist or conservative. And, indeed, those cultural practices that are deeply embedded in the history and common experience of a community have proved to be quite robust against the onslaught of the anonymous market. Do the critics really suppose that the typical far Eastern cultures have been corroded by the soulless market? Or that

traditional religions have been powerless against consumerism? Apart from the fact *all* the great religions, Judaism, Christianity, Hinduism and Islam, have traditionally been pro-market (only their modern aberrations, which were infected by the virus of Marxism, departed temporarily from this) it is the case that only minor adjustments have had to be made to religions in order to cope with the alleged problem of globalisation.

And globalisation *itself* is no threat to the environment. If one compares the damage effected by socialist planning to that caused by capitalism, the latter is a quite a benign economic regime. Whole swathes of land and natural resources in Eastern Europe and the Soviet Union were laid to waste by socialism. All capitalism requires is a predictable set of rules which can be used to enforce good environmental standards on producers. Considerable progress is already being made in producing this.

Conclusion

The most striking feature of the criticism of globalisation is that there is nothing new about it at all; it belongs to a long and discredited set of anti-market dogmas. Again, the main things that can be said in defence of the spreading of international trade derive from traditional, wellhoned arguments about the efficiency and rationality of markets. Those who don't like globalisation cannot logically favour markets in general, indeed many critics are former Marxists, for the global exchange system has the same logic as the most local, and minor, markets. But the final validating feature of globalisation is the contribution that it makes to human freedom. The extended market is perhaps the most effective device man has discovered for avoiding the depredations of the state. Whether it is in education, health, pensions or every other aspect of policy, the state has been the major cause of our loss of liberty. If it interferes with international trade it will diminish our freedom still further.

