

U.S. TRADE POLICY

Coping With Globalization

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Coping With Globalization

- **Unprecedented Developments in Contemporary Times**
 - Global Economic Integration**
 - The Rise of Multi-national Corporations**
 - The Transformation of the U.S. Economy**
- **An Underlying Mystery**
- **Principles to Guide Future Decision Making**

Introduction

The evolution of a globalized economic system is becoming one of the defining characteristics of the post-modern age. It is a development which captivates and elates some people, but which dismays and frightens others. We will look at this globalizing economy squarely and consider how a wise United States trade policy ought to proceed in the face of it.

Unprecedented Developments in Contemporary Times

Global Economic Integration

World trade itself is not at all new. We have only to recall the amazing, fabled silk route, a caravan track which ran from the Pacific Coast of China all the way to the

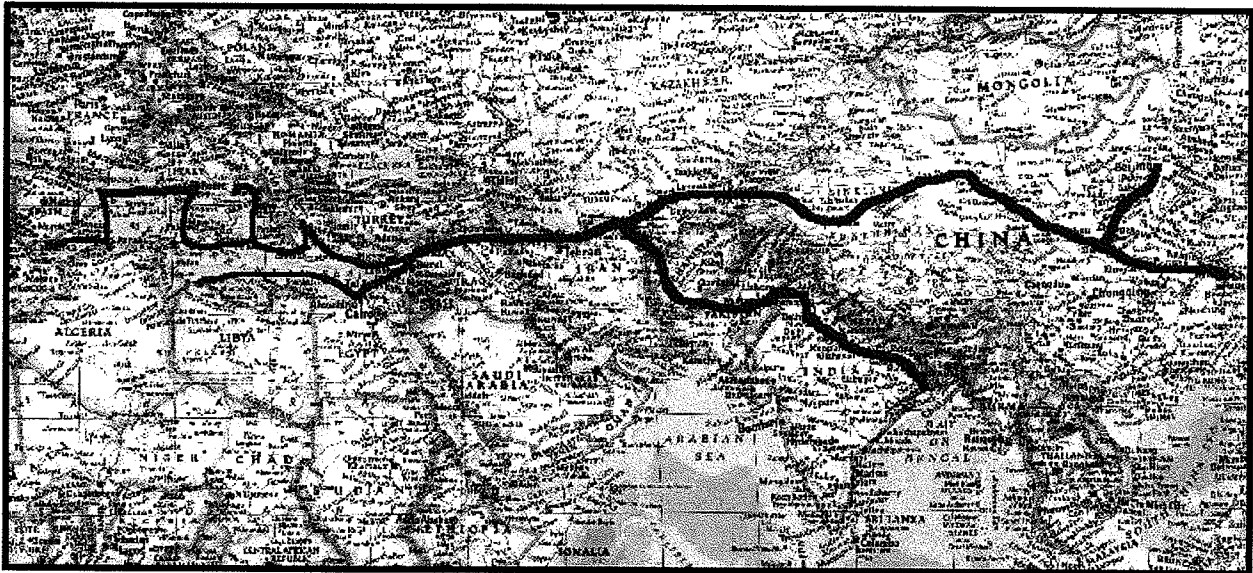


Figure 1. The Silk Road, a caravan track that ran from the Pacific Ocean to the Mediterranean Sea.

Mediterranean Sea. Goods arriving at the western edge of the Mediterranean were transferred to ships for dispersal throughout southern Europe and North Africa. This silk route provided commercial links between the ancient civilizations of China, India and Rome. Silk came from the east to the west; wool, gold and silver went back to the east. By the time Marco Polo traversed this route in 1170, it had already been in use for at least 1500 years!

World trade has continued throughout the period of known history. The Roman Empire itself was a kind of common market. For example, grain from Egypt was crucial for feeding the people of the city of Rome itself. Venice was the greatest

seaport in medieval Europe. It enjoyed a one thousand year long history as an independent state sustained by its role in global trading. It, too provided an essential link between the east and the west. The Incas conducted extensive trading networks thought by some people to reach not only extensively within South America but as far as North America as well.

At the end of the Middle Ages a dramatic synthesis of science, technology, industry and commerce occurred in the European branch of human civilization. This synthesis

conferred great power on Europeans, allowing them to propel themselves to dominance on the world stage. Students of European colonialism believe that by 1915 fully 85% of the world's land area was dominated by Europeans.

Although the exchange of goods across vast distances is a very ancient practice, not all of these ancient and modern trading systems involved what we would call "free trade." Disadvantageous trading arrangements were frequently foisted upon subject peoples through military and political power. This was certainly true in the Roman Empire and in the more recent empires established by Britain and other

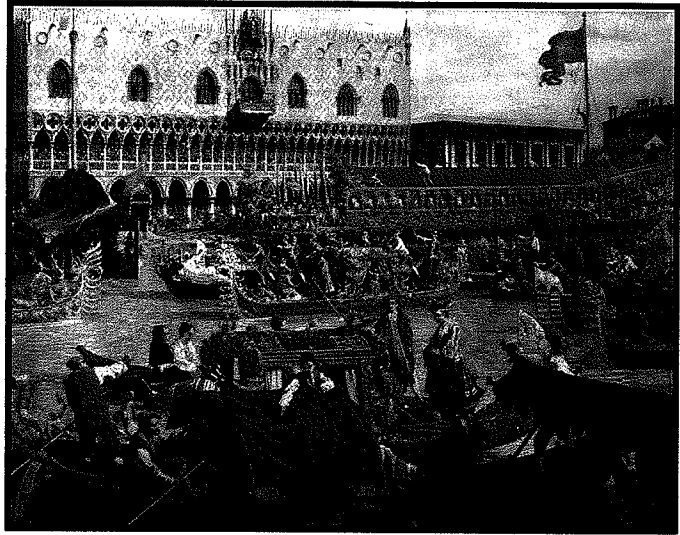


Figure 2. Venice

European nations. Although European states developed the free market economies we know as capitalism within themselves, their trading relationships with their colonies did not proceed according to free market rules, and even their trading with each other was characterized by various restrictions on the free market process -- restrictions we loosely term protectionist practices.



Figure 3. Twentieth Century War

As we know, the twentieth century which just recently ended was characterized by an agonized, protracted and bloody series of conflicts. These conflicts challenged both the global colonial system dominated by Europe and the system of free-market capitalism practiced within European

countries and within the United States. Ultimately, free market capitalism survived the challenge represented by Marxist Leninism, but the system of global colonialism collapsed in the wake of the Second World War and in the wake of the various struggles for independence around the world.

What we have been experiencing then, in recent decades, is the attempt to replace the collapsed globalized colonial system with international trading arrangements modeled on American and European ideas about free market capitalism. The various issues raised in the Foreign Policy Association's material all spring out of this project of transforming colonialist trading arrangements into a worldwide system based upon the capitalist model. The effort is being made to draw all the nations of the globe -- that is, industrialized nations with economic systems which have evolved over centuries, plus former colonialized peoples, plus former members of the now collapsed Marxist-Leninist world -- into one system, and to do so regardless of their state of social and political development and regardless of their relative economic strength. Undertaken with scant public debate or scrutiny, this is a project astonishing in its scope and audacity and completely unprecedented in human history. It is, nevertheless, an enterprise being pursued with the zeal of religious fundamentalists by people in the World Bank, the International Monetary Fund, the World Trade Organization, and in the boardrooms of multi-national corporations.

The Rise of the Multi-national Corporation

This brings us to the second unique development of the present era -- the multinational corporation. Corporations have a long and fascinating history which parallels the history of world trade itself. People have joined together for the shared purpose of making a profit since the dawn of history, as when groups of Athenian or Phoenician merchants pooled their savings to build a boat. The first corporations in a modern sense were actually towns, universities and ecclesiastical orders. The idea of limited liability arose in 15th Century England. It is an arrangement whereby the loss which the owners or shareholders of a business can incur is limited to the amount they have invested in the enterprise and does not extend to their other personal assets. In 1600 Queen Elizabeth I granted to a group of investors the right to be "one body corporate" known as the East India Company and bestowed upon them a trading monopoly in India and the right to make and enforce laws there.

Similarly, in 1606 the crown vested in a syndicate of "loving and well-disposed" subjects the right to develop Virginia as a royal domain, including the right to coin



Queen Elizabeth I



Colonial Governor's House in
Williamsburg, Virginia

money and maintain a military force. Immediately after American independence the several states usually only granted corporate charters to public service companies, that is, companies organized for the purpose of building and operating docks, bridges, turnpikes, canals and waterworks. This was extended to include banks and insurance companies. But in 1811 New York State set the precedent that businessmen had only to provide a summary description of their intentions to launch an incorporated enterprise. Other states followed suit. The principle of limited liability and the right to raise capital by selling stock to the investing public was extended to such corporations. Later, in 1886, the United States Supreme Court ruled that corporations could be construed as persons, and that, therefore, constitutional protections for life, liberty, and property could be applied to them. This had the effect of rendering many of the laws enacted to control corporations unconstitutional.

Parallel developments occurred in the industrialized countries of Europe, although rules for incorporation vary somewhat from place to place. The parallel development of similar arrangements for incorporation in a diversity of countries has permitted the development of the second highly unique element of the current

age – the development of multi-national or transnational corporations. Nothing quite like this has ever occurred before. A multinational corporation is a conglomerate which is registered in, and which operates in, many countries at the same time. Unlike the “loving and well-disposed” subjects who obeyed rules and regulations issued by the British crown and who maintained a sense of loyalty to the crown, the relatively brief history of modern multi-national corporations shows them to be, on the contrary, accountable to no sovereignty except the self-interest of their managers and owners.

Modern communication and transportation technologies allow such multi-national corporations to manufacture items anywhere and sell them everywhere. Transnational corporations seem to roam the globe at will, seeking the most docile, politically suppressed, and underpayable workers, and the countries with the least demanding ecological regulations, in order to conduct their manufacturing operations. They sometimes even finance repressive governments along the way. The assets of some multinational corporations exceed the gross national products of entire nations. In the face of multinational corporations, geographically bound national governments often seem unable to protect the public interest of the people in the territories under their control. Global corporations, whatever flags they fly, have outgrown national laws and national cultures, and the world is still searching for the mechanisms through which to address the resulting problems.

As the material given to us by the Foreign Policy Association points out, the protests which marred the November 1999 gathering of the World Trade Organization in Seattle were inspired by a broad range of perceived grievances against the multi-nationals, including the abuse of child labor in developing countries, the de-industrialization of the United States, the destruction of rain forests, the cultivation and sale of genetically modified agricultural products, and the imposition of financial regulations on developing economies which wind up oppressing the poorest of the poor while protecting the interests of banks and of affluent social classes and individuals.



Figure 6. Seattle police use tear gas to disperse protestors attempting to disrupt the third ministerial conference of the World Trade Organization.

The Transformation of the American Economy

The final unique development we face is the transformation of the American economy. As the Foreign Policy Association material points out, at the midpoint of the 20th century, only fifty years ago, America had a relatively self-contained economy, an economy in which all that really mattered to most Americans occurred between the shores of the Atlantic and the Pacific oceans. While trade and investment did flow from and to America across oceans, it was not substantial enough to have any material importance to the lives of most U.S. citizens.

Today, in contrast, the lives and economic well-being of unprecedented numbers of Americans depend on imports, exports, and on the two-way flow of international investment. In 1950 international trade represented one tenth of the U.S. economy. Today international trade represents a quarter of the economy. In 1975 only 1% of the equities held by American investors were in foreign stocks. Today that portion has grown to about 10%. By the late 1990s 5% of the American labor force worked for companies that were wholly or partially foreign owned. Faced with the competition of Japanese-built automobiles, American companies have cut the man-hours needed to build a car by 17%. American firms which have ventured into the world marketplace, in order to compete, require a productivity rate that is 40% higher than plants which produce only for domestic consumption.

Americans do benefit as consumers in the global marketplace. The Foreign Policy Association article estimates that cheaper imports stretch the buying power of the average American paycheck by 3%. But it also acknowledges that hundreds of thousands of workers have lost their jobs, often high paying ones, in the auto, steel, textile and apparel industries. Displaced American workers have required as long as a year to find new jobs, and have accepted, on the average, a ten percent pay cut when they got the new jobs. One in four displaced workers permanently lost health care coverage in the transition.

Finally, the trade deficit we run with the rest of the world should be brought into view. We buy much more than we sell in the global marketplace, and therefore we wind up losing money and owing money. It is loosely analogous to an individual running up a credit card debt. In 1999 the overall U.S. trade deficit was \$332 billion dollars. Over the years we have built up a total foreign debt of \$1.5 trillion. We have a \$9 trillion dollar economy and so can manage to finance this debt, just as a rich family can afford a big mortgage. But if the American economy slows the situation is apt to become extremely painful, as when a family with a big mortgage suffers a decline in income. Ominously, the headlines in recent weeks seem to indicate that such a slowing has actually gotten underway.

An Underlying Mystery

The underlying mystery has to do with the nature of capitalism itself, which constantly eludes our understanding. Since the global economic system which is so rapidly evolving is based on a capitalistic model, it is very important that we have in view exactly what is known and what remains mysterious about this system if we are intelligently to design international trade policy for the U.S.A.

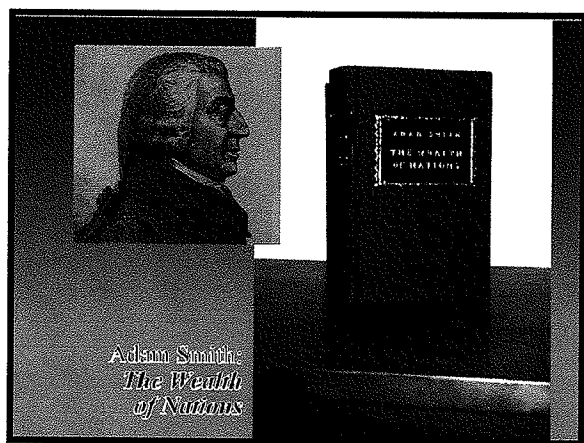


Figure 7. Adam Smith and his book *The Wealth of Nations*.

The great founding visionary of laissez-faire capitalism was, as we know Adam Smith, the Scottish philosopher and political economist who lived from 1723 until 1790. He was a thinker of great depth and subtlety. But he lived and made his observations in a much simpler time. He was greatly influenced by the scientific age which was then getting underway, and his theories evidence a desire to explain social and economic phenomena with the same certitude and the same elegant simplicity which characterized Newtonian physics.

The enduring image he bequeathed to us, which unfortunately can be too readily excerpted from the more subtle context of his thinking, is of the free market. Using as his model the rural fairs with which he was familiar, Adam Smith visualized this market as a place where many producers and many consumers, interacting with each other in total freedom, established a fair price for the exchange of goods and services according to the laws of supply and demand. If a particular commodity was in short supply the price would go up, and therefore more people would be inspired to produce it. Thus, through the operation of Adam Smith's famous "hidden hand," each person pursuing his own advantage would behave so as to advance the common good. This hidden hand, or self-regulating mechanism, should always, according to the theory, be allowed to function freely, without any governmental interference.

This theory was put into practice in the United States once obligations to the British crown were dispensed with through the American Revolution and we were no longer "loving and well-disposed" subjects. And in Europe, once the French Revolution and the Napoleonic Wars had dispatched the last vestiges of feudalism, Adam Smith's philosophy was put into practice there as well. Throughout the Nineteenth Century, in both the United States and Europe, governments assumed a very passive role with respect to the economy, being content mainly to support a sound currency and to maintain law and order.



Figure 8
Boy miners in Pennsylvania around 1900. Some mill workers and miners were as young as eight years old.

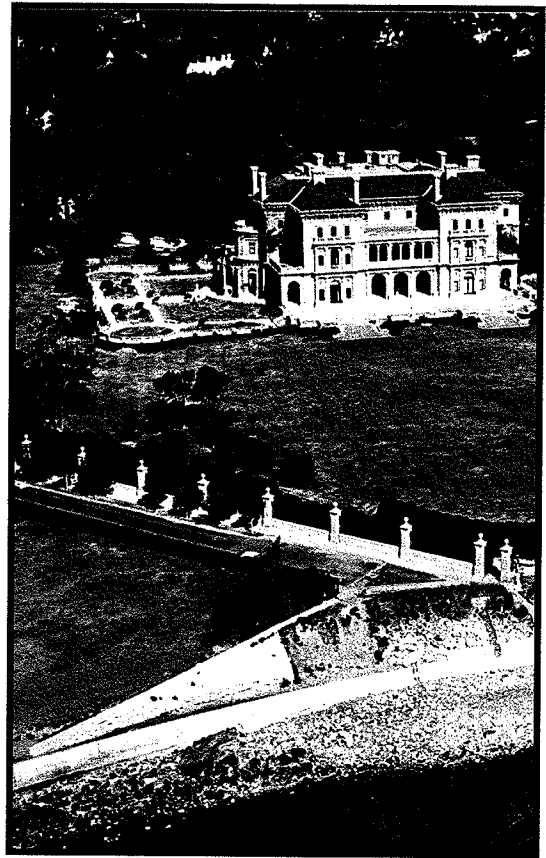


Figure 9
Summer home of Cornelius Vanderbilt, Newport, Rhode Island

The problem was that Adam Smith's elegant, enchanting and simple theory did not work in practice. The free market was subject to repeated perturbations or depressions which became ever more severe. The free market in agricultural commodities could not be made to behave in the same fashion as the free market in manufactured goods. The advent of corporations and huge conglomerates had effects on market behavior which Adam Smith had no way of foreseeing. The treatment of human labor strictly as a market commodity became ever more ugly in its ethical and social consequences, with children working in mines and factories for twelve-hour stints in return for a mere pittance while owners became increasingly rich in a sort of "winner take all" economic dynamic. The natural environment became despoliated; the free market had no way to take account of the degradation of air, water, and the countryside. In short, the same thing happened in Europe and the United States throughout the nineteenth century that is occurring in Third World countries today.

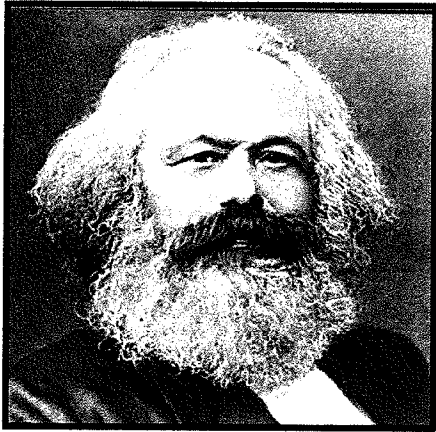


Figure 10. Karl Marx

The ever more gloomy results of laissez-faire free market capitalism in Europe inspired two reactions. There were reform efforts for which people such as the novelist Charles Dickens served as exemplars and spokespersons. There were also revolutionaries, among whom Karl Marx became pre-eminent. Here in the United States Marxism never really took hold. But there did arise a “social gospel” movement. Seeing the conspicuous contradiction between social conditions and Christian values, evangelical Christians launched a vigorous and enduring struggle for reform. Today we usually think of Christian evangelicals as falling into the conservative camp, but in the nineteenth century

this was not so, as Christian revivalists and evangelicals were in the forefront of the struggles for the abolition of slavery, for the reform of the industrial system, for the right of women to vote, and for the prohibition of the use of alcoholic beverages.

President Theodore Roosevelt, a Republican, although not himself notably religious, came to the rescue, responding to religiously inspired public discontent with his so-called “Square Deal.” He broke up the major railroad conglomerate, and he initiated suits against 43 other major corporations in a program of “trust-busting.” He mediated the settlement of a strike of anthracite coal miners, allowing them a modest raise. He got Congress to pass the Pure Food and Drug and the Meat Inspection Acts. Simultaneously, he designated large tracts of public lands as National Parks, which placed them off limits to commercial exploitation. Roosevelt left office in 1909, but the first comprehensive child labor law was not passed until 1916.

While all this alleviated some of the most conspicuous dysfunctions of the laissez-faire system, it did not interrupt the cycles of ever worsening periodic depression, the most severe of which began in 1929 and lasted through much of the 1930s. The situation in the 1930s was so severe that it actually called into question the survival and the validity of the capitalist system itself. Another President Roosevelt came to the rescue, a Democrat this time, named Franklin Delano Roosevelt. Also coming to the rescue was a great economic thinker named John Maynard

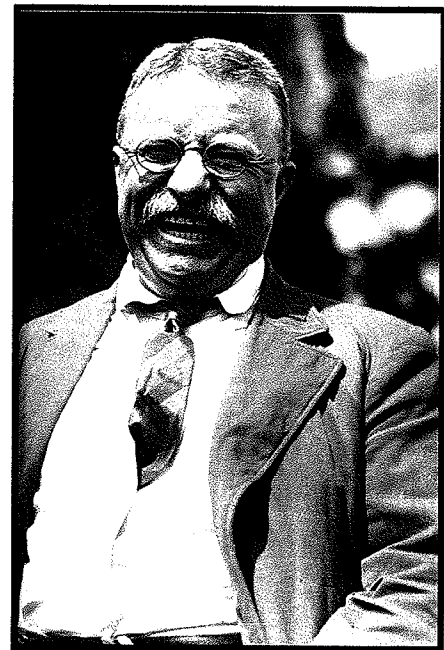
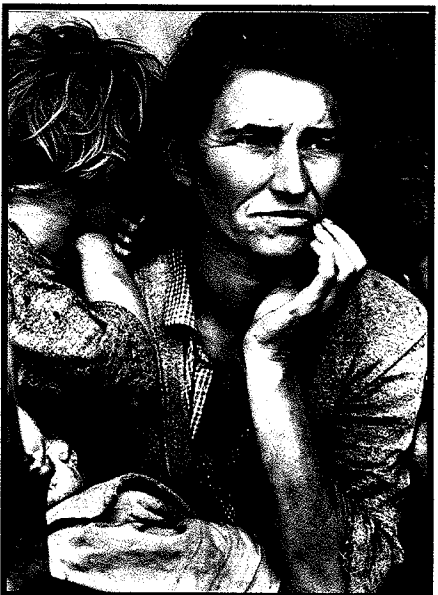


Figure 11. President Theodore Roosevelt.



Keynes. Keynesian philosophy still holds sway in the United States and in the capitalist countries of Western Europe, although there is much strong opposition to it in these places as well. Briefly, Keynes stood Adam Smith on his head in one respect. Rather than visualizing a free market in which the government, deferring to a "hidden hand," played no role, Keynes posited that the government should be a primary actor in the unfolding economic drama, using a wide array of powers at its disposal to guide and mold economic outcomes in socially desirable directions.

The Keynesian approach is not perfect. Governments, responding to various political pressures, can be hamhanded in their economic interventions. Even when used adeptly, the Keynesian approach seems like something of a blunt instrument which can be easily outsmarted by actual economic developments. Nevertheless, under the Keynesian regime, in spite of some painful recessions, for the past fifty years we in the First World have been spared the sort of calamitous economic difficulties which plagued our societies throughout the nineteenth and early twentieth centuries.



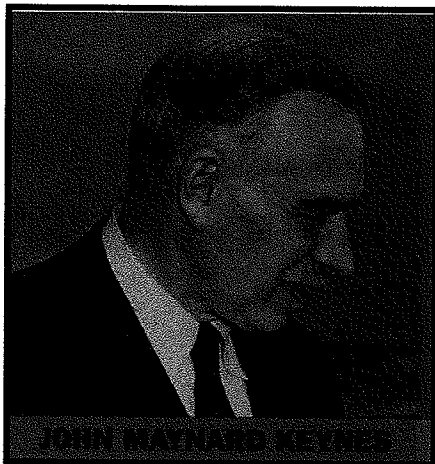
What has this to do with globalization and American trade policy?

It is simply this. While globalization is proceeding along a laissez-faire capitalist model, Keynesian rescue strategies have no possibility for implementation on a global level. No institution exists to control credit for the world comparable to the central banks that do so for individual nations. The World Bank and the International Monetary Fund

simply do not have the powers of the Federal Reserve System. No global spending or taxing authority can speed up, or hold back, the pace of production for the world as a whole. No agency effectively oversees the availability of credit for the developing nations or the feasibility of the terms upon which it may be extended. The common expectation that prosperity depends upon ever increasing growth seems to propel capitalist economic life into a fatal war against the earth itself, threatening the very basis of our survival. Yet it simply cannot be expected that some future United Nations Secretary General will be able to take things in



Figure 14. Franklin Delano Roosevelt



hand the way Theodore Roosevelt and Franklin Roosevelt did. No international executive will be able to prevent the ruination of the forests of Brazil, Indonesia or Canada, the very lungs of the earth which transform carbon dioxide into oxygen, by making them "International" Parks. There is no one to "trust-bust" multi-national corporations. There is no way a trade pact, no matter what its provisions, can become a global civil authority so as to enforce child labor laws, fair wage laws, or good environmental intentions the way the United States government can within our own territory.

In short, the globalization of the economy is proceeding on eighteenth century models of laissez faire capitalism, and it is proceeding as if the history of the last two hundred years simply had not occurred. The sort of "capitalism with a vengeance" which has been unleashed upon the hapless nations of the former Soviet Union is being set loose as well upon the world as a whole. This is occurring at a time when the global economy deeply penetrates the American economy.

So, like Christopher Columbus we are sailing into uncharted waters, quite uncertain about where we will wind up. Our fellow passengers are all the world's people, and we will share their fate. Although we cannot know our ultimate destination, we can be sure that the voyage will be perilous, and possibly fatal, unless there is a mutiny.

Principles to Guide Future Decision-Making

This is a gloomy picture, admittedly. But there are some principles we can use to guide our future decision-making as citizen-participants in the political process.

- 1) The globalization of economic arrangements and the results it produces will be the defining issue of the twenty-first century.
- 2) The American people cannot expect a balanced discussion with their government on economic issues, or a reasonable chance to consider options for public policy on international trade, until there is campaign finance reform.

- 3) Economic policies and trade practices should be judged solely on their results, not by any seductive sounding theories upon which they are based.
- 4) Economic policies must be judged by their outcomes using moral and religious criteria. It is right to expect prompt government intervention when things proceed in a bad direction.
- 5) Economic policies which claim that injustice or hardship in the present for certain classes and groups will make things better for future generations are not morally justifiable, especially if these injustices occur while other people are getting rich.
- 6) A trade pact is not a government or a civil society. A trade pact, no matter what its provisions, cannot insure the fair treatment of workers or reasonable environmental practices.
- 7) Because communism has failed it does not follow that capitalism is a success. It is in the nature of things that an economy which is free enough to allow innovation and creativity will produce unforeseen results which defy theoretical prediction. Capitalism, therefore, is always a "work in progress," and can never be deemed successful once and for all.
- 8) It is often said that democracy could not survive without the disbursement of power which a free economy encourages. But it probably also can be said that a market economy only produces fairness and justice if it operates within a strongly democratic political environment. There is little evidence in the modern world that capitalism practiced in contexts characterized by political repression tends to help a society evolve towards liberalism and democracy, as is often claimed.
- 9) The academic discipline of economics is itself a source of much trouble. It seems to keep posing as a kind of science, yet it lacks all the characteristics of a science. Science discovers laws which are independently verifiable by different investigators and which can be used to predict causes and effects. Science establishes principles around which people knowledgeable in the field can unite. Economics, in contrast, can predict almost nothing, can verify very little, and has not succeeded in producing unity about much of anything among its leading practitioners.
- 10) Democracy is not a free ride. It requires vigilance and effort. There are no unsolvable problems. The key question is whether the citizens of the world's only superpower are willing to devote to civic life, and to the examination of momentous public questions, the time and energy these

matters deserve.

Conclusion

Questions of globalization and world trade raise the same ethical dilemma among nations which, in ages past, occurred primarily among people within nations. On what principle is the total product of society to be distributed among the various classes of producers? Who gets what, how, why, and when? The total product is the result of the cooperative work of many people. Moreover, the finite natural resources utilized are the common inheritance of all of humanity. How can an allocation of shares be made which will be recognized by all parties as being just?

There is, unfortunately, no hidden hand available to solve this question for us automatically. The idea that the unfettered free market magically transforms the greed of individuals into the common good, and that through it wealth somehow automatically trickles down from the super-rich to the benefit of everyone else, is surely one of the most enduring exercises in wishful thinking humankind has ever known.

Moreover, the expectation that our prosperity depends upon ever increasing growth seems to propel our economic life into a fatal war against the earth itself, threatening the very basis of our survival.

All these matters of globalization and trade are, in the end, essentially moral and spiritual questions. For the matters of distributive justice and of ecological limitations brings us face to face with our essential nature as spiritual human beings -- that is, with our interdependence and our finitude. We come, through our interdependence in the face of finitude, to the enactment of many spiritual virtues -- gratitude, mutual respect, a sense of obligation, repentance, readiness to forgive, patience, tolerance, trust, trustworthiness, love, and the willing restriction of our individual interests and desires for the sake of the whole. Our interdependence and our finitude makes us aware of our dependence upon a power we cannot control and a source of goodness we did not and cannot create. Such an awareness is the solid grounding for our discernment of what God is requiring of us as a global human community. Will our globalization and our trade policies merely repeat on a gigantic scale the errors of the past, or will we, at last, use them to build world-wide unity and peace -- the unity and peace of the One in whom all things are one?

