Part 3: Different Designs for Global Welfare

Introduction

Though we are in a unique age, there are parallels with previous periods. My suggestion is that we should look at globalization in the same way that Americans saw the problems of industrialization at the turn of the century. An entire generation of "muckrakers" pointed to the excesses of the robber barons at the turn of the century. Steady progress was made through the early part of the century in smoothing out the exigencies of cushioning and adjustment to markets, culminating in the New Deal in the 1930s. The efforts of these activists led to women's voting; labor protections; anti-trust; worker and child safety statutes; and to the basic social security protections that balanced out the volatility of the market and reduced poverty. The stability of these reforms did not squelch economic growth, on the contrary the post-World War II era was a booming economic period. During this period, other important social legislation made a significant difference for Americans, including civil rights and environmental protections. These changes further raised the American standard of living. While occurring in fits and starts, there is no question that global governance of the economy has steadily increased.

What's Missing from Global Finance and Trade Institutions

This system, however, is showing signs of major strain. Massive trade and budget deficits in the US have led to an erosion of confidence in the dollar, at the same time as a series of financial crises have led to questions about the adequacy of the current system. Financial crises in Russia, Mexico, Brazil, throughout East Asia, and Argentina in the 1980s-90s demonstrated two key problems. First, there is inadequate liquidity for world monetary demands. The demand for capital from emerging giants in China and India is enormous, yet there are not enough dollars to invest in these countries. The result is that the Chinese have fueled growth on the back of massive increases in exports, throwing US and European industries into kilter. After a brief boomlet of investment in emerging markets in the early 1990s, the fact is that developing countries have to offer huge premia to attract capital. In that sense, clearly, the world capital market is not working. A capital market should be making investments in the areas of greatest return; as of now the risks perceived so high and the liquidity so tight, that many good products, not to mention millions of consumers, have no access to capital. Despite the claims of snake oil salesmen like Hernan de Soto, the creation of access to capital for the poor will only come from the creation of viable financial systems. The sorry state of those systems at present prevents both entrepreneurship and dampens the standard of living as durable goods and housing are unaffordable.

One of the problems, quite obviously, is that the easy tariff reductions have been won already, so that progress in further liberalization is increasingly difficult. The present impasse includes an inability to agree upon reduction of agricultural subsidies, in a sense a clash between the progressive liberalization and the safeguard principles. At the heart of the matter is a growing relative strength and cooperation of the largest developing countries, China, India, and Brazil, as well as a growing relative strength of the EU to resist the US vision for trade. As a result, no major trade agreements have been created at the international level for almost 10 years now *, since the Uruguay Round. The action on the secondary regional front of action has been equally disappointing. The EU is stuck in gear, attempting to get its populations to sign *post hoc* onto an ever expansive political vision. Mexicans feel quite disappointed with the results of the NAFTA treaty, which has not brought major increases in investment flows, and indeed, maquilas have shut down and moved to China. Mexican agriculture, esp. sugarcane, has been devastated by US imports. The explosive growth of outsourcing from North America and Europe of what were previously considered untouchable service jobs such as those in the engineering and computer programming fields have added fuel to open questions about the trading system, included in the primary debates of the 2004 US Presidential election. The rise of China as the premier trading power further promises to shake up the landscape. While Chinese dominance may be a sign that the free trade system is working, it is also a sign of the unevenness of whole trading system.

Part of the problem is the costs of trade adjustment that economists largely ignore. There are two aspects of this that can be understood in simplistic fashion when we think about the basic Ricardian model of comparative advantage. The first is that the distribution of the gains from trade are unknown. In other words, it clearly may be beneficial for world efficiency for England and Portugal to trade, but if wine is much cheaper than clothing, than England will end up being richer. If there are many producers of wine, as is the case with the commodity-basis of most developing countries, and a concentration of large markets to which producers need to gain access, then England may have bargaining leverage to push the relative price even more in its favor. Furthermore, if wine has a lower level of employment, and Portuguese clothing factories close because of trade, there will be major employment effects in both Portugal and England. Now, if we add in the factor of technological gains, then England may be able to plow some of its newfound revenue to beefing up its international financial leverage and increasing the productivity of its producers. It may discover a new technology that further expands the divide between the two countries and even allows it to out-produce Portugal in wine.

The pat answer of most economists has been to simply call for trade adjustment. In practice, trade adjustment has never been funds have never been allocated for wholesale adjustment of downsized industries such as textiles in the US. Part of the problem is the question of how to retrain employees who may have been part of the workforces of certain industries, such as coal mining for generations, and for whom the occupation is a close part of their individual and social identity and way of life. Another part is that there is no clear science to what makes retraining programs effective. It is inherently paradoxical to use a public sector agency to train workers for the dynamic needs of a private market.

In the past, these problems were dealt with by allowing for what John Ruggie calls "embedded liberalism." This gets back to the safeguards part of international trade. On a wider scale, logic tells us that all kinds of "domestic" policies have important implications for trade- government spending, research and development, investment in education, tax policy, etc- yet are considered off the table for trade negotiations. In a sense, the welfare system of the North has been the shock absorber for the social fall out of expanding free trade. Just as progressive tax systems were set up to help even out different remunerations to different activities, welfare systems are designed to help individuals make the transition from the whims of the market. While retraining has never been a prominent part of policy, workers attempting to adjust can rely upon workman's compensation, unemployment insurance, educational subsidies, and public health care as a safety net. While these safety nets do not address inequality of opportunity, they have allowed for us to reduce the transactions and individual and social costs of economic adjustment. The problem, as reflected in the wave of welfare reform across the North, is that the world economy is too integrated to allow for such systems to thrive any longer. Welfare systems are seen to raise the cost of living, and in a world where production is increasingly mobile, this means a loss of advantage and jobs. This is reflected in the reducing power of labor to protect these systems as well as labor legislation. However, the changes to mobile production have uneven effects on an international level as well. While coastal China prospers, rural interior China is left behind. While China as a whole increases its prosperity, countries like Burma and Bangladesh and much of Africa fall further behind. In the same way that geographical disparities are increasing, so are industry disparities. While internet programmers may gain in salary, textile workers fall behind- creating a lasting wealth gap as these differences lead to different opportunity structures for the next generations. In this sense, the increasing horizontal (across countries) and vertical (across industries) segmentation is now evidently international, and not national in scope. The textile worker who has no limits on the number of hours worked will undercut the worker in South Carolina who does. The IT programmer in South India who has no health benefits will undercut his counterpart in San Francisco, not just on pure salary, but also on this factor in the cost of living. The race to the bottom along these lines threatens to peel away the welfare provisions, including labor and environmental protection that make the market palatable and workable for most people in the North. This situation obviously calls for a system of welfare provision on the global level, a revolution as necessary now as it was during the Great Depression. This would lead to a race to the top, rather than a convergence at the bottom.

Why It is In Our Interests to Construct a Global Welfare System: A Back of the Envelope Calculation

Global environmental problems, immigration pressures, downward wage pressures, insecurity from terrorism and reliance on far flung commodity suppliers, humanitarian and global disease problems, all promise visions of a series of crises for the coming future that each nation can only deal with in haphazard fashion. Yet, there is a key pressure point upon which all of these crises touch, which if addressed could turn the nightmare towards a paradise. The pressure point is population growth. Uncontested evidence shows that healthy families where women have the opportunity to work have less children. This means slower population growth which reduces pressures on immigration, the creation of new terrorists, and competition linked to weak labor and environmental standards. The slash and burn agriculture of the rainforests, the desperate turn to narco-trafficking or sweatshop conditions to support oneself would all be diminishing enterprises, if we treated one of the chief causes rather than symptoms of global problems. Reducing population pressure is a chicken-and-egg problem. Urbanization reduces family size, as do access to contraceptives, education, and health care. Ensuring female access to education and health care are the surest ways to reduce population growth without controversy over abortions or contraceptive use. More prosperous families are healthier and provide a productive contribution, rather than a drain or threat to the global economy. However, huge populations in developing countries, even at a reduced pace, make such transformations seem glacially slow and overwhelming. A global system is needed to accelerate the change to a low population, high quality of life economy. Without such attention the average American, Japanese, European and Canadian will find it impossible to compete with the thousands of hungry, hard working, and, in Asia, well-educated growing middle classes.

Such a system would ensure that no one starves, that labor has reasonable bargaining rights, that a policy that respects the environment is enforceable, and that basic human rights are afforded to all. The initial reaction to my proposal would be to avoid such commitments at all costs as too expensive. The general ineffectiveness of the pittance of what we call aid is well documented and incontrovertible given the continuing sorry state of most of humanity. However, such a view would ignore the costs now spent on terrorism and defense, cracking down on illegal immigrants, preparing for the transmission of diseases, such as polio (now making a comeback) from abroad, and environmental degradation. By recognizing that we are now living in a global economy, we simply move to regulate that economy in a fashion where it can best thrive. Not only do we reduce the costs of such problems, but we can create a whole new generation of consumers. Let us consider some basic “back of the envelope” costs for such a system:

Spending on Global Fund to Fight AIDS	\$3 billion and climbing[1]
costs of illegal immigration enforcement	\$28.9 billion and climing[2]
costs of war in Iraq and Afghanistan respectively	\$252 billion and climbing[3]
costs of refugee crises	\$1.35 billion just by the UNHCR[4]
costs of narcotrafficking	\$12.2 billion just by US[5]
costs of env’l degradation	incalculable

vs. estimates of costs of reaching UN Millenium Development Goals related to basic improvements in health, education, gender equality, environmental improvement, and disease eradication in the developing world

\$28 billion in 2006[6]

---

[1] http://www.avert.org/aidsmoney.htm

[2] fy 2005 amount, \$49 billion was requested for 2006

[3] \$186 and \$66 billion so far; David R. Francis, “More costly than ‘the war to end all wars,’” *Christian Science Monitor*, Aug. 29, 2005, http://www.csmonitor.com/2005/0829/p15s01-cogn.html

[4] 2005 budget for The United Nations High Commission for Refugees states that there are 10.4 million international refuges at present, and another 25 million “internally displaced” ones.

[5] US White House, FY 2005 expenditures, see http://www.whitehousedrugpolicy.gov/publications/policy/06budget/

To be sure, these are very rough estimates, given only to demonstrate that the costs of providing basic welfare for the planet are far exceeded by the costs of Not doing so. We do not need to be rocket scientists to understand that a little investment in prevention and improvement will avoid disastrously expensive consequences down the road. For instance, a series of Rand reports note that an investment in greater educational access to education for illegal immigrants would benefit the state of California handsomely in terms of a more skilled workforce that could then contribute more greatly to the state's economy, besides reducing pressures on public services (McCarthy 1998; Venez 1998). The same would hold analogously true on the global level. As we can see, it is clearly illogical for us to continue to pay the costs of the symptoms of global problems without addressing the costs, which is much cheaper besides all the humanitarian benefits.

The main problem with the United Nations, and the variety of other celebrities and non-profit organizations who have echoed this line, is that they continue to rely upon a system of voluntary charity in order to fund these commonsense projects. In my 2004 book with Trevor Parfitt, *Development Projects for a New Millenium*, I outlined why development in general simply is ineffective, a few of which bear highlighting here. For one thing, development reduces world citizens to charity cases. That means that rather than looking at education or health as an investment in a future citizen that can then pay taxes and grow the economy even more, beneficiaries are constructed and treated as helpless cases for pity. Charity at the international level is closely tied to national interests, rarely coordinated, and arrives in haphazard and inconsistent fashion. Development projects and agencies rarely, if ever, undergo any serious independent evaluation, and there is no system for learning from projects. The main result of development aid seems to be to fund middle class bureaucrats who have good intentions but neither the resources nor the wherewithal to make a real difference on the ground. There is a basic lack of resources, only a few countries actually meet their agreed upon target of giving 0.7% of aid. Moreover, they answer to both donor country politics and host country politics, as well as the bureaucratic maze of their own organization, constantly pulled in different directions. By code, they effectively support corrupt and inefficient regimes in developing countries who are to a great degree responsible for the development projects to begin with. In responding only to governments, they have come under fire from ngos and citizens who wonder why they should spend money on organizations that have no direct accountability to them. Obviously, this system is not working. What is needed is a global system that parallels the basic protections we enjoy in the North. This system should have its own revenue base and independent action, as well as direct accountability to world citizens. Let us briefly discuss how such a system could be constructed.

The Steps Forward to a Prosperous and Safe World

---

[6] Acc. to Millenium Project, commissioned by the UN Secretary-General, see http://www.unmillenniumproject.org/reports/index_overview.htm

Introduction

In this section, I would like to make 2 points. First, I would like to point out that a global welfare system does not mean giving up local decisions, or rendering us to the whims of some distant bureaucracy. There are an infinite variety of systems by which these goals could be accomplished. For example, the millions of tax dollars that are annually lost by corporations who set up their headquarters in places like the Cayman Isl. would now be available to governments. A small percentage might go for international efforts to raise standards of living, while the rest would be recaptured by the US government. These corporations would no longer be able to simply use sweatshop labor or outsource jobs on any terms to developing countries desperate for jobs. Since all would have to play be the same rules, there would be an end to this race to the bottom. For example, a small percentage tax (5% or less) on financial and international transactions, such as international arms sales, would provide sufficient funds to set up the basic enforcement mechanisms and social welfare distribution means to get the project going. As more consumers are added to the economy, the resources will expand, creating a virtuous circle of funds and resources for the expansion of the world economy. The xs and os of a few of the possibilities can be laid out here, with actual numbers showing the feasibility of the project. The alternative is to continue to see the downward convergence and increasing segmentation between the haves and have nots in the global economy.

On the Revenue Side

The criteria for a global taxation authority should be that any tax should be progressive, non-discriminatory, and least distortionary of trade and investment flows. By creating a global tax system, we would effectively reduce distortions multiply manifest throughout the system.

For a number of years now, economists like Tobin have been calling for a tax on international financial transactions to reduce the volatility of financial flows. Countries such as Chile and Malaysia successfully put controls on "hot" money to reduce such volatility. This concept could be extended to a basic tax upon all international transactions, including trade and finance. If we included were able to incorporate a global tax for corporations, who sitting offshore, presently pay none, we would raise billions of dollars with minimal effect.

In the spirit of the Live Aid and Live 8 concerts, we could place a small tax on rock concerts and other entertainment, such as films and video rentals in the North to pay for such schemes. If we added a small % tax on all entertainment, including the billions we spend annually on sporting events in the developed world, we would have a vast pool of resources, and an entertainment industry that could make an effective difference.

We could also institute various tax sources that related problems directly to solutions. For example, we could have a small % tax on pharmaceutical sales and a series of sin taxes on alcohol and tobacco to raise money for health concerns. We could put a small tax on gourmet food items, such as coffee, or on luxury items, to pay for improving educational access. One of the biggest revenue producers would be to create a small % tax on arms sales, which could then be used for peacekeeping and international security operations designed to make the world safer. We could place a small tax on the energy consumption, to help pay for environmental protection.

Another basic tax that would be easy to administer would be a universal tax. A global tax regime would allow us to ensure corporations pay an appropriate share in taxes, and avoid using offshore banking or transfer pricing or a myriad of other schemes to avoid taxes. There are a number of possible ways to administer this type of tax. One way would be to simply have a global income tax, based on the publicized figures of worldwide profits. Howard Wachtel suggests that this could be done proportionate to the % of worldwide sales occurring in each jurisdiction; he uses the example of Nike, 40% of whose sales occur in the US (Wachtel 2004). Another alternative would be a universal sales tax, or ust. A small % would be added onto existing tax collections to help. Both of these taxes would be progressive in the sense of taxing the larger markets and richer consumers more, as they spend more and consume the lion's share of energy and other resources. As with other sales taxes, basic needs items such as basic foods and transport and poorer areas could be made exempt or taxed at a lower rate.

The key thing for this system is that a few small % points added to each transaction would be almost unnoticeable after the initial outcry. Such taxes would be progressive by placing more of a burden upon those who consume more, however they would also be fair and have long-term vision in the sense that richer consumers in the developing world who have similar consumption habits would also be contributing. There would be no need for direct enforcement, as the tax would be simply added onto the already functional tax systems in the North.

Who Would Determine Expenses

Before answering who and how the taxes raised would be spent to deal with global problems, we have to cut through one major remaining obstacle, namely that direct expenditures in a developing setting or otherwise would mean dealing with corrupt international organization bureaucracies and host governments. Simply put, the mentality in this regard needs to change. International organizations such as the UN are extremely weak because they must constantly cobble together different powerful nations' support for their missions, and there is little scrutiny or evaluation of their results. In this case, a steady revenue stream would resolve the problem of continual coalition-building and begging for resources. Secondly, the agency, with assured resources would act in concert with powerful nations, but essentially would have independent authority to make decisions. Such decisions would be limited to where and how much to spend on specific global welfare programs over any given 5 to 10 year period. Because the mandate of the agency would be limited to these specific tasks, there would be no concern on the part of citizens or states of infringement or dictation from a world government. Many developing country governments are corrupt and ineffective. They would be given a choice of accepting world welfare as direct payments to their citizens as a package or not receiving anything. The world welfare council could thus work with host governments cooperatively without compromising their mission and direct duty to every citizen. In international finance, it would mean that local banks have to conform with a universal set of sound management and transparency principles, and greater resources would have to be provided to ensure liquidity and stability in the financial system (Mead 2003; Winer 2002).

The best and only way to ensure accountability would be to set up democratic systems, just as we do on the domestic level- taxation with representation. To ensure that members of this agency were accountable to world citizens, we would need to discuss some combination of voting and representation for a deliberating council. Also important would be to ensure that there is an independent auditing and evaluation arm of the council. A wide variety of governance systems could be envisioned. For example, one half of the council could be popularly elected and the other appointed by the 10 states with the largest contributions. Or citizens from each country could elect delegates. These delegates could elect representatives along geographic, development status, or other lines to ensure representation of the appropriate interests. The council itself would not have to become a massive bureaucracy. It could receive competing proposals for bids to complete programs or projects that it suggests. While this idea may seem hard to swallow for some people, these initial thoughts, hopefully, will spark greater discussion. Over 200 years ago, there was no such thing as democracy. Over 100 years ago, slavery was accepted and women had few legal rights. Over 50 years ago, there was no such thing as development or the WTO. While it may seem shocking to us in prospect, in hindsight, such adjustments will look like a continuation of a natural evolution towards a better functioning system on this small unhappy planet we all share.

McCarthy, Kevin F. and Georges Venez. 1998. Immigration in a Changing Economy: California's Experience-Questions and Answers. Santa Monica: Rand Corp.

Mead, Walter Russell and Sherle R. Schwenninger, ed. 2003. *The Bridge to A Global Middle Class: Development, Trade and International Finance*. Boston: Kluwer.

Venez, George and Lee Mizell. 1998. Goal: To Double the Rate of Hispanics Earning a Bachelor's Degree. Santa Monica: Rand Corp.

Wachtel, Howard M. 2004. Tax Distortion in the Global Economy. In *Global Tensions: Challenges and Opportunities in the World Economy*, edited by L. B. a. S. Bisnath. NY: Routledge.

Winer, Jonathan M. 2002. Globalization, Terrorist Finance, and Global Conflict: Time for a White List? In *Financing Terrorism*, edited by M. Pieth. Boston: Kluwer.