

The Case for Globalisation

By Allan Guldberg,
Aarhus Universitet, Denmark

What is globalisation?

Globalisation is a flimsy and unclear concept, used in various ways to denote various phenomena. In this article however, globalisation is taken as meaning the increase of trade and especially free trade, that is supposed to have happened over the last few years. This done mainly for the reason, that free trade is what is often being described by those who claim themselves to be opposed to globalisation, or at least globalisation at it is occurring at present.

The least of all evils

In his book *Law, Legislation and Liberty* the Austrian economist Friedrich-August von Hayek, devotes an entire chapter(ch.9) to the question and phenomenon of social justice. The gist of the position of the whole school of Austrian economics, is that the market order is the result of a spontaneous process, in which untold amounts of information is dispersed among millions of persons, directing resources in directions where they are most effectively put to use for the greatest good of mankind (1). This is a process which no central authority or agency could ever emulate or better, mainly because it will lack the specific knowledge required from situation to situation. The result will always be a totalitarian government acting arbitrarily towards its subjects.

The issue of social justice, is the question of whether different levels of income and wealth can be defended, supposedly ending with the answer that they cannot in themselves. Hayek argues against this, that it is not possible to attain equality of result, without drastically curbing basic human rights. True, the market might not always reward the most merited, or always punish the undeserving, but neither will anyone else, the market is better at it. He then goes on to state, that even the question of justice and fairness is absurd in this context, since those concepts must

necessarily be the result of deliberate human action. A quality which the market order, or catallaxy (2), lacks. The market is not perfect, but infinitely better than the alternative (3).

Is Poverty increasing?

The basic question, we have to ask is whether globalisation, necessarily creates winners and losers and leads to increased inequality in the world? The second question is

whether a poverty increase if it does exist, is occurring because of or perhaps in spite of, globalisation?

Abstract

This article starts with stating the Hayekian position, that social justice is an unattainable, and even undesirable goal for the development of human society. Whereas the market economy, might not always result in the best possible result for each and every individual, the alternatives are by far worse. It then goes on to the international level and shortly examines the findings of the UNDP, of increasing poverty and also why this might not be true. Next it reviews the possible connections between the so called globalisation, here defined as the evolvement of free trade, and poverty levels. It then clarifies some basic questions on how free markets would affect the developing nations, before finishing with the possible alternatives, that would only make matters worse.

According to organisations such as the UNDP (United Nations Development Program), it appears that poverty is not only on the rise but rampant on the globe as we know it today. In their Human Development report published in 1999, the organisation examined the ratio of income among the quintile living in the richest countries to the quintile living in the poorest. It appeared that the ration had risen from 30:1 in 1960 through 60:1 in 1990 to 72:1 in 1997 (5). It thus ap-

peared that, not only where the rich getting richer but the poor getting poorer aswell.

However, a report published by the Norwegian Institute of Foreign Policy, asserts that this is a false picture (5). First of all UNDP's own numbers, shown in the corresponding publication from 1998, stated the 1995 ratio, as 82:1 which must mean that in the last six years inequality has been decreasing (6). Secondly, the Norwegian report criticizes UNDP, for failing to adjust their findings for purchasing power. If that is done, according to the Norwegian report, the conclusion is that inequality between countries has been reduced since the 1960, and the trend has continued through the 1990'ies. Even using the UNDP's own methods, and inequality measures such as the Gini coefficient.

This is not to say that the trend applies equally all over the world. In the last 30 years, it has been especially the East Asian countries that have developed, and lately the Latin American economies have been on the rise. Africa is still obviously lagging behind.

1-Hayek, Friedrich-August v. *Law, Legislation and Liberty*

2-From the Greek verb *kattalatein* meaning 'to exchange*' but also 'to admit into the community' and 'to change from enemy to friend'

3-Hayek, op.cit.

4-UNDP *Human Development Report 1999*

5-Melchior, Arne, Telle, Kjetil & Wiig, Henrik *Globalisering og ulikhet*(Norwegian:Globalisation and Inequality), Norwegian Institute of International affairs, 2000

6-UNDP *Human Development Report 1998*

Three basic questions

It appears however, that the solution to the problems, that especially Africa seem to be facing, is not the halting of the globalisation process, but the opposite. The expansion of free trade to include the developing countries in Africa and elsewhere. It appears that these countries are not poor because of globalisation, but in large part because this globalisation has passed them by.

There are three basic questions which could be asked which I'll examine in turn. Will free trade benefit the developing countries at all? (1) Trade and an act of trade is generally not a process in which one person is left poorer and the other richer, but an exchange for the mutual benefit of both traders. Today, the developing countries are certainly not in a position in which they can trade their goods freely with, say, the West. The tariffs that most OECD countries, and especially those in the European Union, are imposing on typical 3rd world goods, are higher than the tariffs imposed between the OECD countries. This obviously robs the 3rd world manufacturers of the opportunity to gain an income on selling their goods on the global market, and where the consumers are, that is mainly in the West. This is a conclusion that was also made, in a report published by the British Labour government entitled *Making Globalisation work for the World's poor*. (2)

Shouldn't the developing countries protect their own industries, especially in the beginning?

There is nothing to indicate this. Since the 1970's the developing countries that have experienced the highest levels of growth are those that have maintained relatively open economies. Exposure to competition, helps the developing economies to innovate, and allocate their resources in the way in which they reap the highest benefits. Furthermore, where developing countries have been able to build some sort of industry, those that have maintained closed economies experienced stagnation and decay, whereas those that have maintained open economies did not. Research also shows that comparative advantages and not just absolute advantages is enough to keep an economy up and running.

Wouldn't globalisation lead to social dumping, and a race to the bottom? True, the particular person might lose his particular present source of income, but a well functioning economy, which is not necessarily a highly developed one, will be able to provide, alternative sources of income, for those who have lost either jobs, businesses or farms. Secondly it is a fact that the richest countries in the world, are also those that have the highest average wage, the best environmental records and rather effective labour organisations. Restriction of, say, unionist activities are often not a specific economic measure, but just one of wide array of policies restricting the basic economic, political and civil rights of the citizens.

An unviable alternative

The Heritage foundation regularly publishes an Index of economic freedom. Different economic parameters, are ranked on a reversed 5 point scale, according to their correspondance to an ideal of openness. The different countries are ranked based on their average score. The evidence is clear, that the richest countries in the world are also those with the most open and unregulated economies. According to this statistic North Korea is the poorest country, scoring 5 on all parameters. Most African countries are in the bottom half of the table aswell.

But what does the opponents of globalisation suggest? A radical solution would be to force the West to share its abundant wealth with the rest of the World. That, would not achieve anything I believe, since the problem is just as much a problem of maintaining high levels of prosperity, not just being given handouts.

Another solution, is to halt the globalisation process, and reduce trade. Preferably through increased protectionism. Thus ignoring the fact, that it is precisely the protectionism of the developed world that is keeping the developing countries on their knees. As an example can be provided the support certain opponents of globalisation has given to the Common Agricultural Policy or CAP, run by the European Union. This policy is responsible, not only for wasting the resources of the European tax payer, and keeping the price of agricultural goods artificially high, but also in maintaining an impregnable barrier against competition from the farmers in the developing world, who are just made to suffer, at the advantage their ineffective European colleagues.

Free trade

Free trade is the only thing that can ignite economic growth in the developing world, thus reducing poverty. The market might not be perfect, but nothing in human society ever is. And it is this chase for the ideal state, that most often leaves mankind in misery. The market certainly has a stronger case that any conceivable alternative. The road ahead seems not to lie in the reduction, or remodelling of globalisation but the expansion thereof, and expansion to include the areas in the world which globalisation has so far been passing by.

"If goods do not cross borders – soldiers will!"

Litterature

- Department for international development *Making Globalisation work for the World's Poor*, 2000
- Hayek, Friedrich-August v. *Law, Legislation and Liberty*
- Melchior, Arne, Telle, Kjetil & Wiig, Henrik *Globalisering og ulikhet* (Norwegian: Globalisation and Inequality), Norwegian Institute of International affairs, 2000
- UNDP *Human Development Report 1998*
- UNDP *Human Development Report 1999*

1-The whole section is based on *Frågor och svar om frihandeln* (Swedish: Q&A on free trade), at www.frihandel.nu

2-Department for international development *aking Globalisation work for the Worlds Poor*,