

“At Ease with Globalization”?

by Paolo von Schirach

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WASHINGTON – French President Nicolas Sarkozy in his first official visit to Manuel Barroso, president of the EU Commission in Brussels, reportedly talked, among other things, about the duty of the EU institutions to protect the citizens of Europe from the dangerous winds of globalization. He did not say protect forever. He said protect them until they are ready, until they have made the necessary adjustments in order to be able to transition to the new free for all environment. Why is it that after twenty years of globalization they are not yet “ready” it is not said.

Depending on how one looks at this approach, it is both right and wrong. Of course, in principle, it is better to have some training before entering the real competition. So this is good. But the competition started long ago. When will the citizens of Europe be ready? How long should this ‘training’ last? It would be wrong to assume an open ended period of protection.

On the domestic front, Sarkozy’s electoral message, the message that led him to a convincing political victory, is that France needs to get serious about work and that the French need to get busy. But, apparently, the president’s judgment is that the French -for the moment at least- are too frail to compete outside of Europe. Hence the need to have transitions. How would these transitions be shaped in order to make everybody stronger and more competitive we do not know exactly. The danger is, of course, that, as ‘we need more time’, temporary measures will somehow become permanent, without any marked improvement of the overall competitiveness

A message with a totally different tone came recently from the

United Kingdom. Outgoing British Prime Minister Tony Blair, in his farewell speech to the constituents who elected him to Westminster, indicated that Britain, (in large part, of course, because of his enlightened policies), is not only ready for the challenge; but thriving in the new globalized economy and winning. 'Look at our economy 'said Blair—at ease with globalization. (emphasis added). London the world's financial centre. Visit our great cities and compare them with 10 years ago. No country attracts overseas investment like we do"!

Needless to say, it is easy for Blair, just about to leave office, to give himself high marks, and proclaim Britain, because of the workings of his government, an internationally competitive society. But there is some truth to his words, at least in relation to how the society perceives itself, thus its chances of making it. The message is that the British "understand" global trends and that they have the tools that make them well equipped. Thus they are active participants and not fearful of competitors. They are 'at ease' with the whole process.

In the US we have a mixed bag. The country as a whole is doing reasonably well. Success in globalization is largely about being and staying ahead of the curve. America's culture of innovation and risk taking enterprise, where 'creative destruction' is practiced daily, seems perfectly suited to doing well in a challenging world.

However, there is no unanimity that overall we are 'at ease with globalization'. The strains of globalization are felt and many are so hurt, or are so afraid of being hurt that would like the whole thing to stop and go away. The arguments are familiar: cheap (Chinese today, Japanese yesterday) imports displace American workers. Factories close or relocate. Jobs are lost, communities are devastated, etc. Why do we allow this madness of a free trade that benefits only the competition? So, while Sarkozy demands a respite from the

European institutions, many Americans demand dramatic policy shifts in Washington. Free trade, they claim, has become the instrument used by unscrupulous competitors to undo western economies and societies.

Let us leave aside here any attempt to settle the now worn diatribe on the pros and cons of globalization. In this instance, let's focus on one observation: the emergence of Asia has brought about the net addition of hundreds of millions of relatively cheap workers to the global labor pool. It has been said before; but it is well worth repeating, as the critics arguments somehow seem to ignore that we are confronted with the new reality of hundreds of millions of new low cost workers, added to the global labor pool, with more coming. Unless we assume tightly sealed markets, this significant additional labor supply has to have a dampening effect on workers wages worldwide.

The West, Europe first and then North America, for a couple of centuries led industrialization and technological innovation. After World War II, Japan, previously the spoiler, joined the club as a full member. Then the Asian Tigers came along in the 1980s. These were significant changes that altered the global balance of economic power. But, with the exception of the fear engendered in some vociferous quarters by the perception in the 1980s that the Japanese were cunningly and ruthlessly pursuing a strategy of world economic dominance, (thus going back to their methods of WWII, albeit confined to the economic sphere) this was still, relatively speaking, incremental change, at least compared to what came after and is still unfolding.

As a consequence of both the spreading of technologies and the enactment of economic liberalization measures in Asia, the world economy is digesting and will digest for many more years to come the net addition of hundreds of millions of skilled or semi skilled workers, perfectly capable of performing at least a number of tasks at much lower cost. At least some of them

will learn more complex tasks. This will allow for some sectors to move up the value chain. Hundreds of millions of new workers have transformed Asia into the world's workshop. In services, English language proficiency, computer literacy and high speed, low cost, internet, make it possible to outsource more and more functions to where they cost significantly less.

This is a systemic shift in the global equation. We have moved and are continuing to move from relatively high cost operations in the west that employed millions, to low cost operations in Asia, with the net result of transferring functions and jobs over there. In the light of this systemic shift, amounting to hundreds of millions low cost Asians added to the global work force, even with increased global demand for goods and services, it is not possible for western workers to keep the same jobs at the same level of compensation enjoyed by them when they were not facing competition.

This is not a pleasant fact, as it carries many well known negative consequences: the rapid displacement of millions of western workers (with more dramatic impact in countries like the US where safety nets are minimal) and the lowering of standards of living for those (the lucky ones) who find new employment in jobs that quite often pay less than the factory union wages that they were accustomed to.

Looking at this devastation, many demand that this trend be stopped and, better yet, reversed, given its obvious catastrophic consequences for our standards of living. But stopping this trend in a world that is interconnected and interdependent to a degree unprecedented in history, is not possible, even leaving aside the question of how intelligent this solution would be.

Of course, we can and should protest about unorthodox and/or unlawful practices of our competitors. But no serious person

can say that the economic rise of China, for instance, is only or mostly about dumping, currency manipulation, pirated goods, disregard for safety and labor standards, lack of reciprocity etc. etc. Of course we should do a lot more to create a level playing field and this should improve the chances of many economic actors currently hampered by restrictive practices.

Yet, the fact remains that the global labor pool has widened and this is not a function of added global demand. It would be foolish to assume that the relatively sudden entering of hundreds of millions of people in the global work force pool, in a world in which technologies have lowered the previous disadvantages of distance and other transaction costs, would have no effect on the established economic equilibrium: most importantly on the standards of living of developed countries' workers who are now facing these low cost competitors. In this new environment, made possible by the spreading of the technological know how spearheaded in the west, others for the moment enjoy a relative advantage (low cost) that will not be negotiated away.

The critics call this shift of economic activities to low cost countries the race to the bottom. But how can it be otherwise? Capital looks for the highest remuneration. Wherever new opportunities to create competitive goods and services at a low cost will be found, money will go there. Of course there have been and there are excesses, (horrible working conditions, inhuman exploitation). But today they are not the norm. And when these bad practices do occur, they are more and more easily exposed by thousands of watchful NGOs and by the international media.

Overtime, cost differentials will shrink and the Chinese (and all the others) will have to compete on quality and not mainly on price. But this is not happening any time soon. There are one billion and three hundred million Chinese out there. Only a fraction of them are participating in this industrialization process that is proceeding at breakneck speed. May more will

join the ranks before a rebalancing will occur. India is a very different case. But there are one billion plus Indians. Even leaving aside the crops of the elite technology and management schools, overtime the Indian system will generate an even more massive supply of capable workers and technically skilled individuals.

Westerners have to confront and digest this fact, without trying to exorcise it by attributing the success of others to their nefarious practices in alliance with wicked national traitors who are sending 'our' jobs overseas, thus lining their pockets; with cynical disregard for the plight of their former workers. This may make some people feel good about conducting a moral crusade. But, in the end, it will yield very little. This is not a passing phenomenon that can be blocked by rejecting free trade and erecting barriers against foreign goods. The economies of the world have reached a level of interconnection and interdependence that cannot be undone by a more muscular trade policy.

Everything else being equal, for instance, it is preposterous to believe that in a competitive environment, in the long term, we will be able to have a healthy auto industry when the American auto worker earns several times his Chinese counterpart. (We already see the devastating impact of US based Japanese factories. The success of Toyota is based on better products but also on non union wages for their US workers). In the end, either the unionized US auto worker will accept lower wages, (incidentally this is what airlines workers have done to recreate a modicum of cost competitiveness in a field populated by more and more domestic low cost carriers), or move on to other sectors where America is ahead and thus not facing low cost competitors for the same products.

So, people are displaced and more will be displaced. This is the area where "transitions" matter and can make a real difference. However, this is where the existing effort does

not seem even remotely equal to the magnitude of the task. Displaced people need to be helped to get the skills so that they can find something else that can be meaningful and rewarding. The fact that many jobless people eventually find something that, however, does not pay as much as the former factory jobs, is difficult to digest. But, unfortunately, this is unavoidable, unless we can find a way to rapidly teach them truly valuable skills.

Of course, this state of affairs fuels class resentment. The well equipped western business and professional elites usually win in the new globalized economy. They have the resources to adapt, change, relocate, outsource. And the opportunity divide, if anything, with the passing of time, is getting deeper. With their money, the elites can pay for international education for their children. These children will have a gigantic head start on all the others in the competition for the plum jobs of the globalized economy. The MBA graduates from the top schools can vet tantalizing job offers ranging from finance in New York, London or Hong Kong; oil services in Texas or Dubai, high tech industries in California, Singapore or Finland.

At the opposite end of the spectrum, some American high school graduates cannot even read a bus timetable; not to mention the many, (mostly minorities) who, hampered by negative circumstances, do not even get to graduate. As a result of a woefully inadequate education system, most of the disadvantaged stay disadvantaged. They can compete only for the scraps, along with the other less educated from all over the world.

In this new era in which the value of education has increased, it is odd to hear fierce critics of globalization reminiscing about the good old days in which an uneducated individual could get a factory job with union wages that more or less guaranteed a lower middle class or even middle class standard of living. This is no longer, and this is bad, claim the

critics. Leaving aside the notion that, according to this reasoning, being uneducated was somehow alright, almost a virtue, in as much as it did not economically penalize the uneducated, the truth is that that era is over. In order to have a chance to participate in the modern knowledge economy a good education and a variety of technical skills are mandatory.

The plight of displaced people is real enough. But instead of clamoring for the totally unrealistic goal of turning the clock back so that we can recreate those times in which lack of education did not entail such a major economic price, we should confront head on the real issue. If we cannot compete on price with the low cost Asians, we have to be able to compete on quality and rate of innovation.

And here education comes to the fore. All American politicians talk about it, lamenting its low quality and making speeches about the need to have more math and science, so that, just like the post Sputnik aftershock, we will get all the skilled people that we will need to stay competitive. All this is very true. But somehow, clamoring notwithstanding, not much is happening. Perhaps it is because we are approaching the issue from the wrong end: i.e. devise a system that will produce these many high quality graduates, etc. as if these were merely the human widgets needed to increase the performance of the economic mechanism.

Whereas, in order to be more successful in this endeavor, it would be good for the nation leaders to extol the intrinsic, as opposed to the commercial value of education. If higher education standards are pushed purely as defensive, reactive measures, then the efforts will not be very productive. Chances are that a mostly reactive education drive overtime will not be sustained.

A vibrant economy is a byproduct of vibrant people. And people are vibrant when they are passionate about what they are

doing. (Ask any management guru and they will recite this mantra about 'motivation' and 'passion' over and over at the foundation of success in business). While it may very well be true that necessity is the mother of invention, the ideal environment is one in which people are driven by a genuine interest and curiosity for what they are doing and not primarily by the fear of losing.

Whereas what we hear from political leaders in America is that the primary reason why we have to improve proficiency is because now we have competitors. Which really means that, if we did not have competitors, then ignorance would be fine, because we would not pay a price for it. The message as crafted in this impoverished, merely utilitarian, fashion is that we attribute no intrinsic value to the pursuit of new knowledge. Knowledge (or lack thereof) is relevant only to the extent that objectively it is a competitiveness tool. Presumably, then, once we will have reached a level that seems to be safe for us to keep our coveted standards of living, then it will be alright to slacken the pace again.

This shallow approach devalues the proposition that, for a society to thrive, many of its citizens must be driven by a genuine, personal desire to expand their horizons. The western scientific and technological revolution did not start in the the 18th Century because of fear of competition, but because of a desire to acquire new knowledge and apply it in order to improve the quality of life. In the United States, free institutions were created because it was believed by the founders that liberty is the necessary precondition so that individuals, free of fear from arbitrary power, can be engaged in whatever lawful quest may appeal to them.

If we manage to instill this spirit of wonder and curiosity in our societies, then new knowledge, to be translated in commercially viable activities, will come about as a result of the combined efforts of millions. As a result, the fears of not being able to make it 'at the foundation of all

protectionist ideas and policies' will wither away. Cognizant of our abilities and intellectual prowess, then, (if not all of us), at least many more shall all be, as Tony Blair put it, 'at ease with globalization'.

How "World Bank War I" Really Ended

by Paolo von Schirach

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WASHINGTON – 'World Bank War I' is over. President Paul Wolfowitz has been routed. He is out. The Europeans and their allies won. The allegedly unpalatable, non collegial, president has been successfully removed. However, almost all would agree that his baffling bad judgment in the now infamous matter of the overgenerous financial arrangements related to his partner's secondment -serious as it may be- would have never developed into a crisis in a different political climate. Wolfowitz, representing most of what the Europeans (and others as well) strongly dislike about America's recent policies, unfortunately, with his own doing, created a valid pretext leading to his removal.

The score is clear: Paul Wolfowitz and President George Bush who sent him there lost. By conceding tactical defeat on Wolfowitz, (thus not forcing an embarrassing vote by the World Bank Board), the Bush White House regained some leverage and the right to put forward another American candidate of its choice.

This is more or less the gist of it.

But there is another level to this story that merits attention. And this is the discrepancy between official acts (the World Bank Board statement that ended the crisis) and previously declared beliefs and intentions. A hiatus between what is formally declared and what everybody who knows anything knows that the declaration 'really' means. The Board v. Wolfowitz case is just one of many instances of a dissonance between the wording of public statements that supposedly should reflect for the record feelings, beliefs and judgments and the actual situations and beliefs. The cognoscenti are fully aware that what is formally stated is not what is meant. And this is perfectly fine. We are so used to this dissonance that it does not provoke any reaction. Those who are dismayed are the naive and the unsophisticated.

Because this particular case is fresh, it is worth commenting upon. And it is worth commenting upon because it should matter that in our civilized world in which the paramount importance of 'values' as the true pillars sustaining societies is so often trumpeted, it is perfectly alright, in fact an indication of superior wisdom and diplomatic mastery, to make statements for the record that would indicate a certain sincere judgment, while everybody knows that this is not what is meant. The realists and the sophisticated really know what is going on. They know the real story and they can read between the lines. As for all the others -well, who cares?

In the case of the World Bank, the realists would say, a crisis has been resolved, without open confrontation and ensuing further embarrassment and weakening of the institution. The intended result (getting rid of Wolfowitz) wanted by the majority has been achieved. ***The fact that this has been accomplished through an official Board statement that, in its substance, openly contradicts the validity of the initial accusation and findings, apparently, does not matter.***

The sequence of events is well known. First the revelations about "the girl friend deal" and the ensuing fracas. Then the

results of the formal inquiry that found Mr. Wolfowitz guilty on many accounts were presented to the Board. And then, what happened?.

Well, and then the Board official statement that Wolfowitz in his defense said he acted in good faith and "we accept this". In a normal world in which words mean what they are supposed to, the Board statement equals to a full and complete exoneration.

The Board's words mean: "We listened to the report and its conclusions that Wolfowitz acted wrongly on many accounts. But we accept as a fact that he acted in good faith. Furthermore, we (the Board) also accept that there is plenty of blame shared by others. Indeed, the procedures at the origin of this mess are so confusing that the Board thinks that a thorough review of such procedures is now in order."

Of course, the Board's statement does not say that the accusations of the committee are false. However, it says that the good faith of president Wolfowitz is established. It goes on to say that many good things happened during his two year tenure. So, by any reasonable standard, the president of the institution may have materially committed some errors; but his good intentions and his **ethics** (this is what the inquiry was about) have been affirmed.

And so, in the light of this assessment by the Board, the formally and officially exonerated president **resigns**? Talk about *non sequitur*. Well, yes. He goes because this was the deal. He agreed to resign, in a backroom deal negotiated by his lawyers, in exchange for this very statement that would formally exonerate him.

So he can produce for now and for posterity a face saving document, while the Board can produce what (they would argue) really matters: a political result. He is out; and that is what we all wanted, no? The fact that the Board, in order to

secure its political end, in complete and utter cynicism, was willing to state as fact what it clearly does not believe in and that, in principle, undercuts the rationale for removing the Bank's president, shows that principle means nothing whatsoever in this matter.

And all this, let us not forget, in a matter that was about **ethics**, a matter in which supposedly the Board had to evaluate character and motives, more than just actions.

So, the fact of the matter is that all concerned, friends and enemies alike, know that Paul Wolfowitz, whatever his bad judgment and errors, has been successfully stabbed by a coalition of people who dislike whatever they imagine he represents (the Iraq War, bad management style, arrogance, and, probably central to all this, a real threat to the opaque *modus operandi* of a complex institution). He has been effectively tarred and feathered and run out of town.

However, both he and the Bush White House can exhibit the only official document that counts in which it is clearly said that his good faith is established, that unknown others contributed to this mess and that the Board praises his two year tenure. So there. Wolfowitz resigned. But the record established with unequivocal words that his *bona fides* has been recognized. He is a good man who can stand tall. Next question?

Prior to this conclusion, the media had leaked this very scenario: forced departure; but with the fig leaf of formal exoneration. And this is precisely what happened. It is fully understandable that, having lost any residual political support and thus the war, Mr. Wolfowitz wanted to extract at least this token 'victory'. So, he is being ousted for being a 'bad guy', the hypocrite who does not walk the talk when it comes to governance and favoritism; but he can say that "*No, this is not true; and I have the Board document that exonerates me*".

The fact that Mr. Wolfowitz wanted this document is understandable, also because he honestly believes this to be the truth. The fact that the Board of Directors of the World Bank, in an issue of ethics and thus transparency, agreed to this sadly demonstrates that they were not really concerned with establishing the truth or in recognizing and assigning blame in a matter of unprecedented gravity, as it had been claimed all along.

They wanted a political result and they got it. The fact that, in order to get what they wanted, they had to officially affirm, for the record, the opposite of what the allegations and the findings had concluded, is a glaring contradiction. Yet, on the whole, this appears to be a trivial detail. So trivial that it has not been noted by most commentators.

Only the radical opponents of Mr. Wolfowitz who most likely believe that he truly is the devil incarnate expressed dismay at the wording used to finally resolve the matter. Indeed the record does not say that he is fired because he is the devil, as it should, according to them. It does not even say that he is a despicable person. So, what was this all about? Where is the indignation of a Board determined to fire Wolfowitz?

Misguided as they may be, at least the "purists" believe in coherent behavior, and thus they cried foul. (However, the indignation of the Bank's staff, a significant factor in the Wolfowitz crisis, becomes irrelevant when it comes to criticism of the way in which the Board handled the matter).

By choosing to be "realistic" and by accepting this *quid pro quo* that formally exonerates Wolfowitz, the Board proved that this whole exercise was about politics and not about principle, as it had been declared by the vociferous army of the righteous which includes many of the Governments represented within the Board.

Alright, many may conclude. It may very well be so. And so

what? All this to make a case about the prevalence of cynicism in politics? 'What a revelation"! Of course, this is not a great new finding. It is a banal statement of the obvious.

Indeed. But if we think that any principle based political process, at the World Bank, in the US Congress, or in any other democratic institution, western or non western, can thrive in the long run in an environment in which it is established, indeed postulated, that utter insincerity is the norm, we are really kidding ourselves.

Principle based institutions can survive only if there is the shared perception that the principles are truly believed and sincerely upheld, if not by all, at least by most, and not just mouthed. This may very well be banal; but continuing to ignore this truism will not do us any good.