

# GLOBALIZATION: THE RACE TO THE BOTTOM

*By Ed O'Rourke*

Globalization means a concerted effort to reduce tariffs, red tape, and subsidies that are impediments to world trade. This effort got started at the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire in July, 1944. Delegates from all 45 Allied nations met to oversee monetary, financial, and trade barrier reduction. The common feeling was that the high tariff walls erected in the 1920s and 1930s had a significant role in bringing on the Great Depression which in turn created the conditions that enabled the Nazi's rise to power. The Allies were determined to avoid another world war. Increasing prosperity for all seemed like a good way of doing that. The Bretton Woods Conference, as it came to be known, created two institutions, the World Bank and the International Monetary Fund.

A few years later, the General Agreement on Trade and Tariffs (GATT) was instituted. GATT evolved in a series of trade agreements made from 1947 to 1994. On January 1, 1995, the World Trade Organization, a formal institution, took over GATT's role. The globalization movement was strong a long time before the term globalization came into vogue.

Advocates of global poverty elimination and environmentalists would do well to examine the current world trade system to reverse what has become a race to the bottom. Globalization proponents such as Thomas Friedman, the Wall Street Journal, and the chambers of commerce have at least one common trait: they represent the beneficiaries. This is like asking pre-1861 Southern plantation owners about the advantages and disadvantages of slavery.

Nobel Prize winner, Joseph Stiglitz, in his book *Making Globalization Work*, looks at the picture from the point of view of the poor in the developing countries, and he does not like what he sees. In the trade negotiations with the World Trade Organization (WTO) or government to government dealings, there is no fairness or a desire to reduce poverty. Poor countries cannot

afford \$400 per hour attorneys, trade experts, or highly priced superstars to represent them. In the Green Room at WTO headquarters, the United States and the European Union frequently select a few developing countries with whom to negotiate, and then pressure them to break ranks with other developing countries. They insist that the chief trade negotiator bargain without the assistance of others in his or her delegation.

When I was studying economic development in the 1970s, the literature cited poor soil, few natural resources, lack of decent infrastructure, cultural values, corruption and a colonial heritage as impediments to a higher standard of living. What I realize now is that rich countries deliberately keep the poor countries poor. The Washington Consensus—the policies of the US Treasury, the International Monetary Fund and the World Bank—work together to take from the poor and give to the rich. This is called the Washington Consensus because all three institutions are in Washington, D.C, located within a few blocks of each other. The driving force is to keep raw materials and agricultural products cheap and to maintain friendly governments with wretched human rights records. The American Central Intelligence Agency arranged the overthrow of democratic regimes in Iran (1953), Guatemala (1954) and Chile (1973). The American president in each case decided that nationalistic leaders in these countries would bargain harder for their exports and be less agreeable to following American foreign policy.

Japan, the United States, the European countries, and the prosperous ones in East Asia typically developed their economies by means of high tariffs, government subsidies, regulation of foreign investments, and building infrastructure. The United States had a high tariff wall, subsidized the railroads, financed agricultural colleges, and built canals and highways. It was not until the 1970s that the US allowed foreign banks to have offices here. The Washington Consensus organizations and the WTO encourage another economic model, one of trade liberalization and privatizing which none of the affluent countries ever adopted.

Free trade means no subsidies and no trade restrictions such as tariffs. The US maintains agricultural subsidies to mostly rich or corporate farmers and maintains agricultural tariffs, as if this were fair. The subsidies drive up the price of land making farming more capital-intensive. This has sad social and environmental effects. Small farmers sell out to larger farmers to obtain the capital gain. There is a heavier use of herbicides and fertilizers which takes its toll on the environment.

There has to be more flexibility on Trade-Related Aspects of Intellectual Property Rights (TRIPs) which compel countries to recognize each other's patents and copyrights. Pharmaceutical companies currently wish to sell AIDS related medicine at full market prices to Africans and others. Since the people in these countries cannot afford this, African governments should be able to issue compulsory licenses that would compel companies to sell the medicines at just above cost. The United States would have done this during the anthrax scare in 2001 had the Bayer company not allowed others to produce Cipro, the most effective antibiotic known at that time. There should be a distinction between the truly necessary drugs and the cosmetic and life style ones.

Under the current TRIPs structure, corporations from rich countries can take the traditional knowledge and native plants of poor countries, patent them and charge exorbitant prices for them. There have been famous cases of bio-piracy. One involved the patenting of turmeric a spice used in South Asia that was well known for its healing properties. The United States issued a turmeric patent 1993 for medical use. Through expensive litigation, a court rescinded the patent.

Another involved India where basmati rice has been grown for hundreds of years. In 1997, an American company, Ricetec, Inc., obtained a patent on this rice. The outraged Indian government fought the case and won. Few poor countries have the resources to fight these injustices. A biodiversity treaty outlawing bio-piracy is in order.

A new trade treaty must include minimum environmental standards. Too often, a mining company will extract gold, make huge profits, pull out of the underdeveloped country, and leave poisonous tailings of arsenic-ridden waste. The social and financial clean-up costs exceed the mine's earnings, the company declares bankruptcy and the poor people pay twice. They are left with the contamination and the mitigation costs.

The proposed environmental treaty can have several provisions, waivering limited liability, criminal prosecution of the transnational companies' officers, and substantial payments into an escrow fund until final settlement.

American citizens have the idea that the International Monetary Fund bails our countries that have currency crises. In fact, they bail out the bankers who were frequently greedy or stupid enough to extend loans to countries known for corruption or dictators or both. The IMF imposes conditions on their bail outs: 1) drastically cutting government spending on health, education,

and food subsidies, 2) raising interest rates 3) increasing taxes and 4) deregulating securities. An ailing country's citizens suffer even more but the creditors get paid.

One solution is to establish an international credit rating agency that would classify potential major loans to poor countries such as Standards & Poors does with the American bond market. Loans to dictators buying arms to crush a rebellion or loans to a corrupt government would be rated in a junk bond status. An international credit court would dismiss creditors' lawsuits when a legitimate government would come to power.

Another solution is to start regional monetary funds, such as in Asia, with a board of directors drawn from the teachers, clergy, labor unions, and farmers as well as a few bankers. The Chinese and East Asian governments have enough currency reserves to establish a new entity. Venezuela's President Hugo Chavez has already initiated plans for a regional monetary fund for Latin America. We might hope Africa could eventually do the same.

My recommendation is to scrap NAFTA (North American Free Trade Agreement) , CAFTA (Central American Free Trade Agreement), the International Monetary Fund, the World Trade Organization, and the World Bank. Start new treaties and organizations with the idea that they must help the entire society not just the transnational corporations. Establish the new organizations with a board of directors that represent a cross section of humanity, not just the elites. The new organizations will be democratic and operate with transparency.

There is an old feeling that making world production grow would help everyone, "A rising tide lifts all boats." Congressman Sherrod Brown notes that in 1960, the richest fifth of the world's people had 30 times as much income as the poorest fifth. Now, the ratio is about 80 to 1. It turns out that a rising economic wave lifts yachts while it swamps more modest vessels that end up sinking with virtually all hands aboard.

It is time to reject the charade offered by free trade proponents and use fair trade principles.

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