

# **The World Is Round: A Real Plan to Solve Global Problems in this Generation**

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## **Part A: The Mounting Dislocations of the Emerging Global Economy<sup>1</sup>**

### Introduction

We live in a world of great transformation. Citizens everywhere can feel the ground shifting from under them, yet we do not yet have a road map of the changes, let alone a blueprint for how to address them. We have all noticed the breakdown of steady employment prospects. The dream of so many immigrants to make a middle class life for themselves in the West continues, but the reality is that most of us are constantly worried about losing our jobs and our benefits, as well as whether we will have adequate funds to retire. We all feel increasing insecurity, when, after the jubilation at the fall of the Berlin Wall, we now face not conventional armies but violence aimed towards us civilians at any time or place. Every time we enter the airport, the change from just 5 years ago is palpable. Our news is filled with more indirect threats that reflect this new age of insecurity. Citizens under the so-called “Minuteman” program are trying to enforce border patrol. Leaders make pronouncements about the global fight against AIDs, but the battle is not anywhere near won. In the meantime, diseases such as polio and tuberculosis threaten to make a comeback. Industries that employ thousands of workers, from coal mining to automobiles to IT to textiles threaten to go under at any point. Financial disasters such as those in the Enron and MCI cases seem to demonstrate that these are not just events that occur in places such as Argentina and Indonesia. Our graying population is finding it ever more difficult to retire amidst the dot com burst of stock market values and real estate prices shooting through the roof in what everyone expects will be another bubble.

What do all these changes in our way of life have in common? They can be tied in part, though of course not exclusively, to major changes in the way the global economy operates. Some of these changes have been documented by authors such as Thomas Friedman and William Greider, both in terms of a sense of great optimism and great pessimism. Yet no one has clearly tied these things together in a way that gets us past the stage of lamentation and onto the point of what we can do to respond in a way that will help us to restore our way of life and, if possible, make the world an even better place than during the boom years of the 1960s. This site is not about fatalism or politics and false promises, but analyzing what, in pragmatic policy terms, can be done to deal with the emerging global economy. It offers not just a critique but a solution. Understanding that solution requires diagnosing the common roots of our most pressing problem in the most recent changes in the world economy; examining how major changes, such as the Great Depression, helped lead us to reforms that created a new wave

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<sup>1</sup> This effort is inspired by a talk given by Marjorie Griffin Cohen, Marjorie Griffin. 2006. Collective Economic Rights and International Trade Agreements In the Vacuum of Post-National Capital Control. In *Poverty: Rights, Social Citizenship and Governance*, edited by S. B. a. M. Young. Vancouver: UBC Press.

of prosperity; and mapping out a realistic set of reforms to the global economy that would make similar adjustments and usher in a new era of prosperity and well-being, this time not just for us, but for the whole planet. We argue that such a golden age is well within our grasp, and is not a pipe dream. It is a recognition that what is good for us in many ways now is tied in more and more directly with the welfare of others.

### Dislocations and the Global Economy

Those of us who grew up in the West are in a unique historical juncture. We have always believed strongly in our institutions and culture. We are not fools or ideologues, but rather we recognize the level of success that we have had in managing an open, free society in which there is both social mobility and a high level of general prosperity. Our standards of living have been steadily improving for over 200 years now. Part of that improvement is palpable- in cell phones and digital cameras, in women and minorities having more success than ever before, and in the increasing types of employment choices we have. Other parts of this success are based on factors that are less obvious. These include increasing improvements in our health care system and awareness about health risks, such as smoking; a steady stream of talented and hard-working immigrants, the best and brightest, who have come from abroad to continually inject new energy into our societies; educational institutions that are heads and heels above any others in the world; and a sense of trust and compromise based on a consensus that our institutions are working and that we can reform them democratically for whatever changes are needed, such as civil rights legislation.

Why, given this track record, do we now seem to face a wide range of intractable problems, problems that seem beyond our ability to solve? Problems including terrorism, global warming, the loss of jobs and whole industries to overseas competition, volatility in the financial system and health care threats, and corporations that seem to twist the rules to work for them, and not for society as a whole. We feel a profound sense of insecurity because we have not yet recognized the links to the underlying source of these changes, that is changes in the emerging global economy. In fact, we can note that both sides of the globalization debate are correct. While absolute poverty across the world is declining, much of these gains are concentrated in China and to a lesser extent, India. This means that absolute poverty is the same or worse in much of the world, including some parts of the North. Relative poverty and income levels, reflecting gaps between the haves and have nots, is also increasing. These increasing gaps from globalization are affecting communities in both the North and the South. There are at least two long-term sources of increasing relative inequality that relate directly to work in the global economy (Nielsen 2003). One is the loss of jobs and reduction of wages with the increasing liberalization and competitiveness of developing countries, esp. China. The second is the increasing gap between those who have skills in demand and those who do not.

Our lives are intimately tied around family and work. Ultimately, our first task as human beings is survival and prosperity for our families. This means that economic enterprise is at the heart of our identities and activities. In a sense, the ground upon which we operate in pursuit of these goals has been undergoing major tectonic shifts. We live now in an economy that is increasingly tied globally. We are beginning to recognize

that a problem in a distant country such as Kuwait or Venezuela can have major impacts upon our prosperity, in this case, in their effects upon oil supplies. We must recognize that the millions of cars that Chinese consumers are starting to buy is speeding up the probabilities of global warming and climate change. We can see that the Indian firms now successful in outsourcing information technology services from American and European firms are having major negative impacts upon the employment and career prospects of engineers and computer scientists. All of these “dislocations” are reflective of the emerging global economy, intertwined and tied together now more than ever. Let us examine how some of the major changes in our way of life are closely tied to the global economy.

### Dislocation #1 Terrorism

The 2005 bombings in London were a reminder of how much the world changed since the Sept. 11, 2001 bombing of the World Trade Center. Terrorism is now on the minds of the both the West and Middle East as a daily obsession. As some observers have pointed out, many of the terrorists, including Bin Laden himself, come from backgrounds that were middle-class or better. These observers imply that the “war” on terrorism has more to do with irreconcilable ideological differences and extremism than poverty. Bin Laden and others’ goals have to do with American presence in the Middle East rather than poverty.

This perspective buttresses the US and UK approach so far to use force to beat back the threat of terrorism. Billions of dollars have been spent, thousands of lives lost, and there is no end in sight to the escalating costs of the war on terrorism. Even more costly is the loss of young soldiers in their prime in Afghanistan and Iraq. So far, the results of this war, well-known, have been hardly encouraging. Afghanistan remains as lawless and factionalized as ever, in fact, it is now re-emerging as a major centre for narco-trafficking. Iraq appears to be on the verge of a civil war, with no “exit strategy” in sight. In the best case scenario, a Sh’ia-dominated government will reach some form of truce with the Kurds in the North, yet the former, like the Sunnis, have no love lost for the West.

Perhaps more significant for us is the daily reminder of the paranoia that surrounds us. We can not board a plane or ride a subway car without being reminded that there are possible enemies ready to strike us down randomly at will. We are aware, but have been able to do little, to secure the millions of tones of cargo flowing across borders, any one of which might contain an explosive device. We can no longer rely upon a cow-towing media to make us feel that the latest Presidential reassurance will finally win some clear progress- independent new media sources such as al Jazeera remind us otherwise. Where we have successes against a few cells, others, cut off from any central chain of command, seem to be proliferating.

Despite the veracity of the experts’ claims about the middle-class backgrounds of some of the terrorist leaders, this seemingly counter-intuitive observation is missing the bigger picture behind terrorism. It is not pure coincidence that peace has come to Ireland at the same time that Irish economy has taken off. We know that the foot soldiers in the terrorist bombings often come from deprived origins, and that the leaders generally experienced strong frustration as immigrants. It has been pointed out, for example, that the unemployment rate among the immigrant communities of the London bombers is

estimated in the double digits, well above the national norm. We know that life for many Palestinians is appallingly insecure and difficult. We know that many in the Middle East suffer from the repression of autocratic governments, from the pseudo-democracies of Egypt and Jordan to the harsh repression of Syria and Saudi Arabia. While many in the Middle-East are anti-American foreign policy, they are not, as the terrorists claim, against achieving the benefits of the Western way of life. In Beirut, Cairo, and Tehran, the youth of those countries push for democracy and everywhere in the region, follow the consumer trends of the Western world. They prefer to watch television, get their kids good educations, and otherwise live a good life rather than living in a cave in Afghanistan hoping to live through the next day. It is the lack of opportunity and a strong sense of frustration, in short, that is the underlying combustible fuel behind terrorism, not some ideological promise or the promise of heavenly rewards. The vision of what the terrorists would do if they won is instructive in its emptiness. As the Islamic Revolution has been rejected amidst the hypocrisy of the mullahs in Iran, it could not offer a model for how a “non-Western” true theocracy would live. Indeed that hypocrisy extends to the terrorists themselves. These groups rely upon the internet and films to publicize their struggle and to create fear in the West. They rely upon the international financial system and drug and oil revenues (paid for by us) to supply their operations. They purchase their bombs and guns from our military suppliers. They count on our liberal atmosphere of tolerance and the immigrant communities in our borders to allow for new recruiting and organizing. In other words, the world economy, in its effervescent integration, is quite ironically integral to terrorism’s success thus far. The unwillingness and inability to deal with the root causes of terrorism- our current strategy is essentially the equivalent of us setting a series of blow torches to dry up the ocean- is reflective of our inability to understand the way that terrorists rely upon the world economy.

### Dislocation #2 Employment Insecurity

For most of us, our sense of rightness is based not upon some missionary zeal to promote Christianity as many terrorists and some extremists here would like to think. It is based upon the obvious fact that we have been successful in creating a good and improving way of life for our citizens for around 2 centuries now. It is not Christianity that brings forth immigrants to the West, but the possibility to have a better life. So, we can not understand the vociferous hatred that others have towards us. Ultimately, that hatred can be traced to our failed foreign policies past and present, towards the region, as well as jealousy at the growing power differentials between the haves and have nots in the world.

Beneath this international scene of conflict are the seeds of domestic discontent in the West. In the last 20-30 years, there has been a steady erosion of labor strength. Hand-in-hand with this has been a breakdown of employer-employee relationships. Whereas in the 1950s, our fathers could look forward to the possibility of working for a steady employer, with strong benefits and merit-based mobility built in, today’s graduates are facing quite uncertain prospects. As many skilled-blue collar jobs, which were essential to social mobility through much of the century have started to move overseas, leaving hollowed-out towns where there were coal mining, steel, and auto plants in England, Pittsburgh, Buffalo, West Virginia, and Detroit, among others, the necessity of a university education seems more important than ever before. Yet, today, a bachelor’s

degree does not mean entry into a good white collar job. Ask any student what their job plans are, and there is an increasing vacuum of answers. The brief IT boomlet of the late 1990s and the subsequent plundering of jobs to outsourcing offshore means even sure bets, such as engineering and computer science are now under siege. The twenty-somethings now living at home longer and longer are essentially living off the capital and wealth accumulated over the past 3 generations of hard work. Even where we find a good job, we never know when or if health and pension benefits will pay out, whether our company will be bought out, or if we will be relocated or downsized. This breakdown of steady and stable employment possibilities in the West can also be tied to changes in the world economy.

The loss of strength of labor unions and the more essential breakdown of mutual interests between the employer and employee in the West can be tied proximately to Reagan-era reforms, but those reforms reflect changes on a wider scale. We can look at these changes on both the demand and supply sides. On the demand side, suppliers of everything from coffee to computers have to look at global markets. As we discuss below, the growth of free trade means that there is a freer flow of goods than ever before in history. This means that a firm, such as Apple, needs to consider the demand needs of simultaneous markets in Europe, Japan, and the US, as well as smaller emerging markets. The revenue streams as well as the product and marketing needs for each product will have to be considered as parts of a whole, rather than as separate markets which are part of a conglomerate. The changes to the supply side of production are more profound still. In most products now there is a global supply chain, in which components of products are produced and assembled in a variety of places around the planet. Many of these operations have multiple possible locations, thus if one area of supply is cut off, say a factory making semiconductor chips in Thailand, other production facilities in other areas can easily be changed to increase output. The mobility of production essentially means that companies are no longer tied to local labor forces. For a long time, we thought the exception would be high tech, high value-added complex processes for which the labor pool was quite limited, however now we see with Silicon Valley that there are no exceptions.

### Dislocation #3 Financial Volatility and Corporate Disasters

Not only do terrorists use offshore and Swiss banks, but most corporations do as well. The deposits in offshore banking havens such as the Cayman Islands are designed specifically to help companies to avoid paying taxes. Their existence means that we are unable to trace financial transactions for security purposes in the fight against terrorism and drugs. It also means that the billions of dollars each year in corporate profit, essentially from spending by the West's consumers, are unavailable to the community and governments from which they came. This also means that it is increasingly difficult to push corporations to act responsibly. This reality undercuts our long-term financial security, including our ability to save and invest and to be secure for our retirement. Indeed, a recent traces much of the Enron debacle to games played with offshore bank accounts to reduce the appearance of risk in Enron's investments (Brittain-Catlin 2005). For those who are getting ready to retire now, the 1998-9 Asian financial crisis, one of a string of international crises as well as the dot com bust, underscore that financial capital, often in the form of large pension funds, is increasingly mobile and risky. With the push

of a button, a herd of pension fund withdrawals acted as the straw that broke the back of the Asian financial system, reducing the fastest growing region's ability to push the world economy forward, and to raise the millions there out of poverty. While small levels of investment enjoy deposit insurance, the inherent riskiness and volatility of the financial system reduces savings and makes our lives insecure.

#### Dislocation #4 Global Diseases

As our way of life in terms of our security, work and savings possibilities declines, we are reminded of other long-term disasters in the making. The millions of dollars we have spent on AIDs has not led to a cure, though treatments are remarkably improved. Yet, we are continually reminded of the ramifications of the millions of new AIDs infectees on a regular basis. A few years ago, we were afraid of the possible spread and mutation of the Ebola virus from Africa, and more recently by that of mad cow disease and the avian flu (SARS) from Asia. These warnings signs remind us of previous global epidemics such as bubonic plague, influenza, polio, tuberculosis (tb), and smallpox that made life miserable for thousands of years. A few years ago, we thought through immunization that we would have wiped some of these diseases as threats out. Yet, through the lack of eradication of the disease throughout the world, new polio cases have been found, and new strains of tb are feared. Our sense of vulnerability to a new epidemic comes not just from a terrorist nefariously planting such problems, but from the millions of air and cargo shipments that come across our borders every day. As our grocery stores are filled with everything from Chilean grapes to Ethiopian coffee, and immigrants continue to come across our shores, we recognize that our food safety standards, geared towards local production, can not catch every possible problem. In areas of heavy concentration of immigration, such as California, basic health and educational services are overwhelmed from immigration. Yet to cut off illegal immigrants from emergency rooms means merely escalating the costs of that injury to society, and possibly, not containing an infectious disease. To close off our borders (in the ridiculously infeasible solution proposed by anti-immigration extremists), ignores that the products from other countries, as well as the flow of immigrants is now part of our economic way of life. Since we can not grow pineapples or coffee at nearly the same efficiency as countries with the appropriate conditions, we need to find other ways to deal with these problems.

#### Dislocation #5 Global Warming and Other Environmental Disasters

There are other stories in the backburner of our minds that we need to bring forward. Everyday we are put in fear about global warming, over fishing, and the extinction of species. We do not need a speculative film of long-term impending disaster to understand this threat. The air is hardly breathable now in Shanghai and Mexico City, and what will happen as the millions of new autos being demanded hit the road? The air in China and Mexico affects the air that we breath as well as the temperature of our climate. Whereas a generation ago, we could count on the possibility of enjoying the wild animals and environment of different areas, increasingly those possibilities are being extinguished. Yet, as the debacle around the implementation of the Kyoto Protocol

demonstrates, we seem to be unable to move from recognition of the problem to action in terms of slowing down the threat to the environment. Such inactivity hurts not only our overall quality of life, but also our economic prospects. For example, areas such as Newfoundland are all too aware of the inability of national authorities to prevent over fishing.

### How These Dislocations are Tied to the Global Economy

What changes in the global economy have led to the intertwining of our global destinies? The growth of the global economy can be understood as the result of both planned and unplanned actions. On the planned side, the development of a stable exchange rates regime under policy coordination and the de facto use of the dollar as the currency anchor provide the foundation for the international financial market. The accelerating movement of goods and services are under-girded by free trade agreements that have been constructed since the end of World War II, culminating in the World Trade Organization, the North American Free Trade Agreement, and the European Union. Behind the scenes are reductions in transactions costs, including lower transportation costs (both ship and air) but primarily in the storage and flow of information. The internet has singularly reduced the costs, in both time and money, of conducting transactions internationally. The development of satellite broadcasting for television and radio has further increased the possibility of sharing global information and creating large regional markets for products across borders. Last but not least, the flow of people, both legal and illegal, has increased the integration of national economies into a global economy. It is hard to remember that just 10 years ago, the idea of a Bollywood movie available in mainstream video rental outlets would've been laughable, yet not only Indian, but also Mexican, Brazilian, Chinese, and other films are easily available now in the US market.

There are other, deeper changes in the global economy which portend major changes for the future. The first and most obvious is the ubiquitous rise of China, and to a lesser extent, India and Brazil as erstwhile competitors and consumer markets for the whole range of products. Already, textiles, agriculture, and electronics are under siege, and a number of other key industries, including automobiles, aerospace, pharmaceuticals, and IT are all facing accelerating competition from countries with huge labor cost advantages. These problems occur simultaneously with other problems in the North, namely the graying of the majority of the population. Millions of baby boomers are expected to retire in the coming years, in part fueling the present housing bubble. Moreover, with health care improvements, these populations are living longer than ever. Obviously, there will be major new growth in occupations such as health care and retirement homes. The social security crisis in the US is being repeated throughout the West. The question is, how can society afford to pay for skyrocketing retirement and health care expenses on a shrinking base of population growth. The problems with this development are multiple. One problem is that much the free floating capital through pension funds and the like will begin to be consumed. Another problem is that insurance, based on a balance between payments and payouts, will become unbalanced and out of

reach for the old and poor. However, more pressing than these aspects is the question of employment prospects for the next generation. For younger people who are not interested in working in health care, there will be a smaller middle class base to fuel consumption that provides non-service jobs. As the boomers retire, for instance, openings in academia are declining, other industries, from autos to furniture making will be besieged by the double whammy of import competition and a shrinking domestic market. Clearly, some increase in immigration is needed to re-populate the base middle ages of the North as well as to provide lower cost services needed for the aging population. However, like other potential solutions, what is missing is a “manager” of these global problems. This brings us to my overall argument.

### Argument in a nutshell

Given the benefits of global trade, finance, and immigration it is both self-defeating and impossible to think about reversing such trends. For those who are virulently anti-globalization, the idea of going back in developing countries to a period of import substitution, in Eastern bloc countries to socialist state planning, and in the West to a gold standard of currency control are patently ludicrous. Yet, we no longer seem to have the national means of dealing with these international problems. To be sure, there is justified skepticism about current international institutions. The WTO, World Bank, and IMF are dominated by the developed countries and are undemocratic- affecting the lives of millions who have no representation in their decisions. The UN is plagued by mismanagement, corruption, nepotism, and ineffectiveness, as well as a budgetary crisis. While the IMF can dominate developing countries such as Argentina, most financial flows are between Northern countries and out of its purview. The management of these artery systems of financial flows are done on an ad hoc consultation basis, which, absent a run on US debt, has so far managed. Moreover, trade negotiations remain stalled- agriculture and intellectual property rights being 2 main concerns. The financial system remains vulnerable- both volatile and with little liquidity available to Southern states who need it most. The flow of people remains unchecked, despite massive efforts in the wake of terrorism to crackdown on borders. Even the decades-old battle against drugs continues to be futile. With the new wave of corporate scandals and loss of jobs in the North, it is clear that our current institutions are incapable of dealing with these global crises. The question we face now is whether we want a convergence at bottom, due to inadequate or failing global institutions, or whether we will step up the challenge by creating a new global system of institutions appropriate to a global economy.

The proposal to create a global institutional system including regulatory and welfare capacity undoubtedly will create huge nationalistic reactions. If countries can not agree to give up their sovereignty to the EU, and the US can not reach agreement with allies for an enormously costly war in Iraq, how likely is it that they would invest in a global government? The problem with this knee jerk reaction is that it ignores the fact that these global problems can not be solved by nations. Even with the US's relative if temporary dominance, it is unable to move past the current system. With the rise of China as the #2 economy in the world, the architecture set up by others will no longer be acceptable. The question, then, is not whether we need to remake global institutions, but



how. As the world economy transitions from an old system of US dominance into one in which US, Chinese, and to a lesser extent, EU power, dominate the globe, there is an opportunity to remake global institutions to not only reduce the current acute problems but also to set up a system in which the global economy can prosper and offer opportunities for improving standards of living for all. The remaking of such systems, as we discuss later, does not mean a loss of sovereignty or domestic preferences, but rather the creation of institutions that are responsive on the global level to both states and citizens just as domestic ones are in Northern states. In other words, the extent of a new system of global government need only be built to deal pro-actively with global problems, rather than relying on ad hoc and inconsistent efforts by individual or temporary groups of states. Before we get to the way that such a system could work, let us turn now to a brief review of how other crises in the world economy were dealt with through the construction of global institutions. We summarize the major shifts in the world economy into 3 major areas: changes in finance, production and trade, and people.

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