

ORGANIZATION OF REGULATION OF THE GLOBAL ECONOMY

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Abstract

The world is facing an historic dilemma. We now have a global economy, but we do not have global institutions to regulate the global economy. However, we do have two “global political parties” that are proposing programs and seeking to implement them. One party consists of economists, government representatives, and officials inside global economic institutions such as the World Bank, the International Monetary Fund, and the World Trade Organization (WTO). The other party includes the people who protested at the WTO meeting in Seattle, authors of books questioning the benefits of globalization for the poor, and leaders of efforts to achieve voluntary compliance with progressive labor and environmental standards. The proposals and strategies of these two “parties” can be thought of as a regulatory system for the global economy in the absence of a more organized federal system.

Key words: global economy, regulation

Povzetek:

Svet je pred zgodovinsko dilemo. Zdaj imamo globalno gospodarstvo, a nimamo globalnih institucij, ki bi ga urejale. Imamo pa dve “globalni politični stranki”, ki predlagata programe in jih poskušata uveljaviti. Eno stranko sestavljajo ekonomisti, predstavniki vlad in uradne osebe znotraj globalnih ekonomskih institucij, kot so Svetovna banka, Mednarodni denarni sklad in Svetovna trgovinska organizacija. Druga stranka vključuje ljudi, ki so protestirali ob sestanku Svetovne trgovinske organizacije v Seattlu, avtorje knjig, ki dvomijo, ali globalizacija koristi revnim, in vodje truda, da bi dosegli prostovoljno skladnost prakse z naprednimi standardi pri obravnavi delavcev in naravnega okolja. Predloge in strategije the dveh “strank” bi si lahko

zamislili kot regulacijski system za globalno gospodarstvo, dokler ne obstaja kakšen bolj organiziran federalni system.

Ključne besede: globalno gospodarstvo, regulacija

Why we now have a global economy

In the 1990s the world economy was transformed by the collapse of the Soviet Union. Almost overnight, the competition between two competing economic models ended, and nations around the world looked for ways to adapt to the new era of markets and globalization.

New communication and transportation technologies have created the ability to move capital, goods, and information rapidly and easily around the world. And organizations have adapted to these new abilities by creating flexible organizational structures. By not building factories but rather by contracting for the manufacture of products, companies are able to easily move the production of goods from one country to another to take advantage of lower cost labor or more favorable government regulation. Indeed some companies go so far as to contract for the design and marketing of goods as well as the production of goods. This arrangement allows them to hire local firms that know better the desires of consumers in their countries.

New communication technologies, increased standardization of accounting practices and new financial markets have made it easier for capital to move rapidly from country to country. Capital now flows easily across national borders seeking the highest return on investment.

As a result of the triumph of market-oriented economic theories over theories advocating government ownership or control, there is now widespread political support for privatization, competition, and agreements to lower trade barriers (Yergin and Stanislaw, 2002). If markets are good, then trade across national boundaries is also good. Lowering tariff barriers allows producers to sell their goods in other countries. Increased trade creates more competition and leads to higher quality goods and lower prices for consumers.

However, the people who demonstrated against the World Trade Organization in Seattle and elsewhere are concerned about what has been called "the race to the bottom" (Tonelson, 2000). Countries seek foreign investment to provide jobs and tax revenue. But countries often find themselves competing for foreign investments with other countries that have less restrictive labor and environmental standards. Businessmen, not surprisingly, often choose to move their operations to countries with less restrictive policies. The fear of the protesters is that there will be a worldwide lowering of labor and environmental standards. They feel that a global economy guided primarily by a desire to lower trade barriers will create incentives for countries to place their people and their environment at risk by removing or weakening regulations.

This problem is not new. Earlier in the U.S. some states passed more restrictive environmental laws than other states. Businesses responded by moving to states with less restrictive laws. The solution was to pass federal environmental protection laws in order to create a "level playing field."

Today we are facing a similar problem in the global economy. Economic activity has grown more rapidly than regulatory institutions. But to what organization can people appeal to establish global labor or environmental standards? And what organization would have the means to enforce the standards? The IMF and World Bank are global economic institutions, so they become the focus of attention, even though their missions are not to set and enforce global standards for labor, the environment or consumer protection.

If we were to apply the experience within the U.S. to the world level, we could assume that an appropriate strategy would be to pass legislation to establish regulatory institutions and have them enforce the laws. But at the global level it is not clear what institutions would perform these functions. The United Nations (UN) in its present form is unlikely to be able to accomplish these tasks. Perhaps in the long run global standards will be devised and enforced in somewhat the same way that the European Union is creating common standards. But that time seems to be many years in the future (Zedillo Report, 2002).

Elements of a federal system

If we assume that global institutions may eventually evolve in the direction of a regulated international market economy, what institutions would have to be in place in order to serve the regulatory function, if we use current nation-states as models? There should be a widely respected, representative legislature; an effective executive branch, including police to enforce the laws; an uncorrupted court system to try cases and resolve disputes; belief in and respect for the rule of law; and widespread voluntary compliance so that enforcement is not an unbearable burden. Not only do these elements not exist at the global level, they exist in only a few countries.

Currently the United Nations is not designed to be a world government, and there is little interest around the world in its becoming a world government. Nationalism and national sovereignty are still much too important. Many people believe that the decisions a world government would make would not be in their interests. Currently labor, consumers, and the environment are protected, if at all, by laws within countries. Whether global regulations are desirable or not, they are not currently possible.

One approach to improving the global economy is simply to reform existing global economic institutions. This would require the people in the global economic institutions to work with nation-state leaders -- a continuation of the current process. An alternative approach is to create a system to propose and implement reforms. This approach would create a structure or procedures that would generate a continuing series of reforms in the future. Consider the US political system as a model. There are basically two political parties – the Democrats and the Republicans. These political parties assemble coalitions, compete in elections, pass legislation, lobby to enforce laws through executive orders, and bring cases for interpretation by the courts.

Another element of the US domestic political system is think tanks or policy research organizations. Frequently people go back and forth between high government positions and think tanks, depending on which party won the last election. This rotation of people gives former government officials the opportunity to reflect on what worked and what did not and to design the next set of reforms that they will seek to implement when next they hold a government position.

Until very recently the thinking about how to manage the global economy has been the province of economists. Economists designed the World Bank and the International Monetary Fund (IMF) in the closing days of World War II. The Cold War was a contest between two economic doctrines. With the end of the Cold War there was a brief period of general agreement on desirable macro-economic policies. John Williamson (2000) coined the term “Washington Consensus” in 1990 to refer to the policies that people in Washington felt governments in Latin America should follow in order to promote their development. The elements of the Washington Consensus were fiscal discipline; public funds spent on health, education and infrastructure; lower marginal tax rates and a broadened tax base; interest rate or financial liberalization; a competitive exchange rate; trade liberalization; liberalization of inflows of foreign direct

investment; privatization; deregulation to abolish barriers to entry and exit, and secure property rights.

Global political parties

However, the protests at the meeting of the World Trade Organization in Seattle served notice that the “consensus” was far from universal. The protestors expressed the view that global economic institutions were serving the interests of the rich much more than the poor. Consequently, it is now possible to identify two very diverse groups that can be thought of as two “global political parties.” One group consists of the people inside the meetings of the World Bank, the IMF and the World Trade Organization (WTO). The other group includes the activists protesting in the streets outside these meetings. Table 1 describes the assumptions underlying the positions of these two “global political parties” (Umpleby and Medvedeva, 2002). The left column is unified by economic theory and is able to command large resources by virtue of being in control of large organizations such as the World Bank and the IMF. The people described in the right column have been able to organize protests and to produce a number of “anti-globalization” books but are much more diverse and command few resources. Whereas the “economists” are based in global economic institutions and policy research organizations, the “activists” are based in grass-roots community organizations and perhaps some universities.

Like most political parties, the two global political parties have very diverse memberships. The “economists” include some people who emphasize privatization, competition, and trade as a general solution to nearly all problems. But this “party” also includes people who believe that poverty reduction requires some government programs. The “activists” are even more diverse. This “party” includes conservatives who want to stop globalization and modernization or at least keep it out of their country. However, progressives within this “party” want to help their countries adopt widely accepted macro-economic policies in order to prevent problems such as those Argentine is now facing.

Enforcing policies

In addition to formulating policies, political parties also need means to implement them. In a democratic country, the usual means is through passing laws in the legislature. In the case of the global political parties, the “economists” have access to government leaders. They assume that the way to make changes is to work with government representatives. Some of the reforms contemplated by the “economists” can be found in the Zedillo Report, which was prepared for the United Nations conference on Financing for Development, held in Monterrey, Mexico, in March 2002. As an example the Zedillo report suggests a Global Environmental Organization and an International Tax Organization.

Most of the “economists” come from democratic, developed countries, so they assume that citizens achieve their goals by working through their governments. However, the “activists” employ different means to achieve their goals. Often they feel alienated from their governments, which are in some cases unresponsive and corrupt. The activists feel solidarity with citizens in other countries who have similar problems. Consequently they usually work through institutions of civil society and international non-governmental organizations.

In the absence of a legislature or enforcement agencies, it is nevertheless possible for people to act to provide some regulation of the global economy. There are already many examples of voluntary compliance with recommended standards and voluntary participation in enforcement actions. Perhaps the best example is voluntary compliance with the four principles advocated by the International Labor Organization – the right to collective bargaining, no forced labor, no

child labor, and no job discrimination (Tapiola, 2001). There is increasing cooperation on issues involving food, drugs, and consumer products in order to protect consumers. Institutions of civil society are growing, networking, and becoming more effective. Examples of international cooperation on adhering to safe standards sometimes involve international governmental organizations and sometimes involve only non-governmental organizations. Through the press, associations and the internet people in different countries are continually learning from each other and imitating effective practices. Another effort is a growing democracy movement aimed at improving the ability of countries around the world to regulate their affairs according to the wishes of the local population (Democracy Coalition, 2002).

Consequently, the “activists” are increasingly employing a voluntary strategy to achieve their goals. The most well-organized example is the Global Compact being promoted by UN Secretary General Kofi Annan (1999). The Global Compact includes the four principles from the International Labor Organization, four environmental principles, and three principles on human rights from the United Nations Declaration on Human Rights. Corporations are urged to sign the Global Compact and then report each year by describing one example of what the corporation has done to advance the principles of the Global Compact. These statements are made available via the internet. There is also a role for universities in writing case studies. An academic network has been established to support the Global Compact Learning Forum. The first progress report on the Global Compact was released in July 2002. The Global Compact can be thought of as a voluntary approach to regulating the global economy.

Is a voluntary system adequate to achieve regulation of the global economy? I addressed this issue in an earlier paper (Umpleby, 1990). The question is whether those who aspire to be “regulators” have the power to bring about the desired behavior on the part of “those being regulated.” In a voluntary system there is not the threat of litigation, fine, or imprisonment. A police and court system are not available. However, persistent internal education and lobbying can sometimes win converts. The possibility of public embarrassment, ridicule, or condemnation may be persuasive. And laws that reflect international standards can be passed by country legislatures. A voluntary movement does not have the resources and expertise of a governmental agency, but a lack of technical expertise can be dealt with by making demands that are simple and observable. In a market economy “good will” is valuable. Respected companies attract a larger pool of job applicants. They retain employees longer, so have lower training costs. They find it easier to attract and retain customers and suppliers. Hence, respected companies can be expected to have more capable employees with higher morale, more loyal customers and better relations with suppliers. These features translate into profitability and longevity. Over time an economy will probably be populated by an increasing number of companies that are respected for their compliance with standards such as the Global Compact and a decreasing number of companies that choose not to pay attention.

Application to climate change as a worldwide problem

I happened to come across the book *Systems Thinking and Climate Change* by Ecimovic, Mulej and Mayur (2002). They discuss climate change and find that this is the visible peak of the iceberg that might be called “the lack of attention to the side-effects of the prevailing view that external economics deal with avoided costs rather than with shared costs”. The result is a version of the “tragedy of commons” of global dimensions. The problem becomes visible in the difficulties encountered in achieving sustainable development. This problem has been addressed by the UN since its Rio Conference in 1992. The decade after this conference demonstrates that there is a need for a worldwide regulating body having more power than the UN has now. Thus they suggest the need for a global regulatory system, as is discussed here. This is not an idea that will easily become an innovation and later on a routine, but the alternative seems to be the danger that human beings continue to reduce the carrying capacity of the Earth.

Conclusion

Current challenges in the development of the global economy are more equitable distribution of wealth; fair labor standards; environmental protection; reduced corruption; basic social services such as health, education, housing, clean water and food; gender equality; and civil liberties. Much has been done, and much more can be done through voluntary organizations and voluntary compliance with recommended standards. Reform of current international organizations and creation of additional international organizations by the “economists” will no doubt occur, but “activists” are also working to achieve voluntary compliance with widely accepted standards.

Every organization – corporation, government agency, university, hospital, non-governmental organization – could have a group of employees working within the organization to achieve compliance with recommended standards. These internal lobbies, networked together and to non-governmental organizations, would increase the influence of civil society organizations working for positive social change. They could work to influence the mission, vision, and values of their organizations and the voluntary activities of employees.

Current international financial institutions (IFI) deal with governments and government representatives (Figueres, 2000). But many of the problems that the IMF struggles with are rooted in the political culture. A grass-roots movement within a country to encourage responsible economic policies might be very helpful in constructing a long-term solution to problems such as the decline of the Argentine economy. Hence, a combination of reform proposals and strategies from the two “global political parties” may be the best way to regulate the global economy at the present time.

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Table 1
Two Global Political Parties

ECONOMISTS

Based on economics

Emphasis is on facilitating business, trade, and capital flows

Aim is to spread Western business methods worldwide (often perceived as Americanization)

Unifying theme is spread of material culture and civilization

Theoretical

Technocratic methods

Economic rationality

Goal is perpetual economic growth

ACTIVISTS

Based on sociology, political science, cultural anthropology, management, and political economy

Emphasis is on education, participation, democracy, human development, and local control over changes in norms and values

Aim is to adapt business methods to local values (in order to maintain and enrich cultural diversity)

Unifying theme is the right of people to preserve and enhance their societies as they choose

Experiential

Humanistic methods

Socio-economic rationality

Goal is sustainable development

Intent is to create an interconnected, trading world

Intent is local autonomy and self-reliance – population stabilization, environmental sustainability, democratic government, human rights, etc.

Belief that fewer trade restrictions will increase freedom, provide jobs, lead to cheaper products, and make foreign investment easier

Belief that local autonomy, participation, democracy, and transparency will aid social capital development

Find best combination of policies (for any country)

Work on issues of greatest local interest (within the context of policies described in the Washington Consensus)

World standards

Regional banks and trading rules with cultural and institutional differences

Assumes humans are rational actors, reason similarly, and will make similar choices

Assumes people are led by different cultures to seek different values

Assumes that every country wants development and prosperity

Recognizes that some countries, or groups within countries, prefer tradition and stability to change and modernization

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