

Globalization: A Daunting Thought

One of my deeply held beliefs is that we, as citizens in a modern democracy, have an obligation to think about the broad ideas of the day. As Martin Wolf says in the first line of his book on globalization, "Ideas matter". Ideas do matter.

We need to have some knowledge of the issues: free trade, global warming, the invasion of Iraq, the Canadian healthcare system. We must also have the ability to discuss the questions with our friends and acquaintances in a collegial, civil way.

As this newsletter has said before, we need to get past the 2-second sound bites that the media love so much in their attempts to entertain us with the so-called 'news'.

One of the ideas floating around these days is that 'globalization' is a dark force, threatening to lead civilization in a 'race to the bottom'. The anti-globalization movement jumped to prominence with the violent protests in Seattle in 1999, and has threatened the World Trade Organization and others since then. (For our purposes we'll take

Wolf's definition of globalization as the greater economic integration among the people and countries of the world.)

A negative view of globalization is held by many influential people: John Ralston Saul, wordy husband of recently retired Lieutenant Governor Adrienne Clarkson, rambles semi-coherently about the failures of globalization in his latest book 'The Collapse of Globalism'. Naomi Klein ('No Logo') also writes full page essays in the weekend newspaper about how the West is to blame for the world's troubles, and Joel Bakan ('The Corporation') writes an endless litany of lawless, immoral corporations.

These and other critics suggest that globalization is ruining things by forcing capitalism on an unwilling world, dooming third-world children to a life of economic slavery, driven by pathological corporations and 'neoconservatives', through the International Monetary Fund (IMF), the World Bank, the US Government, and Wal-Mart, for example.

Unfortunately, the facts indicate the opposite. I will try and address two of the main ideas that the globalization critics argue.

The first is that globalization means 'The rich get richer'. This suggests that free trade and economic liberalism are only for the benefit of the 'rich': the 'poor' are getting poorer, and therefore free trade is bad. The critics seem to have numbers to back up their claims. Can the numbers be wrong?

The numbers use a little trick of arithmetic. The trick is possible simply because the disparity between the Canadian and the impoverished foreign worker is so large to begin with. Here's how the arithmetic works: say a foreign worker has an income of \$1 vs. the

Canadian income of \$30. So the difference between the two is \$29.

Now say that over a 20-year period, the foreign worker is able to increase his earnings to \$4, while over the same period the Canadian income increases from \$30 to \$45. So the foreign wage increases by \$3, while the Canadian increases his income by \$15. The critics argue that since the Canadian increase was larger in dollar terms, voila! the rich get richer. Critics love these numbers because they show how greedy and exploitative our free-enterprise system is. Unfortunately for the critics, they are looking at the wrong numbers.

The more appropriate analysis in this case is to look at the welfare of the foreign worker compared to *his own earlier position*. In the example above, (reported in *The Economist*) the Chinese income per person increased from \$1 to \$4, a *fourfold* increase, whereas the US increase was only 50% over the same period. It should be obvious that the Chinese worker is 4 times better off *than he was previously*. Only a fool would argue that this is not a big improvement for the Chinese worker.

(This difference in income, by the way, is because the productivity of the Western worker is so much higher than the foreign worker. Western productivity is higher because of the huge capital investments that the Canadian worker has at his/her disposal: machinery, computers, engines, electricity, roads, and a highly organized civil society).

A second argument against globalization is the deplorable working conditions of 3rd world workers. The inference is that nobody should work in deplorable conditions and that we Westerners should boycott products made by workers in deplorable conditions.

Chris Horan, CFP, RFP
Senior Financial Advisor
Assante Capital Management Ltd.
#3401-130 Adelaide Street West
Toronto, Ontario
M5H 3P5

Telephone: (416) 216-6532

Email: choran@assante.com

Website: www.chrishoran.ca



However, if we were to follow the critics' advice and boycott the foreign products, how could that possibly help? The alternative for the 3rd world worker is no job. The worker's prospects would then be to return to subsistence agriculture.

Unfortunately, (for the critics), the appropriate analysis is to compare the plight of the foreign worker to her alternative, not to us. After all, the objective cannot be to suddenly lift all foreign workers from the bottom of the ladder to the top. The objective has to be to give the foreign worker the opportunity, should they choose, to step onto the bottom rung of the economic ladder. Our own society's economic development has taken 250 years of painful and difficult progress since the Industrial Revolution, and it is only natural that other nations will take time as well.

As much as the working conditions of the foreign worker are deplorable, and by our standards they may be, but they are infinitely better than no job at all.

Our task is to give the foreign worker the opportunities to work – by buying the things they can make, the crops they can grow, to pay them a fair price, and thereby give them a foothold on the bottom rung of the economic ladder.

One way to give foreign workers an opportunity is to drop the tariffs that we charge on imported goods. Tariffs and other trade barriers protect Canadian industry and farmers from low-priced imports, and they raise prices that Canadian consumers pay when we could be buying lower cost cotton or sugar, for example, from Africa. They guarantee that domestic producers are profitable, and unfortunately, they take away the opportunity for poor foreign workers to get on the economic ladder. (See my June 2004 newsletter '*The Myth of Offshoring*')

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Globalization is simply the enabling of the world's citizens to deal freely with each other. Tea from China, a cotton shirt from India, whiskey from Scotland, wine from South Africa ... it's all just the citizens of the world making decisions to buy and sell among themselves. Globalization is nothing other than natural economic development, and our responsibility, as with any other thing in human affairs, is simply to try and have it occur with a minimum of coercion and ill side effect.

Three Books to Read

If you are interested in learning more of why and how increased trade among the people and nations of the world – globalization – is the most important opportunity for humanity since the fall of Communism, here are three excellent books:

1. 'Why Globalization Works', by Martin Wolf, Yale University Press, 2004. It is free of jargon, it is factual, easy to understand, and most importantly, it logically and clearly dissects the arguments against globalization. Wolf was educated at Oxford, is a special professor at the University of Nottingham, was a senior economist at the World Bank and is now chief economics editor at The Financial Times in London.
2. 'The End of Poverty', by Jeffrey Sachs, Penguin Books, 2005. Sachs, recognized by *Time* as one of the 'World's 100 Most Influential People', is a Professor of Economics at Harvard and has acted as economic advisor to the leaders of Russia, China, Bolivia and India. Sachs clearly reviews the conditions necessary for growth and progress. He describes the major systems in an economy (transportation, energy, food distribution, taxation, etc) and then outlines specific steps that we in the West can take to assist the developing world in meeting those conditions over the next 25 years.

Sachs demonstrates the fantastic complexity of a modern economy, and shows how the economic and social systems need to evolve – you can't just throw money (or an army) at a country and pull an economy out of the hat a daunting thought.

3. 'Statecraft' by Margaret Thatcher, HarperCollins, 2001, is a very interesting tour of the world's major societies from her perspective as Prime Minister of Britain. Thatcher says many of the things that we suspect may be true but are afraid to talk about. She discusses her points from first principles in an intelligent, witty, and well-reasoned way that clearly demonstrates her impressive intellectual horsepower. Thatcher is one of the few leaders that truly understands what she thinks and does not need cue cards to know what to say. She has a particularly scathing criticism for those "intoxicated with the classic socialist fantasy of believing that state power offers a short-cut to progress". From a leader of one of the world's great powers, that's a daunting thought.

One of the most important themes in these books is that they base their views on the premise that the liberty of individual citizens is a higher virtue than the ability of government to move an economy forward. Not that unbridled liberty is the panacea. The thread that weaves through the books is that a successful society is one whose individual members have developed both a sense of responsibility to their fellow citizens, yet have the liberty to think independently and to motivate themselves to a productive and useful life a daunting thought

P.S. – If you would like more reading, please drop me a note and I'll send you a reading list.

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