

# Global trade should answer to social and labor standards

**P**ARIS — Those who have challenged the juggernaut of orthodox opinion on “globalization” and contemporary corporate practice owe readers a suggestion of what the alternatives may be — even if the newspaper column, a blunt instrument of debate, is not the ideal place in which to do so.

The transformation of the modern international economy by information technology is unstoppable. Technological change is not a political choice, even when it destroys employment. Trade liberalization, even though it has less effect on employment and living standards than technological change, is a political choice.

Corporate “downsizing” and the “outsourcing” of production to low-wage countries are driven not only by globalization but by a corporate ethic: maximizing return on invested capital must dictate management decisions.

This assignment of corporate priorities is again an arbitrary decision by society. Profit is essential to corporate survival, but there is no objective reason why maximizing profit should outrank every claim of society on the business corporation. This priority could be changed.

The identical priority animated business a century ago and eventually was repudiated by society. The socially predatory capitalism of the late 19th century provoked the corporate regulation and anti-trust and labor legislation of the American Progressive era, during the presidency of Theodore Roosevelt (1901-1909; younger readers may be bewildered to learn that the first Roosevelt was a “progressive Republican”).

After the Crash of 1929, and during the Great Depression, further corporate regulation and social protection was installed by Franklin Roosevelt’s New Deal. In Western Europe, where a Bismarckian tradition of



social protection already existed, a consensus between social democrats and Christian democrats after World War II created what has become known as “social capitalism.” Britain, under Methodist and Marxist influences, created the welfare state.

Contrary to American myth, the European welfare states are not today “broke” as a result. They are not as broke as the United States. Estimations for 1995 show gross public debt in Germany, France and Britain lower than in the United States, while standards of social protection remain much higher.

During the three postwar decades — when growth rates were much higher than now — Western capitalism, America’s included, accepted norms of “corporate citizenship” or “stakeholder capitalism.” These norms held that employees, and the community in which the corporation functioned, both had claims on the corporation as legitimate as those of stockholders.

Such a view is today widely dismissed as inappropriate, but the public has yet to ratify this judgment. Business and those responsible for the intellectual climate in which business now functions have unilaterally repudiated what before was an implied social contract.

This rupture of contract is justified in the name of global competition. A former official of GATT (since become the World Trade Organization), Teuvo Lehti, wrote last year that the argument for free trade has become transformed “from a useful, academically and practically based policy guide with appropriate qualifications into a simplified dogma, the observance of which has for many people in many countries become an end in itself.”

The positive consequences of liberalized trade are obvious, but they do not necessarily outweigh its destructive effects not only on employment and living standards in the advanced countries, but even in the countries that would seem its beneficiaries.

The exploitation of cheap labor in poor countries frequently has no sustained developmental effect. The industrialized agricultural exports of the advanced countries of-

ten have destroyed traditional agriculture and national self-sufficiency in poor countries, leaving worsened social and political conditions.

Foreign-financed manufacturing frequently moves on in pursuit of still lower costs, leaving devastated peasant economies and urban slums overcrowded with the unemployed.

To assume that the invisible hand of the marketplace will bring eventual benefit for all is faith, not science. It is an assumption intellectually on a level with that which said that giving “all power to the Soviets” in 1917 eventually would create a higher form of humanity. We are actually generating much human unhappiness, and social and political instability, without proof that the future benefits we expect will outweigh the harm.

What can be done? First, stabilize trade relations. Encourage regionalization of trade among nations of roughly comparable economic levels. Encourage the development of regional trading blocs, already a trend. There should be reasonable controls between them to limit predatory practices and the socially destructive consequences of certain forms of trade. Currency stabilization is important, to contain the destructive effects of speculation.

In addition, public action is necessary to redefine the social obligations of business and reward socially responsible conduct. The advanced nations owe one another a social charter of mutually acknowledged obligations to work force and citizenry. This has been proposed in the European Union but is resisted by London and Washington.

International trade should be subjected to social and labor standards, just as it now is subjected to environmental standards (that the latter is currently the case and that the former is not is absurd, indeed a moral outrage).

More needs to be said, of course. This debate is needed to end the complacent economic orthodoxy of the last 1½ decades.

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