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TRANSNATIONAL ECONOMY AND GLOBAL LABOR

When the term *globalization* is used, it often means economic globalization—and not just economic globalization in general. Those who use the term often have a certain kind of globalization in mind—the spread of corporate capitalism around the world. So when people argue about whether globalization is a good thing, often what they're really talking about is whether global corporate capitalism is a good thing. They are arguing about the way that transnational corporations affect society in different parts of the world. This controversial subject often does not present a very pretty picture, especially if sweatshops and environmental damage are involved.

But globalization is about much more than corporate capitalism, as the many different topics in this book show; globalization also involves culture, communications, political and ideological changes, and much more. Even economic globalization is much more complicated than simply the rise of transnational corporations. It involves the globalization of manufacturing; the distribution, ownership, and control of goods and services; and the globalization of financial instruments and investments. Ultimately, it leads to a major transformation in the way in which global business is conducted.

Let's take an example. Let's say that back in the old days, the owners of company A in country X had a factory that made something—it could be tennis shoes, for instance. They made the shoes and then looked for someone to buy a bunch of them, and that someone, in turn, would sell the shoes to their customers. Company A would sell their tennis shoes to department stores and individual shoe stores, and the stores would sell them to us. It was a pretty simple arrangement. Probably most of their business was in their home country, country X, but they might also ship some of their tennis shoes abroad to countries Y and Z to be sold there. Since everything was made in country X, anything related to the manufacturing and finances of the company would be regulated by the laws of that country.

In the new pattern, things are quite different. For one thing, company A likely doesn't have any factories. It might operate out of an office in a high-rise building in some place like Wilshire Boulevard in Los Angeles. And its owners might employ a team to design its tennis shoes. Company A will take that design and a business plan and try to get a contract from a major marketer, such as Wal-Mart Stores, Inc., that sells consumer items through retail outlets known as Walmart. Or, just as frequently, Wal-Mart may come to company A and specify what kind of tennis shoes it would like to sell, and if everyone agrees, they have a deal. As soon as company A has a contract to manufacture the shoes it will go looking for a factory somewhere in the world to make tennis shoes like the ones they designed, as cheaply and efficiently as possible. The tennis shoe factory that company A decides to use may be in its own country, the United States, for example. But it is just as likely that it will find a cheaper and more efficient factory somewhere else, say China. If it does, then it will outsource the manufacture of these tennis shoes to a factory in China. But it might also bargain with a factory in Bangladesh, which may offer even cheaper labor and a lower price to construct and ship the tennis shoes back to United States. Or part of the tennis shoes may be made in factories in China—the soles of the shoes, perhaps—and then the half-finished items are sent to Nicaragua, where the cloth and leather tops are manufactured and attached to the soles before the completely assembled tennis shoes are sent back to United States (and to other countries elsewhere around the world). Now that company A has the tennis shoes, they are ready to sell them, either by themselves online, or to a retail giant like Wal-Mart that will sell them in stores to us. Added to the complication is that company A may not be wholly owned and registered in the United States. It might be registered in Panama for tax purposes and use ocean liners registered in Liberia for shipping purposes, and its board of directors and capital investors may come from all over the world.

Sound confusing? It is. This is the nature of economic activity in an era of globalization. Everything is made everywhere, owned and controlled everywhere, and distributed everywhere. Everyone, it seems, has a hand in making and selling those innocent little tennis shoes.

Now that you understand how it works, you probably have already thought of some potential complications. How do you make sure that countries won't levy taxes on the shoes when the factories ship them back to United States? And how do you keep China and Bangladesh from creating tariffs to keep the tennis shoes from being sold in their countries? This is where trade agreements and a whole new organization—the World Trade Organization (WTO)—come in. The WTO was created to encourage agreements that will facilitate trade and provide for some kind of monitoring of the situation to make sure the agreements work. The WTO tries to regulate these things, but their enforcement mechanisms are not very strong. They don't have an army standing behind them, and they can't throw companies in jail.

A couple of other issues you may have imagined have even weaker controls. Since company A is searching the world for the cheapest way to make their tennis shoes, this means that the winning country is likely to be the one that has the cheapest labor—Bangladesh, for instance. This may be a good deal for company A and the leaders of Bangladesh, but not such a good deal for the laborers, especially if they are worked to the bone for very little return. What kind of monitoring and enforcement mechanism exists to ensure labor standards, a minimum wage, and workers' safety and health benefits and to prohibit child labor? And what kind of controls are in place to keep factories around the world from polluting the air and abusing the environment?

The answers to these questions are even less comforting than the questions themselves. The fact is that very few international agencies monitor labor and environmental standards and demand that minimum expectations be met. In a global era in general, the problems are those of accountability and control. Yet the public is often angry when they hear about sweatshops and environmental degradation. Sometimes they take out their frustration on the WTO.

To the surprise of the representatives of the WTO when they convened in Seattle in 1999, they were met by masses of protestors. And protestors have gathered outside every meeting of the WTO since then. The protests have focused on a variety of things—including workers' rights, wages and working conditions, and environmental problems that the protestors think are caused by the global economy. They protest at the meetings of the WTO—which is not an international government and is only a forum for negotiating agreements—largely because there is nowhere else for them to protest. There is no single country or center of economic control that can enforce these labor and environmental standards globally.

Transnational social movements have organized to try to counter some of these perceived excesses. The most effective ones try to mobilize consumers and the public through the news media to put pressure on companies that allow sweatshop labor and substandard conditions; others attempt to establish international standards through the United Nations and other global organizations. At times they do make a difference. Since we are speaking of tennis shoes, it is interesting to note that several years ago the Nike tennis shoe company responded to a public outcry over news about sweatshop conditions in some of the Chinese factories that made their shoes. Nike established a code of conduct for the factories and hired an independent monitoring agency to regularly check to make sure that those labor and environment standards are upheld.

The first reading in this section is on outsourcing and why it is a central part of the commodity chain production in the global marketplace. The author, Richard Appelbaum, is a professor of sociology and global studies at the University of California, Santa Barbara, and has been active in the anti-sweatshop movement. He was instrumental in getting the University of California system to require that all clothing items that used the university logo be certified as sweatshop-free. This reading is followed by an essay on Wal-Mart by Nelson Lichtenstein, a labor historian who also teaches at UC–Santa Barbara. He asserts that the marketing giant has become the emblematic company of our generation, not only because of its size—it is the largest private employer in the world—but also because of its efficient use of transnational outsourcing and commodity chains to create low-price merchandising in a highly profitable way.

The next reading raises the question of who is "us" when Americans ask whether they benefit from the global economy. Robert Reich, U.S. Secretary of Labor during the Clinton administration, argues that the "us" is the American labor force. For this reason he would rather see foreign corporations, such as Honda, employ American workers to build their automobiles in the United States than to see American companies such as General Motors make their automobiles abroad with foreign labor.

The last two readings in this section raise large issues regarding the global economic system and how to manage it. Jagdish Bhagwati, an economist who was raised in India and now teaches at Columbia University, provides a defense of globalization. Or, rather, he regards the global economic system as an inevitable development of the technological and political circumstances of our times and thinks there are benefits to be had from it as well as problems to be overcome. In this excerpt, taken from an afterword appended to his book *In Defense of Globalization,* Bhagwati argues that global trade is conducive to economic development and that the changes in demand for labor are due as much to the increased technological proficiency that is needed as to globalization. Bhagwati has been an economic advisor to the World Trade Organization and he serves on the advisory board of Human Rights Watch.

The final reading is by Joseph Stiglitz, a Nobel Prize–winning economist who teaches at Columbia University and was once the chief economist at the World Bank. The reading in this section is an excerpt from the closing section of his book, *Globalization and Its Discontents*. As the title suggests, Stiglitz is less optimistic than Bhagwati about the positive benefits accrued by economic globalization. Though he admits that it can be a force for good, he also acknowledges that the global economic system has had a negative impact on many people, lowering their standard of living and destroying traditional lifestyles. Yet he does not regard the situation as hopeless. Instead he encourages reforms in the way countries deal with global corporations and changes in the international institutions that manage them, including the World Trade Organization, the International Monetary Fund, and the World Bank. He encourages policies that would promote a sustainable, equitable, democratic growth that would allow globalization to do what it does, but to have an impact on societies "with a more human face."

OUTSOURCING

Richard Appelbaum

Outsourcing—sometimes referred to as subcontracting—involves a firm's use of an external vendor to provide a business function that would otherwise be done by the firm itself. While the practice has long been commonplace, since the 1970s outsourcing has increasingly been done on a global scale. Firms from advanced industrial countries have outsourced many of their manufacturing operations—along with services such as accounting and call centers—to lower-wage countries around the globe. Outsourcing has been facilitated both by advances in information technology, which has made it possible to coordinate suppliers of goods and services across a global space, and by containerization, which enables goods to be quickly and efficiently transported by sea and land.

Cutting labor costs is a major reason for outsourcing. In manufacturing, for example, the wage gap between advanced industrial countries such as the United States, Germany, or Japan—and an impoverished developing country in Asia, Africa, or Latin America—can be significant. In Bangladesh manufacturing workers (if paid the legal minimum wage) might earn $30–$50 a month; in the U.S., comparable minimum-wage earnings would be $1,200. Labor cost differentials, of course, do not directly equate to cost savings: workers in developing countries may be less skilled, and thus produce fewer goods per hour; quality may suffer; and transportation costs for goods shipped long distances by sea or air have to be factored in. Increased efficiency is another reason for outsourcing: a company can focus on its key competency—for example, designing cell phones—and outsource manufacturing and assembly to other firms that are more specialized in such functions. Outsourcing can also provide access to new knowledge, intellectual property, and, more generally, a global talent pool, providing access to new skills and competencies. Tax and other economic incentives can be a factor; many developing countries offer "tax holidays" and supportive infrastructure in export processing zones where foreign firms can use local factories. Finally, easier access to markets can also be an important reason for outsourcing: partly for this reason, Japanese automobile manufacturers such as Toyota have opened assembly plants in the U.S., while many multinational corporations are now manufacturing in China in hopes of selling their products to that country's large and growing middle class.

CHANGING FORMS OF GLOBAL OUTSOURCING: FROM PRODUCER- TO BUYER-DRIVEN GLOBAL COMMODITY CHAINS

Outsourcing often involves global supplier networks that are governed or coordinated by a central firm. These activities—which typically involve low-cost manufacturing, but which may also include financial and other services—are often thought of as links in a chain; they are variously described as comprising "supply chains" or "commodity chains." The term "supply chain," which is prominent in the business literature, emphasizes the role that different firms play as suppliers of key inputs for a final product, and has given rise to a field of study concerned with supply chain management. The term "commodity chain" refers to those networks of labor and production processes that result in a finished commodity. Sociologist Gary Gereffi distinguishes between producer-driven commodity chains, characteristic of capital-intensive (heavy manufacturing) industries such as automobiles, aircraft, computers, semiconductors, and heavy machinery, and buyer-driven commodity chains, in which large retailers and larger brands set up decentralized production networks in low-wage exporting countries, characteristic of labor-intensive (light manufacturing) industries such as apparel, footwear, toys, and consumer electronics.

Producer-driven commodity chains are governed by large manufacturers: while the parent company may engage in some outsourcing, much of its production is done "in house," literally under its own roof. Such commodity chains tend to be vertically integrated, in that the parent firm centrally controls most of their operations; as a result they tended to be bureaucratically inflexible, slow to respond to changing market conditions. Large factories house large numbers of workers, who are often organized into trade unions; the ability of unions to bargain for wages and benefits—backed up by the threat (and sometimes reality) of a strike, which can shut down the entire industry—results in significant wage gains for workers in advanced industrial nations. Producer-driven commodity chains were a key organizational form during the mid-twentieth century; large automobile manufacturers, such as Ford or General Motors, were typical.

Buyer-driven commodity chains, on the other hand, are governed by large retailers (Wal-Mart is a prominent example), or large brands (Nike and Apple are prime examples). Unlike the manufacturers that govern producer-driven commodity chains, these retailers and brands do not actually make their own products; rather, they are best thought of as "branded marketers" who design products and create a market based on product image and recognition. Sociologist Gary Hamilton has aptly described such firms as "market makers"; their actual manufacturing takes place in a global network set of independently owned and operated contract factories that purchase raw materials, employ the workers, and oversee production. Such commodity chains are horizontally integrated, with the parent firm outsourcing to a large number of competing contract factories. This, in turn, provides greater organizational flexibility, in that the parent firm can respond to changing market conditions by simply changing its roster of subcontractors. Contract factories in buyer-driven commodity chains can range in size from a handful of workers, to giant firms that house a hundred thousand or more workers. (Foxcomm, a Taiwanese firm that provides electronics for Apple, Dell, Sony, Microsoft, Amazon, and Nintendo, among others, employs more than 400,000 workers in one South China factory complex.)

Producer-driven commodity chains remain important, but their importance relative to buyer-driven commodity chains has declined since the mid-twentieth century, when multinational manufacturers played the dominant role in coordinating worldwide production networks. Wal-Mart long ago surpassed General Motors and other manufacturing firms as the world's largest non energy-related corporation (the largest oil companies, Shell and ExxonMobil, are only slightly larger).

UPGRADING

Although production networks span the globe, value is not added equally at all locations. In the mid-twentieth century significant value was added during the manufacturing—value which was in part captured by factory workers, whose rising wages in the U.S. and Europe enabled many to achieve middle class status. Today, major value is added by design, branding, and marketing—activities which are located in advanced industrial economies. Manufacturing, globally dispersed to competing factories in developing economies, is no longer a principal source of added value, and therefore does not pay high wages. One 2007 Sloan Foundation study of the value-added by the Apple iPod's 451 different components concluded that more than half of the $299 retail value remained in the U.S., realized by Apple and its distributors—even though almost all of the components manufacture occurred in Asia. Although the final assembly occurred in China, Chinese workers contributed only an estimated one percent of the total value added.

One advantage of globally dispersed outsourcing is that supplier firms can sometimes upgrade their capabilities, moving into higher value-added activities. Upgrading is achieved when a firm that initially engages in the manufacture of a single component acquires the knowledge and skills to begin designing those components. Upgrading also occurs when a contractor moves from making a single component to "full package production"—providing the full range of goods and services associated with manufacturing a particular commodity. This has been especially common in production in the footwear and apparel industries, where a single firm—typically from South Korea, Taiwan, Hong Kong, or China—can take an order from a U.S. or European brand and assemble all the components necessary to produce a complete finished athletic shoe or line of clothing. Finally, upgrading occurs when a firm moves from simpler to more technologically complex products, or from simpler to more sophisticated production systems. All forms of upgrading involve "organizational learning"—the ability of a firm to learn from its experiences in a global production network, often from the firms for which it is providing inputs.

To take one example, Yue Yuen, a subsidiary of the Taiwanese company Pou Chen, is the world's largest manufacturer of athletic shoes: its factories in China, Vietnam, and Indonesia produce more than 250 million pairs a year for leading global brands such as Nike, Adidas, Reebok, New Balance, and Puma. Yue Yuen, which accounts for a sixth of the global branded athletic shoe and casual footwear market, has its own research and development facilities, produces many of the chemicals and raw materials used in its shoe components, makes many of its own tools, and even handles logistics for its customers. It has even developed a network of retail outlets throughout China. The company has "learned through doing," and some day may challenge Nike and its other clients, becoming its own designer and retailer of athletic shoes, particularly for the large and growing Chinese market.

THE CHANGING GEOGRAPHY OF PRODUCTION

While global outsourcing historically has involved networks of many small suppliers, a pattern seems to be emerging: the consolidation of suppliers into a smaller number of large, powerful East Asian firms that are better equipped to work with the larger orders placed by major brands and retailers. Nike places its athletic shoe orders with Yue Yuen, mentioned above; Polo Ralph Lauren, Liz Claiborne, Limited, Express, Victoria's Secret, Fast Retailing, Dillard's and Debenhams place apparel orders with the multinational Luen Thai Holdings, whose "supply chain city" in Dongguan, China includes a two-million square foot factory, a 300-room hotel, a dormitory for the factory's workers, and product-development centers. (Significantly, in 2004 Yue Yuen and Luen Thai announced a "strategic alliance" to develop sports apparel for the global market.) And, as noted previously, every major electronics brand sources from the Taiwanese giant Foxcomm. The emergence of giant transnational contractors, as suppliers for giant retailers and brands, is a relatively recent phenomenon; the fact that these contractors are often Taiwanese and Chinese is especially significant, since it suggests a possible change in the power dynamic between the "big buyers" and their suppliers. Large multinational contractors may come to offer a counterweight to the growing power of companies such as Wal-Mart, Nike, and Apple—and, if that proves to be the case, that will also portend a geographic economic shift to Asia. As such giant contractors engage in upgrading and knowledge acquisition, they may also develop their own brands, becoming competitors with the companies they currently supply.

IMPLICATIONS FOR LABOR RIGHTS

Critics of globalization see outsourcing as a key cause of what they term the "global race to the bottom"—the ability of firms to outsource the provision of goods and services to the lowest-wage sites in the world, such that if workers in one location achieve (or even demand) improvements in wages or working conditions, businesses will simply relocate their outsourced operations to more "business-friendly" factories elsewhere. Global competition between contractors competing for orders is a key factor in keeping labor costs down, since any factory that cannot not meet the price requirements of its buyers risks losing business to another factory down the street or around the globe. This dynamic has also discouraged efforts by workers to form independent trade unions, since unionized shops are vulnerable to losing their contracts. Furthermore, in the absence of binding international law (or even norms) governing outsourcing, firms that engage in outsourcing are not legally liable for problems that occur in their subcontracted factories.

When most production occurred "in house" in a manufacturers' home country, the government could enforce labor laws. But in a highly globalized network of contract factories, there are no comparable international bodies to monitor factories and assure that wages and working conditions are equitable. Consumers, with mixed results, sometimes put pressure on retailers and brands to require their contract factories to adhere to basic labor standards. Students in some 200 colleges and universities have developed codes of conduct designed to insure that products bearing the campus logo sold are made in a decent working environment. Such efforts are hampered, however, by the globally dispersed nature of outsourced production, which makes monitoring of thousands of factories virtually impossible. It is possible, however, that as production becomes consolidated in fewer, larger factories, it will be easier to monitor and enforce labor standards.

WAL-MART: TEMPLATE FOR 21ST CENTURY CAPITALISM?

Nelson Lichtenstein

Giant corporations are the most important institutions shaping the character of world capitalism. As Peter Drucker, the founder of modern management science, put it nearly 60 years ago, the great corporations of our time are "the representative social actuality" shaping the general condition of "modern industrial society." The "emergence of Big Business as a social reality during the past fifty years is the most important event in the recent social history of the Western world." He wrote all that in 1945, but his understanding is just as true today, if on a scale that includes not only the West, but the East and global South as well.

In each historical epoch a prototypical enterprise embodies a new and innovative set of technological advances, organizational structures, and social relationships. They become the "template" economic institutions of their time and place. By template, we mean not just the internal organization of the business, or the character of the market it taps or creates, but the entire range of economic, social, and political transmutations generated by a particularly successful form of business enterprise. These template businesses are emulated because they have perfected for their era the most efficient and profitable relationship between the technology of production, the organization of work, and the new shape of the market. Thus at the end of the 19th century the Pennsylvania Railroad declared itself "the standard of the world." In the mid-twentieth century, General Motors symbolized sophisticated, bureaucratic management, and technologically proficient mass production. When Peter Drucker wrote *The Concept of the Corporation* in 1945 it was the General Motors organization, from the Flint assembly line to the executive offices in Detroit, that exemplified corporate modernity in all its variegated aspects. And in more recent years, first IBM and then Microsoft has seemed the template for an information economy that has transformed the diffusion and production of knowledge around the globe.

At the dawn of the twenty-first century Wal-Mart has emerged as just the kind of world transforming economic institution Peter Drucker analyzed at the end of World War II. As even a casual glance at the newspapers and television makes overwhelmingly clear, Wal-Mart is an inescapable touchstone for so many of the social, urban, labor, and global issues that confront 21st century Americans. In California, where Wal-Mart's actual footprint is still tiny, the expectation that this corporation will build scores of giant new "supercenters" has generated one high profile conflict after another. A bitter, four-month grocery strike that began in the fall of 2003 was provoked by Wal-Mart's downward competitive pressure on the old-line supermarkets. In April 2004, Inglewood residents won their 15 minutes of fame when that majority black and Latino city voted down a Wal-Mart sponsored referendum, designed to pave the way for construction of a huge supercenter. Then, in August 2004, the Los Angeles city council enacted an ordinance requiring "big box" stores like Wal-Mart to fund an "economic impact" analysis to determine their effect on community wages, existing businesses, and traffic patterns. The next month the Democratically-controlled legislature passed a similar law designed to apply to the entire state, but Governor Schwarzenegger vetoed the bill. And while all this was going on, a San Francisco judge gave the Berkeley-based Impact Fund permission to seek higher pay and back pay for more than a million women workers at Wal-Mart, in the largest class action employment discrimination suit ever certified by a federal court.

Founded just over 40 years ago by Sam Walton and his brother Bud, this

Bentonville, Arkansas, company is today the largest profit making enterprise in the world, with sales of more than a quarter of a trillion dollars, and 1.4 million employees. As of the end of 2003 it had 4,688 stores worldwide, about 80 percent of them in the United States. Twenty million shoppers visit its stores each day and more than four out of five U.S. households purchase at least some products from the retailer each year. It does more business than Target, Sears, Kmart, J.C. Penney, Safeway, and Kroger combined. Its trucking fleet is the largest private carrier in the United States. Wal-Mart is the single largest U.S. importer from China and the largest private employer in both the United States and Mexico. If this corporation were an independent country it would have been China's eighth largest trading partner, ahead of Russia and Britain.

In selling general merchandise and groceries, it has no real rivals. A Harvard Business School study estimates that by 2008 the company will double its sales and employ at least 2.2 million "associates" worldwide. In March 2003, *Fortune* magazine ranked Wal-Mart—for the first time—as America's most admired, as well as its largest company. Many observers expect Wal-Mart to gross a trillion dollars a year by 2013. Indeed, Wal-Mart perfectly embodies the process of "creative destruction" identified by the early twentieth century economist Joseph Schumpeter as the engine by which one mode of capitalist production and distribution is replaced by another. And as Schumpeter made clear early in the twentieth century, every set of technological and organizational innovations not only reconfigures the immediate economic landscape, but it also casts a social and political shadow across all of society.

And it is precisely Wal-Mart's enormous social, economic, and cultural weight that makes Wal-Mart not just an organizing imperative for American labor, but a subject of increasingly intense political and social scrutiny. For no company of Wal-Mart's size and influence is a "private enterprise." By its very existence and competitive success, it rezones our cities, determines the real minimum wage, channels capital throughout the world, and conducts a kind of international diplomacy with a score of nations. In an era of weak unions and waning governmental regulation, Wal-Mart management may well have more power than any other entity to "legislate" key components of American social and industrial policy.

The last time an American company had such power was 50 years ago when General Motors was the largest and most profitable American corporation, with sales that amounted to about three percent of the gross national product, which made the car maker an even larger economic presence than Wal-Mart is today. (Wal-Mart's share of the GNP is still only 2.3 percent.) Both Wal-Mart and GM are both template enterprises, but the patterns they have both done so much to establish have had a very different impact on working-class America.

In 1953 when President Eisenhower appointed General Motors President Charles E. Wilson to his cabinet, the GM executive appeared before Congress to defend his views and qualifications. When asked if there was any conflict between his career as an auto executive and his new governmental duties, Wilson famously replied, that what was "good for the country was good for General Motors, and vice versa."

Congress eventually confirmed Charles Wilson as Secretary of Defense, but his bold declaration generated a howl of outrage that has not quite lost all its voltage even after half a century. Wilson's quip might have been arrogant, but it was controversial precisely because there was a plausible case for making it. In its heyday, from the late 1920s through the 1970s, General Motors was the largest corporation in the United States, dominating the country's most important industry. And it was not just the largest manufacturer of cars, but also of heavy trucks, locomotives, and military equipment. It was a major player in aircraft production, and in household appliances, and the GM Acceptance Corporation was by far the largest retail credit institution in the United States. Like Wal-Mart today, it had no competition that could threaten its market supremacy. And also like Wal-Mart, whose ever-present TV spots claim a beneficial link between the corporation's fortune and that of workers, customers, and community, one might scoff at the claim, but no one could ignore it.

It is therefore useful to juxtapose these two corporate templates, if only to gain some purchase on how the history, economics, and sociology of these giant enterprises can generate insights and questions that may help us see what is uniquely transformative about Wal-Mart, and what is merely a function of its sheer size and market leverage. Does this compare apples and oranges? General Motors and Wal-Mart might seem to be in quite different lines of business. One is primarily the manufacturer of durable consumer goods, while the other is essentially a retailer. One firm typifies industrial America, the other "post-industrial" consumer society.

But upon closer inspection, these differences seem less salient. GM did manufacture lots of cars, but its franchised dealer system, which was always kept on a tight leash, sold them by the millions, and its wholly owned GMAC subsidiary financed them, and sometimes made as much profit as did the production side of the corporation. Wal-Mart is obviously a big retailer that buys its goods from thousands of supplier firms. But the relationship between Wal-Mart and its suppliers is an increasingly intimate one that is transforming Wal-Mart into a de facto manufacturing company. At GM the manufacturing end of the enterprise squeezed the car dealers;

at Wal-Mart the retail sales operation wags the manufacturing tail, but in the end it may not matter all that much. When it comes to giant global enterprise, we still live in an industrial world. More people work in factories today than at any time in human history. Still more sell, talk, or manipulate a keyboard under assembly line conditions. The post-industrial age has not yet arrived.

Both General Motors and Wal-Mart are themselves high productivity workplaces, and both generate economies of scale that have had a substantial ripple impact throughout the rest of the economy. They did not invent the technologies and the organizational innovations that generated this productivity dividend—Ford was more creative in the early years of the 20th century, and Chrysler pioneered many of the innovative engineering breakthroughs we associate with the mid-century automobile. Likewise, the Walton brothers always acknowledged their debt to such retail innovators as Price Club, J.C. Penney, and Kmart. The Waltons took the idea of self-service from Ben Franklin, the large purchase discount store from Price Club, and the Supercenter from the French Carrefour markets. But Wal-Mart, like General Motors, perfected, integrated, and systematized technological and marketing ideas put in play by their competitors. And in doing so they both ratcheted up their own overall productivity, and made it impossible for any competitor to survive without emulating the template firm. Thus Ford imitated GM in 1946 by purging the managerial men and methods put in place by the original Henry Ford in order to make itself fit the GM template.

What makes for giganticism in big business? Why was GM so big at mid-century and why is Wal-Mart so huge today? In their theory of the firm, business economists have described the corporation as an "island of conscious power" in an "ocean of unconscious cooperation, like lumps of butter coagulating in a pail of buttermilk." Every firm has an optimal size beyond which the risk of loss from mismanagement more than offsets the chance of gain from the economies of scale it can realize. In the first half of the 20th century GM became a vertically integrated conglomerate because teletype, telephones, and good roads enabled the corporation to deploy its famous system of centralized control and decentralized operations across dozens of states and scores of major production facilities. But such highly integrated production and distribution within a single firm may not always be the most cost efficient way to make the most money. If new technologies and sociopolitical mores make it cheaper and faster to purchase rather than make these same goods and services, then executives will begin to dismantle the huge firm. According to the most savvy, technologically hip business writers, the contemporary corporation is doomed to disaggregation within a world of cheap, rapid communications and increasingly efficient markets in goods and services. The “virtual” corporation of the 21st century should consist of a few thousand highly skilled managers and professions who contract out nonessential services to cheaper, specialist firms.

Thus we have the outsourcing of both call center work and janitorial services to an ever shifting coterie of independent firms, while “branded” companies like Nike and Dell farm out virtually all the manufacturing work that goes into their core products. This has been the path followed by General Motors, which has created and spun off Delco, once a vertically integrated parts division. Except for final assembly and the manufacture of key components, GM and the other big car companies seek to outsource as much work as possible, even sharing space with suppliers under the same roof and on the same shop floor. So the GM payroll, white collar and blue, is about half the size it was in 1970. Giving all this a metahistorical punch, Forbes columnist Peter Huber declared that it was “market forces and the information age” that had beaten the Soviets and would soon force the dissolution of America’s largest corporations. “If you have grown accustomed to a sheltered life inside a really large corporation,” he advised, “take care. The next Kremlin to fall may be your own.”

But Wal-Mart has found giganticism efficient and profitable. This is because the price of goods and services it purchases on the market has not fallen as rapidly as has the cost of “managing” within a single organization the production or deployment of those same economic inputs. The same technologies and cost imperatives that have led to the decomposition of many manufacturing firms, have enabled Wal-Mart and other retail distribution companies to vastly enhance their own managerial “span of control.” . . . This is not just a tribute to Wal-Mart’s clever deployment of sophisticated control technologies, but arises from the politics and culture of a business system that has arisen in the post-New Deal world. . . .

WHO IS US?

Robert B. Reich

Who is “us”? Is it IBM, Motorola, Whirlpool, and General Motors? Or is it Sony, Thomson, Philips, and Honda?

Consider two successful corporations:

- Corporation A is headquartered north of New York City. Most of its top managers are citizens of the United States. All of its directors are American citizens, and a majority of its shares are held by American investors. But most of Corporation A's employees are non-Americans. Indeed, the company undertakes much of its R&D and product design, and most of its complex manufacturing, outside the borders of the United States in Asia, Latin America, and Europe. Within the American market, an increasing amount of the company's product comes from its laboratories and factories abroad.

- Corporation B is headquartered abroad, in another industrialized nation. Most of its top managers and directors are citizens of that nation, and a majority of its shares are held by citizens of that nation. But most of Corporation B's employees are Americans. Indeed, Corporation B undertakes much of its R&D and new product design in the United States. And it does most of its manufacturing in the U.S. The company exports an increasing proportion of its American-based production, some of it even back to the nation where Corporation B is headquartered.

Now, who is "us"? Between these two corporations, which is the American corporation, which the foreign corporation? Which is more important to the economic future of the United States?

As the American economy becomes more globalized, examples of both Corporation A and B are increasing. At the same time, American concern for the competitiveness of the United States is increasing. Typically, the assumed vehicle for improving the competitive performance of the United States is the American corporation—by which most people would mean Corporation A. But today, the competitiveness of American-owned corporations is no longer the same as American competitiveness. Indeed, American ownership of the corporation is profoundly less relevant to America's economic future than the skills, training, and knowledge commanded by American workers—workers who are increasingly employed within the United States by foreign-owned corporations.

So who is us? The answer is, the American work force, the American people, but not particularly the American corporation. The implications of this new answer are clear: if we hope to revitalize the competitive performance of the United States economy we must invest in people, not in nationally defined corporations. We must open our borders to investors from around the world rather than favoring companies that may simply fly the U.S. flag. And government policies should promote human capital in this country rather than assuming that American corporations will invest on "our" behalf. The American corporation is simply no longer "us."

GLOBAL COMPANIES

American corporations have been abroad for years, even decades. So in one sense, the multinational identity of American companies is nothing new. What is new is that American-owned multinationals are beginning to employ large numbers of foreigners relative to their American work forces, are beginning to rely on foreign facilities to do many of their most technologically complex activities, and are beginning to export from their foreign facilities—including bringing products back to the United States.

Around the world, the numbers are already large—and still growing. Take IBM—often considered the thoroughbred of competitive American corporations. Forty percent of IBM's world employees are foreign, and the percentage is increasing. IBM Japan boasts 18,000 Japanese employees and annual sales of more than $6 billion, making it one of Japan's major exporters of computers.

Or consider Whirlpool. After cutting its American work force by 10% and buying Philips's appliance business, Whirlpool now employs 43,500 people around the world in 45 countries—most of them non-Americans. Another example is Texas Instruments, which now does most of its research, development, design, and manufacturing in East Asia. TI employs over 5,000 people in Japan alone, making advanced semiconductors—almost half of which are exported, many of them back to the United States.

American corporations now employ 11% of the industrial work force of Northern Ireland, making everything from cigarettes to computer software, much of which comes back to the United States. More than 100,000 Singaporians work for more than 200 U.S. corporations, most of them fabricating and assembling electronic components for export to the United States. Singapore's largest private employer is General Electric, which also accounts for a big share of that nation's growing exports. Taiwan counts AT&T, RCA, and Texas Instruments among its largest exporters. In fact, more than one-third of Taiwan's notorious trade surplus with the United States comes from U.S. corporations making or buying things there, then selling or using them back in the United States. The same corporate sourcing practice accounts for a substantial share of the U.S. trade imbalance with Singapore, South Korea, and Mexico—raising a question as to whom complaints about trade imbalances should be directed.

The pattern is not confined to America’s largest companies. Molex, a suburban Chicago maker of connectors used to link wires in cars and computer boards, with revenues of about $300 million in 1988, has 38 overseas factories, 5 in Japan. Loctite, a midsize company with sales in 1988 of $457 million, headquartered in Newington, Connecticut, makes and sells adhesives and sealants all over the world. It has 3,500 employees—only 1,200 of whom are Americans. These companies are just part of a much larger trend: according to a 1987 McKinsey & Company study, America’s most profitable midsize companies increased their investments in overseas production at an annual rate of 20% between 1981 and 1986.

Overall, the evidence suggests that U.S. companies have not lost their competitive edge over the last 20 years—they’ve just moved their base of operations. In 1966, American-based multinationals accounted for about 17% of world exports; since then their share has remained almost unchanged. But over the same period, the share of exports from the United States in the world’s total trade in manufactures fell from 16% to 14%. In other words, while Americans exported less, the overseas affiliates of U.S.-owned corporations exported more than enough to offset the drop.

The old trend of overseas capital investment is accelerating: U.S. companies increased foreign capital spending by 24% in 1988, 13% in 1989. But even more important, U.S. businesses are now putting substantial sums of money into foreign countries to do R&D work. According to National Science Foundation figures, American corporations increased their overseas R&D spending by 33% between 1986 and 1988, compared with a 6% increase in R&D spending in the United States. Since 1987, Eastman Kodak, W.R. Grace, Du Pont, Merck, and Upjohn have all opened new R&D facilities in Japan. At Du Pont’s Yokohama laboratory, more than 180 Japanese scientists and technicians are working at developing new materials technologies. IBM’s Tokyo Research Lab, tucked away behind the far side of the Imperial Palace in downtown Tokyo, houses a small army of Japanese engineers who are perfecting image-processing technology. Another IBM laboratory, the Kanagawa arm of its Yamato Development Laboratory, houses 1,500 researchers who are developing hardware and software. Nor does IBM confine its pioneering work to Japan: recently, two European researchers at IBM’s Zurich laboratory announced major breakthroughs into superconductivity and microscopy—earning them both Nobel Prizes.

An even more dramatic development is the arrival of foreign corporations in the United States at a rapidly increasing pace. As recently as 1977, only about 3.5% of the value added and the employment of

American manufacturing originated in companies controlled by foreign parents. By 1987, the number had grown to almost 8%. In just the last two years, with the faster pace of foreign acquisitions and investments, the figure is now almost 11%. Foreign-owned companies now employ 3 million Americans, roughly 10% of our manufacturing workers. In fact, in 1989, affiliates of foreign manufacturers created more jobs in the United States than American-owned manufacturing companies.

And these non-U.S. companies are vigorously exporting from the United States. Sony now exports audio- and videotapes to Europe from its Dothan, Alabama factory and ships audio recorders from its Fort Lauderdale, Florida plant. Sharp exports 100,000 microwave ovens a year from its factory in Memphis, Tennessee. Last year, Dutchowned Philips Consumer Electronics Company exported 1,500 color televisions from its Greenville, Tennessee plant to Japan. Its 1990 target is 30,000 televisions; by 1991, it plans to export 50,000 sets. Toshiba America is sending projection televisions from its Wayne, New Jersey plant to Japan. And by the early 1990s, when Honda annually exports 50,000 cars to Japan from its Ohio production base, it will actually be making more cars in the United States than in Japan.

In an economy of increasing global investment, foreign-owned Corporation B, with its R&D and manufacturing presence in the United States and its reliance on American workers, is far more important to America's economic future than American-owned Corporation A, with its platoons of foreign workers. Corporation A may fly the American flag, but Corporation B invests in Americans.

TWO CRITIQUES OF GLOBALIZATION

Jagdish Bhagwati

In Defense of Globalization was written against the background of the massive demonstrations that erupted in Seattle in November 1999 when the World Trade Organization (WTO) was meeting to launch a new Round of multilateral Trade Negotiations. If launched, the Seattle Round would have been the first under the auspices of the WTO as distinct from the seven Rounds that had been successfully concluded under GATT, the General Agreement on Tariffs and Trade, which was the predecessor of the WTO. The protests were about the alleged adverse social implications of the economic globalization that trade typified in the minds—or perhaps I should say the hearts—of many of the militating critics.

. . . By looking at virtually every social concern I could lay my hands on, I argued that globalization, by and large, advanced these social agendas instead of handicapping them. In short, globalization *has* a human face. I can only illustrate with one compelling example the kind of argumentation and evidence that I marshaled to arrive at this startling conclusion: the reader has the entire book to judge for herself the case I build, patiently and without an ideological straitjacket, against the entire range of current antiglobalization critiques.

Thus, take the wage differential against women. Take the phenomenon that, for the same type of work and the same qualifications, a firm pays men more than women. Using Gary Becker's theory of price and prejudice, we may hypothesize that the willingness of firms to pay more for equally qualified men will begin to shrink once they face stiff international competition. So, in traded industries, you would see the wage differential closing faster than in non-traded industries. Lo and behold, that is just what two splendid women economists found to be the case in the United States over a long period. Globalization, in the shape of trade, was a force for good, not harm.

But take the differential in pay that comes, not at the level of the firm, but because women traditionally have been confined to jobs that pay less: like teaching and nursing. But even here, take the example of Japanese multinationals. In Japan the glass ceiling beyond which women cannot go used to be so low that women could barely stand up! One went to Japan and found that, in a land that produced the world's first great female novelist (Lady Murasaki in the eleventh century), today the women typically were either housewives or in jobs such as serving tea to male executives who did all of the talking and negotiating. When Japanese multinationals started going abroad in massive numbers in the late 1980s, the men, of course, remained executives. Their wives who lived in New York, Paris, Rome, and London, suddenly saw how Western men treated their wives differently and how the women were upwardly mobile in business and other occupations. That turned them into powerful agents of change when they returned. And so now we have had Madame Ogata as the UN High Commissioner for Refugees, Madame Tanaka as the Foreign Minister and many women getting into the Diet and also rising in executive ranks. Japanese investment abroad was among the phenomena that fostered the change in attitudes that led to the promotion of equality for Japanese women.

SELF-INTEREST AND FEAR

If the concerns about globalization that proceed from altruism and empathy can be laid to rest, those arising from self-interest and fear are not so easily dismissed, though they are even less grounded in objective reality. As the Russian proverb goes: fear has big eyes. But it also has deaf ears.

The fear of trade and multinationals today particularly afflicts the rich countries, where many are afraid that economic prosperity is imperiled by trade with the poor countries. Additionally, the working classes and the unions typically fear that their wages and standards are in peril from trade with poor countries. But it was only a few decades ago that the fear was rampant among the poor countries that were in such peril from trade with the rich countries: how ironic this seems. A few economists and some cash-rich NGOs have worked hard to renew the fear among the poor countries as well. Let me, therefore, urge the reader to work through the extended analysis and empirical evidence that I have produced, on the benefits of trade for prosperity in the poor countries . . . and on the need to discount the alleged adverse effect of trade on wages and labor standards in the rich countries. . . . But let me add a few salient points here, on the question of the relationship between trade and prosperity, while dealing with the question of wages and labor standards more robustly later. I will also start with conventional worries; and then I will address worries (such as the fear of India and China) that have emerged in recent years, reinforcing the old concerns, in regard to both overall prosperity and wages.

1. *Prosperity from Trade.* First, my colleague Professor Arvind Panagariya has noted that, if one examines the growth and trade record (where available) of rich and poor countries for nearly forty years in the postwar period, you see a remarkable phenomenon. The "economic miracle" countries which averaged a high annual growth rate of per capita income at about 3 percent, also showed similar growth in their trade; and the "economic debacle" countries that experienced negligible or even negative growth rates were also characterized by similarly dismal trade performance. Now, this does not necessarily imply that trade led to growth instead of the other way around. Anyone who has studied the experience of developing countries in depth knows—and I know because I have participated in two major projects (one where I was a country co-author and one which I co-directed) in the 1960s and 1970s on the trade and development policies of several countries—the argument that growth happened independently of trade, which simply followed as a "trickle-down" effect of growth, is little short of crazy. But this area does invite

entry by crazy people, or people who are not crazy but act as if they were because the market incentives, as I argue below, are such today that they reward craziness.

Second, note that it is possible to observe periods, which may last over almost two decades in rare cases, where autarky and high growth rates may be observed together. But it is impossible to find cases where this has been a "sustainable" relationship over very long periods. The Soviet Union collapsed after making many economists, including me at one stage, believe that its autarky was no barrier. Well, just look at a chart on Soviet Russia's steadily declining growth rate in the face of huge investment rates. You see a decline in productivity that must be at least partly attributed to a virtually closed economy and rigid central planning laced with massive restrictions on production and investment. After a huge spurt in the 1920s and 1930s, these ill-advised policies finally caught up with them.

Let me also recall a funny, and true, story about my Cambridge teacher Joan Robinson. In the mid-1960s, she and Gus Ranis of Yale, one a radical and the other a mainstream economist, were overheard agreeing that Korea was an economic miracle. How could this harmony have arisen? It turned out that she was thinking of North Korea whereas Ranis was talking about South Korea! Now, after over a quarter of a century, we know who was right: North Korea simply failed to sustain its high growth rate. Autarky, and total lack of political and economic freedoms, turned the short-run miracle into a debacle.

Third, much is made these days of the cliché that "one (shoe) size does not fit all," implying that general advice that trade is good is unsound and that we must vary the prescription with each country, presumably advocating protection here and there, on an ad hoc basis, and without an overarching philosophy that progress towards freeing trade is desirable. This sounds so right; but it is downright shallow and silly. Science, and good policy, require that certain general propositions be taken as guiding principles, as distinct from reliance on ad hoc prescriptions. One has to decide whether one wants to go barefoot or wear shoes. And once one decides to wear shoes, the shoe size will inevitably tend to vary, as the policy gets grounded in reality. Thus, one has to decide whether the central policy has to be openness or autarky. After the post-war experience, it is clearly possible to argue that good policymaking requires a policy of freer trade. But this does not mean that the actual freeing of trade must not take into account the political and economic difficulties that may attend the transition from one system to another: the transition to freer trade, and working with an open economy, require policy and institutional support that have in fact been the subject of rich analysis by trade economists for decades.

2. *Globalization: Trade, Immigration and Wages.* The long-standing stagnation, or at best very sluggish rise, in workers' earnings in the United States has given rise to the fear that globalization, involving trade with the poor countries and also illegal unskilled immigration from them, is at the heart of the problem. Yet, this causation should not be taken at face value, no matter how plausible it seems to many in the rich countries.

First, all empirical studies, including those done by some of today's top trade economists (such as Paul Krugman and Robert Feenstra), show that the adverse effect of trade on wages is not substantial. My own empirical investigation . . . in fact argues that the effect of trade with poor countries may even have been to moderate the downward pressure on wages that rapid unskilled-labor-saving technical change would have caused.

Second, the same goes for the econometric studies by the best labor economists today, regarding the effects of the influx of unskilled illegal immigrants into the United States. The latest study by George Borjas (no friend of illegal immigrants) and Larry Katz, both of Harvard, once necessary adjustments are made, also shows a virtually negligible impact on U.S. workers' wages.

So, despite the popular fears, globalization does not appear to be the cause of the problem. What then explains the disturbing situation regarding wages? Can it be that globalization has significantly reduced the bargaining ability of workers and thus puts a downward pressure on wages? I strongly doubt this. First, the argument is not relevant when employers and workers are in a competitive market and workers must be paid the going wage. As it happens, less than 10 percent of the workers in the private sector in the United States are now unionized. Second, if it is claimed that acceleration in globalization has decimated unionization, that is dubious. The decline in unionization has been going on for longer than the last two decades of globalization, shows no dramatic acceleration in the last two decades, and is to be attributed to the union-unfriendly provisions of the half-century-old Taft-Hartley provisions that crippled the ability to strike. Third, it seems plausible that unionization has also suffered because fewer workers now expect that unions can deliver higher wages. In the public sector, the wages are squeezed because of budget constraints: as the recent New York Transit strike showed, the public utilities are increasingly unable to raise the price of services or to get more subsidies to finance losses and therefore the ability of unions in such a situation to get more for their workers is crippled. Again, increasing numbers work at home, in no small measure due to technical change such as on-line transactions, that facilitates such decentralized work, in a return to the pre-factory-work era, and are therefore less amenable to unionization.

Again, can we turn to yet another element of globalization for an explanation? Has the outflow of Direct Foreign Investment (DFI) to the poor countries with cheap labor caused a decline in the capital which works at home with unskilled labor and hence to a decline in wages? As I look at the data, the United States has received more or less as much equity investment as it has lost over the last two decades. One cannot just look at one side of the ledger; I might add that I was once in a BBC radio debate with the Mayor of the French town, which had lost its Hoover factory to England. He was lamenting the loss and holding up multinationals as somewhat wicked in their pursuit of profits. So, I told him: Mr. Mayor, Hoover is an American firm. When it came to your town, you applauded. Now that they have traveled on, you are agitated. You cannot have it both ways. Again, as I argue below, the econometric evidence on location by multinationals does not show that cheap labor is a big draw; and many other factors producing competitiveness are at play, making the rich countries also major attractions for the inflow of equity investments by multinationals.

So, in lieu of globalization as the culprit, one has to fall back on the argument that substantial unskilled-labor-saving technical change is putting pressure on the wages of the unskilled. Technical change (except for the Green Revolution, where the new seeds led to increases in both the demand for landless labor and real wages because the application of irrigation and fertilizers to the new seeds led to more intensive land use with multiple shifts) happens to be continually economizing on the use of unskilled labor. Much empirical argumentation and evidence exists on this, coming from world-class economists such as Alan Krueger of Princeton. But, as always, anecdotes (which obviously cannot substitute for systematic evidence) can make this point come alive. The effect of technical change in increasing the demand for skilled and reducing that for unskilled labor today can be illustrated by two examples.

First, to take an example from my own professorial life, secretaries are increasingly hard to get from the university administration on campuses. Instead, universities now offer you computers. Whereas secretaries are generally semi-skilled—though in the past highly educated and gifted females often became secretaries because they had few other options—the computers have to be looked after, and fixed frequently due to failure (especially when one has a deadline), by "electronic plumbers" who are skilled and get paid much more. So the rapid spread of computers is steadily reducing demand for secretaries and increasing the demand for the electronic plumbers.

A more striking example comes from Charlie Chaplin's famous film, *Modern Times.* You will recall how he goes berserk on the assembly line, the mechanical motion of turning the spanner finally getting to him (illustrating Adam Smith's famous observation that the division of labor, and concentration on repetitive, narrow tasks could turn workers into morons and that education for them had to provide the antidote). Suppose that you take your child to see the film and she asks you: Daddy, take me to see an assembly line so I can actually see the people working at it. Well, it is going to be increasingly difficult to find such an assembly line for your child to see. Yes, there are assembly lines today; but they are without workers; they are managed by computers in a glass cage above, with highly skilled engineers in charge. The disoriented Charlie Chaplins have increasingly disappeared, at least from the assembly lines. Amusingly, this was brought home to Americans when, having decided to investigate the production of potato and semiconductor chips because of the widespread perception that potato chips were produced by primitive techniques and semiconductors were made with advanced technology, a reporter found that the facts were the other way around. He visited a factory that produced semiconductors and found that it involved moronic fitting of little wires onto small boards, whereas the Pringles factory he visited for potato chips was fully automated on its assembly line, with Pringles fitting beautifully on one another, each a total replica of the other, in the red and green boxes one finds in hotel mini-bars.

The facts are that this is rapidly occurring in the United States, and in other rich countries, as technical change is quickly spreading through the system. This naturally creates, in the short-run, pressure on the jobs and wages of the workers being displaced. But we know from past experience with technical change that we usually get a J-curve where, as productivity increase takes hold, it will (except in cases where macroeconomic difficulties may occur and are not addressed by macroeconomic remedies) result in wage increases. A Luddite response, therefore, is hardly called for. So, why has there been no such effect—or at least a significant effect—in the statistics on wages for almost two decades?

I suspect that the answer lies in the intensity of displacement of unskilled labor by IT-based technical change—its potency is dramatic, as is evident from nearly everyone's daily experience—and in the fact that it is continuous now, unlike such discrete changes as the invention of the steam engine. Before the workers get on to the rising part of the J-curve, they run into yet more such technical change, so that the working class gets to go from one declining segment of the J-curve to another, to yet another. The pressure on wages gets to be relentless, lasting over longer periods than in earlier experience with unskilled-labor-saving technical change. But this technical change, which proceeds like a tsunami, has nothing to do with globalization.

TOWARD A GLOBALIZATION WITH A MORE HUMAN FACE

Joseph Stiglitz

One of the reasons globalization is being attacked is that it seems to undermine traditional values. The conflicts are real, and to some extent unavoidable. Economic growth—including that induced by globalization—will result in urbanization, undermining traditional rural societies. Unfortunately, so far, those responsible for managing globalization, while praising these positive benefits, all too often have shown an insufficient appreciation of this adverse side, the threat to cultural identity and values. This is surprising, given the awareness of the issues within the developed countries themselves: Europe defends its agricultural policies not just in terms of those special interests, but to preserve rural traditions. People in small towns everywhere complain that large national retailers and shopping malls have killed their small businesses and their communities.

The pace of global integration matters: a more gradual process means that traditional institutions and norms, rather than being overwhelmed, can adapt and respond to the new challenges.

Of equal concern is what globalization does to democracy. Globalization, as it has been advocated, often seems to replace the old dictatorships of national elites with new dictatorships of international finance. Countries are effectively told that if they don't follow certain conditions, the capital markets or the IMF will refuse to lend them money. They are basically forced to give up part of their sovereignty, to let capricious capital markets, including the speculators whose only concerns are short-term rather than the long-term growth of the country and the improvement of living standards, "discipline" them, telling them what they should and should not do.

But countries do have choices, and among those choices is the extent to which they wish to subject themselves to international capital markets. Those, such as in East Asia, that have avoided the strictures of the IMF have grown faster, with greater equality and poverty reduction, than those who have obeyed its commandments. Because alternative policies affect different groups differently, it is the role of the political process—not international bureaucrats—to sort out the choices. Even if growth *were* adversely affected, it is a cost many developing countries may be willing to pay to achieve a more democratic and equitable society, just as many societies today are saying it is worth sacrificing some growth for a better environment. So long as globalization is presented in the way that it has been, it represents a disenfranchisement. No wonder then that it will be resisted, especially by those who are being disenfranchised.

Today, globalization is being challenged around the world. There is discontent with globalization, and rightfully so. Globalization can be a force for good: the globalization of ideas about democracy and of civil society have changed the way people think, while global political movements have led to debt relief and the treaty on land mines. Globalization has helped hundreds of millions of people attain higher standards of living, beyond what they, or most economists, thought imaginable but a short while ago. The globalization of the economy has benefited countries that took advantage of it by seeking new markets for their exports and by welcoming foreign investment. Even so, the countries that have benefited the most have been those that took charge of their own destiny and recognized the role government can play in development rather than relying on the notion of a self-regulated market that would fix its own problems.

But for millions of people globalization has not worked. Many have actually been made worse off, as they have seen their jobs destroyed and their lives become more insecure. They have felt increasingly powerless against forces beyond their control. They have seen their democracies undermined, their cultures eroded.

If globalization continues to be conducted in the way that it has been in the past, if we continue to fail to learn from our mistakes, globalization will not only not succeed in promoting development but will continue to create poverty and instability. Without reform, the backlash that has already started will mount and discontent with globalization will grow.

This will be a tragedy for all of us, and especially for the billions who might otherwise have benefited. While those in the developing world stand to lose the most economically, there will be broader political ramifications that will affect the developed world too.

If the reforms . . . are taken seriously, then there is hope that a more humane process of globalization can be a powerful force for the good, with the vast majority of those living in the developing countries benefiting from it and welcoming it. If this is done, the discontent with globalization would have served us all well.

The current situation reminds me of the world some seventy years ago. As the world plummeted into the Great Depression, advocates of the free market said, “Not to worry; markets are self-regulating, and given time, economic prosperity will resume.” Never mind the misery of those whose lives are destroyed waiting for this so-called eventuality. Keynes argued that markets were not self-correcting, or not at least in a relevant time frame. (As he famously put it, “In the long run, we are all dead.”) Unemployment could persist for years, and government intervention was required. Keynes was pilloried—attacked as a Socialist, a critic of the market. Yet in a sense, Keynes was intensely conservative. He had a fundamental belief in the markets: if only government could correct this one failure, the economy would be able to function reasonably efficiently. He did not want a wholesale replacement of the market system; but he knew that unless these fundamental problems were addressed, there would be enormous popular pressures. And Keynes’s medicine worked: since World War II, countries like the United States, following Keynesian prescriptions, have had fewer and shorter-lived downturns, and longer expansions than previously.

Today, the system of capitalism is at a crossroads just as it was during the Great Depression. In the 1930s, capitalism was saved by Keynes, who thought of policies to create jobs and rescue those suffering from the collapse of the global economy. Now, millions of people around the world are waiting to see whether globalization can be reformed so that its benefits can be more widely shared.

Thankfully, there is a growing recognition of these problems and increasing political will to do something. Almost everyone involved in development, even those in the Washington establishment, now agrees that rapid capital market liberalization without accompanying regulation can be dangerous. They agree too that the excessive tightness in fiscal policy in the Asian crisis of 1997 was a mistake. As Bolivia moved into a recession in 2001, caused in part by the global economic slowdown, there were some intimations that that country would not be forced to follow the traditional path of austerity and have to cut governmental spending. Instead, . . . it looks like Bolivia will be allowed to stimulate its economy, helping it to overcome the recession, using revenues that it is about to receive from its newly discovered natural gas reserves to tide it over until the economy starts to grow again. In the aftermath of the Argentina debacle, the IMF has recognized the failings of the big-bailout strategy and is beginning to discuss the use of standstills and restructuring through bankruptcy, the kinds of alternatives that I and others have been advocating for years. Debt forgiveness brought about by the work of the Jubilee movement and the concessions made to initiate a new development round of trade negotiations at Doha represent two more victories.

Despite these gains, there is still more to be done to bridge the gap between rhetoric and reality. At Doha, the developing countries only agreed to begin discussing a fairer trade agenda; the imbalances of the past have yet to be redressed. Bankruptcy and standstills are now on the agenda; but there is no assurance that there will be an appropriate balance of creditor and debtor interests. There is a lot more participation by those in developing countries in discussions concerning economic strategy, but there is little evidence yet of changes in policies that reflect greater participation. There need to be changes in institutions and in mind-sets. The free market ideology should be replaced with analyses based on economic science, with a more balanced view of the role of government drawn from an understanding of both market and government failures. There should be more sensitivity about the role of outside advisers, so they support democratic decision making by clarifying the consequences of different policies, including impacts on different groups, especially the poor, rather than undermining it by pushing particular policies on reluctant countries.

It is clear that there must be a *multipronged* strategy of reform. One should be concerned with reform of the international economic arrangements. But such reforms will be a long time coming. Thus, the second prong should be directed at encouraging reforms that each country can take upon itself. The developed countries have a special responsibility, for instance, to eliminate their trade barriers, to practice what they preach. But while the developed countries' responsibility may be great, their incentives are weak: after all, offshore banking centers and hedge funds serve interests in the developed countries, and the developed countries can withstand well the instability that a failure to reform might bring to the developing world. Indeed, the United States arguably benefited in several ways from the East Asia crisis.

Hence, the developing countries must assume responsibility for their well-being themselves. They can manage their budgets so that they live within their means, meager though that might be, and eliminate the protectionist barriers which, while they may generate large profits for a few, force consumers to pay higher prices. They can put in place strong regulations to protect themselves from speculators from the outside or corporate misbehavior from the inside. Most important, developing countries need effective governments, with strong and independent judiciaries, democratic accountability, openness and transparency and freedom from the corruption that has stifled the effectiveness of the public sector and the growth of the private.

What they should ask of the international community is only this: the acceptance of their need, and right, to make their own choices, in ways which reflect their own political judgments about who, for instance, should bear what risks. They should be encouraged to adopt bankruptcy laws and regulatory structures adapted to their own situation, not to accept templates designed by and for the more developed countries.

What is needed are policies for sustainable, equitable, and democratic growth. This is the reason for development. Development is not about helping a few people get rich or creating a handful of pointless protected industries that only benefit the country's elite; it is not about bringing in Prada and Benetton, Ralph Lauren or Louis Vuitton, for the urban rich and leaving the rural poor in their misery. Being able to buy Gucci handbags in Moscow department stores did not mean that country had become a market economy. Development is about transforming societies, improving the lives of the poor, enabling everyone to have a chance at success and access to health care and education.

This sort of development won't happen if only a few people dictate the policies a country must follow. Making sure that democratic decisions are made means ensuring that a broad range of economists, officials, and experts from developing countries are actively involved in the debate. It also means that there must be broad participation that goes well beyond the experts and politicians. Developing countries must take charge of their own futures. But we in the West cannot escape our responsibilities.

It's not easy to change how things are done. Bureaucracies, like people, fall into bad habits, and adapting to change can be painful. But the international institutions must undertake the perhaps painful changes that will enable them to play the role they *should* be playing to make globalization work, and work not just for the well off and the industrial countries, but for the poor and the developing nations.

The developed world needs to do its part to reform the international institutions that govern globalization. We set up these institutions and we need to work to fix them. If we are to address the legitimate concerns of those who have expressed a discontent with globalization, if we are to make globalization work for the billions of people for whom it has not, if we are to make globalization with a human face succeed, then our voices must be raised. We cannot, we should not, stand idly by.

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