SOCIAL DEMOCRACY READER 7

Michael Dauderstädt et al.

Globalisation and Social Democracy

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FOREWORD
to the German edition

»The world is flat«, according to journalist Thomas Friedman, who published a book with that title in 2006. Columbus, whose initial discovery of America in 1492 launched a first, early wave of globalisation, would certainly not have agreed. But have container ships, television and the internet, glass fibre cables and the opening up of borders really not made the world a smaller place? Or has it rather become more complex? More unmanageable because everything is connected to everything else? More unjust because, although global capital seeks yield in every corner of the world the workers of all countries are still not united? More uncertain because the variety and multilayeredness of cultures are today more tangible than in the past?

This volume – Globalisation and Social Democracy – will help the reader to arrive at their own take on the phenomenon of globalisation. It concerns the challenges that go hand in hand with globalisation at the international level and how they can be tackled; in other words, the question is how can we achieve a better world? The question of what challenges globalisation gives rise to for policymakers at national level is addressed in the other volumes of this series, in particular those on the economy, the welfare state, Europe, integration and immigration and the state and civil society.

The aim of the present volume is to clarify concepts, explain backgrounds and make different interests clear, but also to give encouragement. Globalisation affects many areas of our lives: the economy, the environment, politics and even leisure time. It often seems as if we just have to put up with it, like it or lump it. That is not true. For us, the overarching idea and message of this book lie in the words formulated by Johannes Rau in 2002:

»No, globalisation is not a natural phenomenon. It is an artefact of human volition. But that means that people can change it, shape it and set it on the right track. But people have to pay attention: there are enormous new opportunities – and there are entrenched interests. There are people who make a difference – and people who have nothing to say.« (Rau 2002: 2)

We would like to thank Michael Dauderstädt. As main author Michael shouldered the bulk of the work on this book. Our thanks also go to Christian Henkes, Inken Wiese, Thomas Hartmann and Alfred Pfaller, who helped to edit the book and thereby enriched it.

Finally, we would like to thank Simon Vaut for his conceptual contribution and Carsten Schwäbe for his remarks on the manuscript and his contribution on the topic of TTIP. Our thanks go to them and to all those who were involved for their exceptional cooperation. Without their help the Reader would not have been possible and of course any deficiencies are our responsibility.

The symbol of the Academy for Social Democracy is a compass. By means of the Academy's programmes the Friedrich-Ebert-Stiftung seeks to offer a framework for the clarification of viewpoints and orientations. We would be delighted if you make use of our programmes to help you find your own political path. Constant public engagement and debate are the very lifeblood of social democracy.

Dr. Christian Krell
Director
Academy for Social Democracy

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Project Director
Social Democracy Readers

Bonn, December 2015

1. INTRODUCTION

»We are all affected by globalisation – even before everyone understands how it really works. We therefore have to try to grasp what is happening and why.« (Rau 2002: 1)

Speech by Johannes Rau 2002

Johannes Rau's judgement expressed in 2002 is even more true today. Look at the quotations that follow. They are made up, but one hears similar sentiments all the time. They show, on one hand, that globalisation affects many aspects of our lives: the economy, the environment, politics, culture, even digitalisation. On the other hand, it is clear that views differ widely concerning the opportunities and dangers, advantages and drawbacks of globalisation.

Economy

Economy

»It's great that I can now sell my products even in China.«
»Every job is going abroad? Globalisation can go to hell!«

Environment

Environment

»Poorer states are often unable to acquire modern environmental technology, such as good filters. Richer states should take them under their wing and everyone on earth would be better off.«
»The big conferences usually achieve only miniscule compromises. I believe that a lot more has to be done to combat climate change.«

Politics

Politics

»The UN is not perfect, but a democratic world government would be fantastic!«
»Fewer and fewer decisions are taken in parliament; most of them are made elsewhere in the world. As a voter I'm becoming less and less important.«

Digitalisation

Digitalisation

»I'm studying abroad and thanks to the internet and webcams I can stay in touch with my parents.«
»All my data end up on servers in the United States. I'm very uncomfortable about that.«

Culture

Culture

»McDonald's is everywhere – I'm not very happy about that!«
»Life without falafel and doner kebabs? Thank God for globalisation!«

	Opportunities	Risks
General	Overcoming nationalism, worldwide cooperation	Loss of the nation-state as guarantor of democracy and the welfare state
Economic	Growth through free trade and specialisation	Higher global inequalities, power asymmetries
Environmental	Solution of global environ-mental problems on an equal footing	Worse environmental protec-tion, race to the bottom
Political	Construction of institutions for global co-existence	Loss of national sovereignty and of democratic influence
Digital	Unrestricted communication with the whole world	Global surveillance, also by monopolies (Facebook, Google)
Cultural	Formation of a global identity, more understanding between peoples	Emergence of a uniform culture or clashes between cultures

Figure 1: Opportunities and risks of globalisation

Figure 1 presents a number of opportunities and risks associated with globalisation. In order to answer the question of what globalisation means and how it can be handled to deliver more freedom, justice and solidarity our arguments are structured as follows.

Dimensions and challenges

In **Chapter 2** the challenges arising from globalisation for social democracy take pride of place, including their various dimensions, strategies for dealing with it and common preconceptions.

History of globalisation

In **Chapter 3** we relate the history of globalisation: from colonisation to the recent financial market crisis, beginning in 2008.

Global justice

In **Chapter 4** the focus is the basic values of social democracy and in particular the question of global justice. Global inequalities and possible ways of dealing with them are outlined in various dimensions.

Organisations and actors

Chapter 5 describes which organisations and actors are important in the field of globalisation and what they stand for. They include civil society actors, organisations in the labour movement and political parties.

Policy areas

Chapter 6 analyses in detail the policy areas »workers' rights, trade policy and social standards«, »global poverty and sustainable development«, »financial market regulation and tax competition«, »global environmental policy and climate protection« and »migration«.

Outlook

Chapter 7 looks into the future and takes up a fundamental question. Are globalisation, the nation-state and democracy reconcilable? In particular the myth of competitiveness is analysed and possible scenarios for the development of the world economy are considered.

Ten important abbreviations[1]

Abbreviation	Name
DAC	Development Assistance Committee
ILO	International Labour Organization
ITUC	International Trade Union Confederation
NAFTA	North American Free Trade Agreement
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
WTO	World Trade Organization

1 See also Figures 5 and 29.

2. THE CHALLENGE OF GLOBALISATION

In this chapter

- it is explained why globalisation represents a particular challenge for social democracy;
- various dimensions and the most important processes and structures of globalisation are described;
- adaptation and cooperation, two strategies that nation-states can use to tackle globalisation, are discussed;
- the new distribution of prosperity due to globalisation is described;
- the particular interests of countries and domestic actors are explained.

Basic values of social democracy

Freedom, justice and solidarity, these are the basic values of social democracy. The aim of social democracy is a society in which everyone enjoys equal freedom.

To put it another way the political, economic, social and cultural human rights that the United Nations laid down in two covenants in 1969 are supposed to be realised for everyone.

Taming capital

In order for that to happen, however, capitalism must be tamed. Only then can the values and interests of the majority be asserted against the interests and logic of capital owners.

A number of fundamental human rights are laid down in the UN covenants of 1969. The so-called **Civil Pact** – the Covenant on Social and Political Rights – primarily contains rights that protect people from the encroachment of the state on their lives. Examples include the right to freedom of expression and the right to inviolability of the home. The second, so-called **Social Pact** – the Covenant on Economic, Social and Cultural Rights – contains primarily enabling rights, in other words, rights that allow people to participate in social life. One example of this is the right to minimum social security. More than 160 states have now committed themselves to the goals of the two covenants, although implementation often leaves a lot to be desired.

Further reading:
Reader 1, Foundations of Social Democracy.

Three levels

There are three levers with which to »tame capitalism«, at three levels:

- the enterprise, by means of trade union organisation;
- the state, by capturing political power;
- the global level, by means of solidaristic cooperation between progressive forces.

Enterprise, state, global

In the enterprise the aim is workers' codetermination on an equal footing. With regard to the state what is required is the establishment of a democratic state under the rule of law, which enforces political and social rights by means of appropriate legislation and state action. At the global level global institutions have to be fought for that are committed to these goals and help to realise them.

Labour movement: national and international

The actors who advocate social democracy – primarily social democratic parties and trade unions – have always pursued every avenue, albeit with varying degrees of intensity.

On one hand, the labour movement has always understood itself as an international movement. It thus tries to compensate for the global operations of capital. On the other hand, the national route has often been more successful. That is because global cooperation often faces a variety of difficulties; among other things, social democratic and workers' parties in various countries are not often in power at the same time.

Further reading:
Reader 2, Economics and Social Democracy, *Chapter 2.3: John Maynard Keynes: governing capitalism.*
Reader 3, Welfare State and Social Democracy, *Chapter 7.1: Taxation.*

Power shifts due to globalisation

As a result of globalisation the significance and weight of these levels has changed. Capital mobility and the opening up of markets have dramatically boosted its scope of operations.

The options of the nation-state, by contrast, as the most important and often successful arena for implementing the goals of social democracy and workers' rights, have been curbed. Long familiar instruments such as anti-cyclical monetary and economic policy along Keynesian lines or progressive taxation have been blunted.

»With globalization the world is increasingly amalgamating in one single market. … Nation states, even the largest among them, run the risk of becoming mere locations competing for investments of global capital. Therefore nation states must join forces and strengthen their influence together.«
(SPD Hamburg Programme 2007)

At the same time, no authority has developed at the international level that can control markets in the interests of workers and the poor. A particular problem is the fact that most global institutions are scarcely democratically structured or legitimised or at best only indirectly.

Lack of international authorities

This gives rise to a trilemma, in the form of competition between national sovereignty, democracy and globalisation.

Trilemma of the world economy

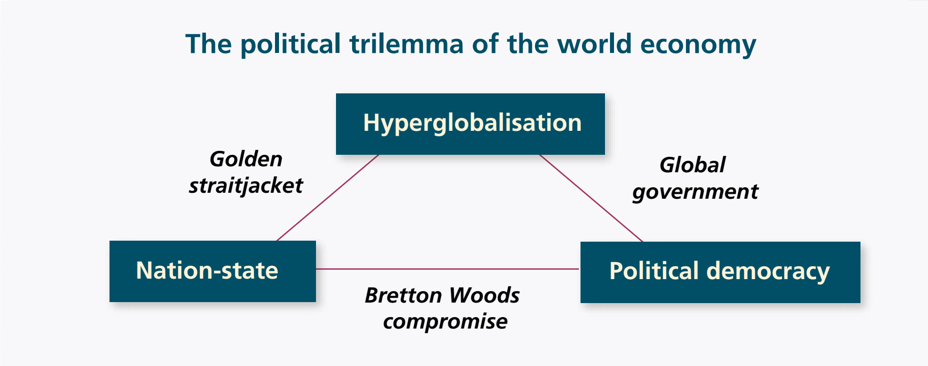


Figure 2: Trilemma of the world economy, after Rodrik 2011

»I call this the fundamental political trilemma of the world economy: we cannot pursue democracy, national self-determination and economic globalisation at the same time. If we want to take globalisation further we must give up either the nation-state or democratic politics. If we retain and want to further deepen democracy we have to choose between the nation-state and international economic integration. And if we want to preserve the nation-state and self-determination we have to choose between deepening democracy and deepening globalisation.« (Rodrik 2011: 261)

Many critics of globalisation thus call for more self-determination for national economic and social policy, for example, Dani Rodrik for the global level. With regard to European integration Wolfgang Streeck and Fritz Scharpf represent this position. Philosopher Jürgen Habermas, by contrast, advocates more Europeanisation. (For more on the Haberma-Streeck debate, see the reader *Europe and Social Democracy*.)

Further reading:
Dani Rodrik (2011), The Globalisation Paradox: Democracy and the future of the world economy.
Reader 4, Europe and Social Democracy; *2nd edition, Chapter 2.5.*

More or less globalisation?

The question of more or less globalisation and how it is designed plays a key role at many points in this book, especially in Chapter 6 (in which various policy areas are discussed) and fundamentally in Chapter 7. First, however, let us look at the history of the labour movement and the various dimensions of globalisation.

EXCURSUS: How global is social democracy?

In its infancy in the nineteenth century the labour movement understood itself as an international force. The Communist Manifesto already contained an analysis of globalisation, albeit using different words. In that book global capital is seen as a progressive force, although condemned to crisis and ultimate demise. Nevertheless, it is supposed to open up the way for the liberation of humanity. This internationalism and globalisation suffered a setback with the First World War, from which the labour movement has never quite recovered. After the Second World War the Socialist International again lodged a global claim, the clearest document of which was perhaps the Brandt Report of 1980. It tried to identify policies that would open up the way to prosperity and democracy for all people and every country (see also below, Section 6.3).

In practical politics, however, social democratic parties have always found it difficult to strike a compromise between the interests of their own constituency (especially the workers) and the poor and downtrodden in the rest of the world. Examples of this conflict include the question of whether a country should boost its own economy if jobs will be lost elsewhere as a result. Or how much money should go to development cooperation? Should one trade with authoritarian countries (for example, dictatorships)? What about immigration and asylum policy?

These conflicts, however, give expression to the principal global claim of social democracy to achieve freedom, justice and solidarity for all.

2.1. Dimensions of Globalisation

Globalisation: different dimensions

The concept of »globalisation« describes a complex historical development, combining economic, political, cultural, digital and environmental dimensions. Digitalisation here is a cross-cutting development that influences all the others and accelerates these processes.

Intertwining of the global economy

In the narrower sense globalisation represents the deepening integration of the global economy. Key driving forces of globalisation included the elimination of barriers to trade and capital movements and the rise of countries such as South Korea and China. Technical innovations, such as the invention of container transport and glass fibre cables, have lowered the costs of global transport of goods and of global communications.

The concept of »globalisation«

Recent concept

The concept gained in significance primarily with the opening up of previously communist planned economies in Central and Eastern Europe, as well as China and Vietnam, and with the simultaneous expansion of world trade and the increase in global investment since the 1980s.

Although today the term **»globalisation«** is on everyone's lips and one can look back on a long history of globalisation the term itself is relatively young. It emerged only in the 1960s and became established in everyday usage only in this century. In the 1980s there were already 50 publications and book titles with the terms »globalisation« and »global« in them; today a search engine comes up with millions of hits (see Auernheimer 2015: 9). An even more recent term is the coinage **»glocalisation«**, combining »globalisation« and »localisation«. It describes the increasing intermeshing of local and global developments, such as between international climate change and wind turbines on people's doorsteps.

In an extended sense globalisation is understood to encompass the deepened political, social and cultural intertwining of nation-states and their societies. Global wars have also driven globalisation forward. Often a leading power (hegemon) emerged from them and put its stamp on the succeeding age. Such powers include Great Britain after the Napoleonic Wars and the United States, still reluctantly after the First World War, but more determinedly after the Second.

Further reading:
Zygmunt Baumann (1996), »Glocalisation« or what is globalisation for some is localisation for others, in: Argument: Zeitschrift für Philosophie in den Sozialwissenschaften, Vol. 127, pp. 653–664.

»Three years ago half the German population had never heard the term ›globalisation‹. Today it's familiar to practically everyone. No political debate, no speech on the future of the economy, no economic analysis is complete unless it mentions this word.« (Johannes Rau 2002: 1)

Economic globalisation

Economic globalisation

The core of economic globalisation is the increase in cross-border flows of:

- goods;
- services;
- capital and
- labour.

New possibilities

That means that products that previously were only provided locally can now be bought across the globe. A service – such as software programming – can be delivered to customers in a distant land. Anyone with capital can ever more easily invest or speculate in foreign markets. Investors or speculators can acquire capital abroad and employees in different countries often compete with one another.

Rise of multinational companies

The rise of multinational companies is associated with this increase in cross-border trade flows; in other words, companies whose investments and production networks are global.

People

Cross-border movements of people have increased, on one hand, because of the liberalisation within Europe and better transport links. On the other hand, people in desperate straits more quickly become aware of better opportunities in richer and safer countries through the new media. They act accordingly.

Figure 3 presents in tabular form the development of globalisation in Germany on the basis of four key indicators.

Indicators: globalisation in Germany

For example, total imports and exports as a proportion of GDP totalled only 38 per cent in 1995; by 2012, however, the figure was 73 per cent. The ratio between assets owned by German citizens abroad and GDP, however, rose from 62 per cent to 232 per cent. Foreign assets thus totalled more than double annual GDP.

Source: SVR (2015) and authors' calculations.

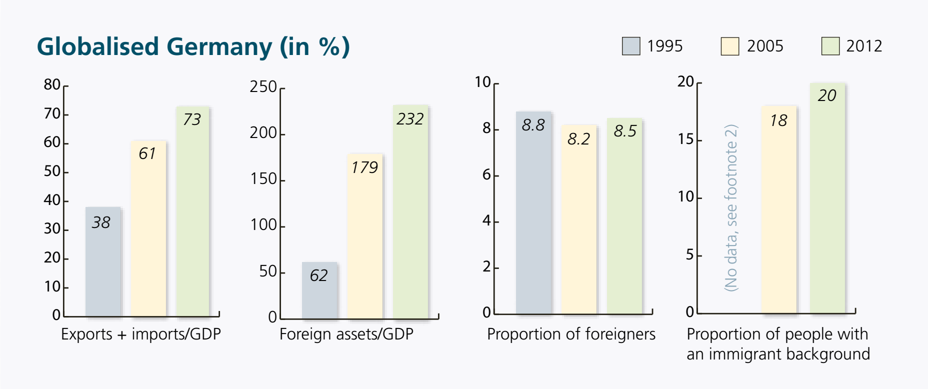


Figure 3: Development of globalisation in Germany

The proportion of people, by contrast, who live in Germany without German citizenship remained largely unchanged during the same period. But that is also because between 1995 and 2012 over 3 million people – just under 4 per cent of the population – were naturalised. The proportion of people with an immigrant background rose from around 18 per cent in 2005 to 20 per cent in 2011.[2]

These figures vary from country to country. For small *countries* they are generally higher, for large *countries* smaller. The trend is almost the same everywhere, however. It also shows itself in the fact that world trade long grew more rapidly than world GDP.[3]

Further reading:
Reader 5, Integration, Immigration and Social Democracy, *Chapter 1, Introduction.*

Digital globalisation

Glass fibre and satellites

The concentration and acceleration of global communications by means of the internet, mobile telephones and satellites has not only driven and facilitated economic globalisation. It has also fashioned a global public. More and more people have access to more and more information, including entertainment, advertising and propaganda. They can link up with one another via social networks and thus rapidly develop common opinions and arrange activities.

In many relatively closed authoritarian societies this has made possible or facilitated democratic opposition movements. However, most governments have found ways of hampering or preventing such processes.

2 Statistics on the proportion of people with an immigrant background have only been collected since 2005. People with an immigrant background are defined as »all immigrants to the current territory of the Federal Republic of Germany since 1949 and all foreigners born in Germany and all persons born as Germans in Germany with at least one immigrant parent or a parent born in Germany as a foreigner«. (Federal Statistical Office 2010: 6).

3 Total GDPs of all states.

Digital globalisation = more democracy?

Digital globalisation can be an emancipatory force that boosts people's knowledge and capacities. Governments and large companies also use digitalisation, however, to carry out surveillance on people worldwide and to exploit their preferences, as displayed on the internet, either politically or commercially. Google is an example of economic exploitation, the US National Security Agency an example of secret service use.

Political globalisation

Political underpinning of economic opening up

Without political support this internationalisation of the economy would not have been possible. The most important measure with which nation-states have contributed to globalisation is the opening up of national borders to goods and capital. This has taken place mainly within the framework of treaties with other states or international institutions. The single European market and monetary union are two examples of particularly strong opening up and integration.

Historical: hegemonic powers

Historically (see below, Chapter 3), there has often been a hegemonic – economically and politically dominant – power, such as Great Britain up to 1914 or the United States (from 1945), a driver of political globalisation. Under their leadership there was a global regime, a global regulatory system. Examples of this are the gold standard and free trade before 1914 and the Bretton Woods system, from 1945 to 1972.

Today: multipolar world

These regimes, of course, accorded with the interests of the leading countries. But they also allowed other countries to develop and to boost their prosperity, and as a result often their power, too. Today we live in a multipolar world, with many strong actors. This hinders the promulgation of global regulations, although when they are agreed on they no longer take account only of the interests of a hegemonic power.

The **G7** is the group of the seven – when it was founded in 1975 – most important economic powers (United States, Japan, Germany, Canada, France, Great Britain and Italy) that meet to discuss the world economic situation and policies at annual summit meetings of government heads. In 1998 Russia was accepted as a member, turning it into the G8, but in 2014 it was expelled because of the Ukraine crisis.

The **G20** consists, since 1995, of the **G8** together with China, Brazil, India, Mexico, Indonesia, Turkey, Saudi Arabia, Argentina, South Africa, South Korea, Australia and the European Union. At its annual meetings, to which the IMF, the World Bank and the European Central Bank are also invited, it deals primarily with the capital markets and financial systems.

At the global level the most important institutions are the United Nations (UN), the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), the G7 and the G20. The structure and activities of international politics as a whole are designated »global governance«. This global government architecture – see also Figure 23 below – has become more and more articulated over recent decades. The individual organisations and institutions of global politics are described in more detail in Chapter 5.

»Global governance«

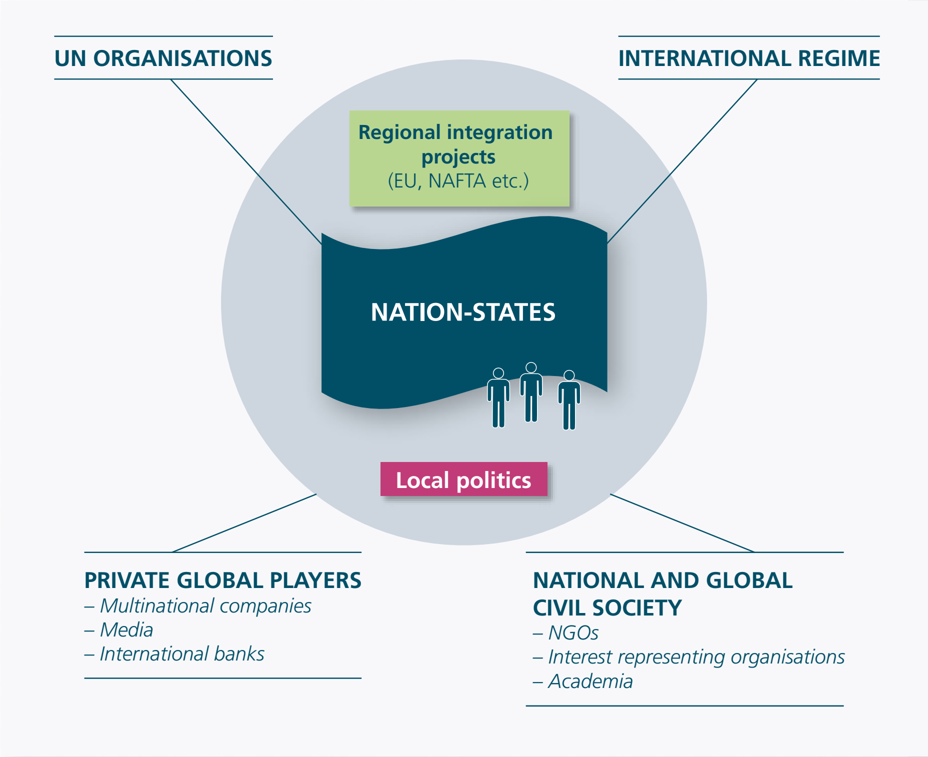


Figure 4: Levels of activity and actors in the »global governance« architecture (after Messner 1999: 13)

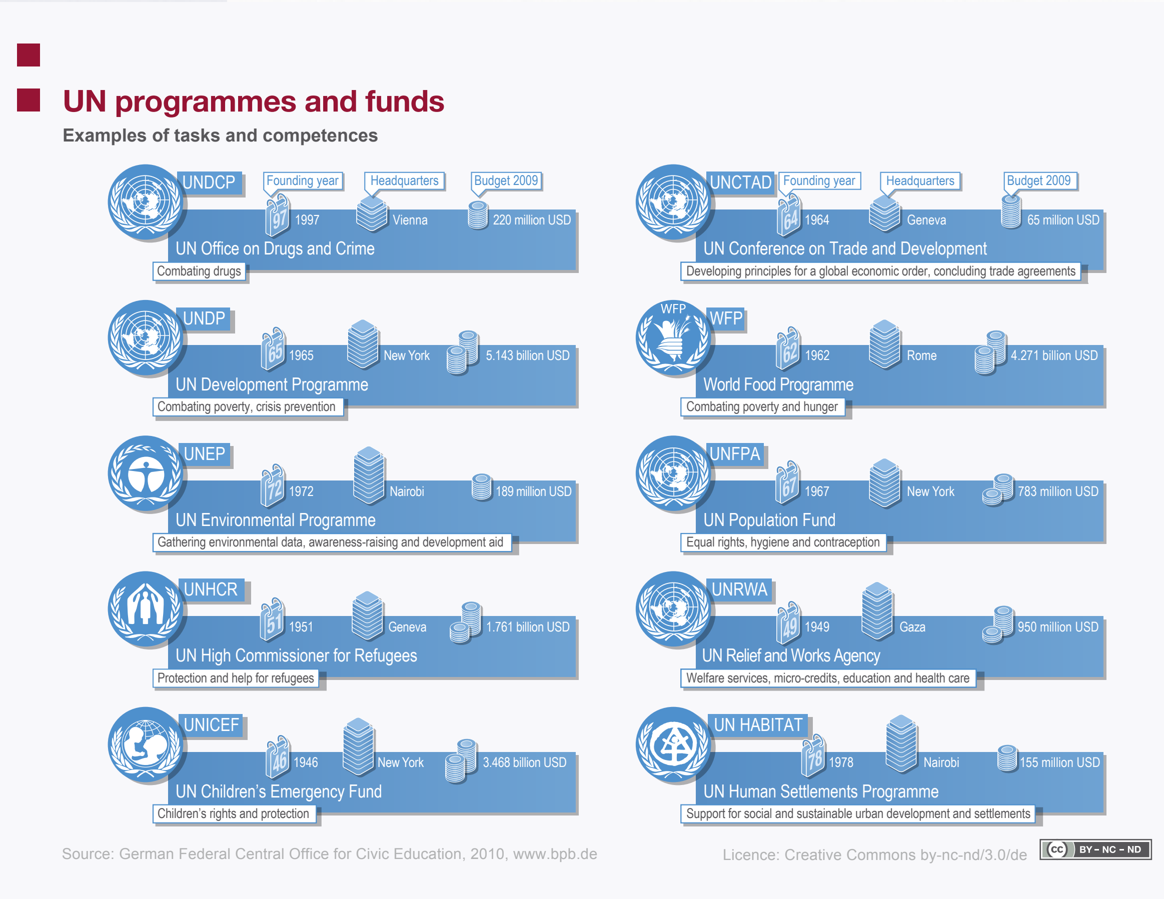


Figure 5: UN programmes and funds

Today: strong human affects on the environment

Environmental globalisation

Finally, the planet's natural and environmental development constitutes another dimension of globalisation. Although the human species has always been exposed to global environmental changes – ice ages, volcanic eruptions, earthquakes – that were not confined by national borders (insofar as they existed), population growth and human technical and economic development and activities have given rise to a multitude of anthropogenic (human-made) environmental changes. They now affect the earth more than many natural processes.

For a long time such environmental changes were largely of local significance: polluted rivers and air, overexploited mineral reserves or destruction of species.

International measures were necessary to cope with individual cases, such as cleaning up the Rhine, in which it is now possible to swim again.

Local and global environmental problems

In the meantime, however, the effects of human activities have attained such a magnitude that the planet's absorption capacity – in other words, its self-healing forces – have been overwhelmed and many people's prosperity, health and safety are under threat.

Self-healing under threat

A particular feature of these global threats is, first, that not all people are in equal danger from them: some much more and others very little. Some island states are in danger of disappearing completely under rising sea levels. Second, perpetrators and victims often do not coincide. Third, some are affected much more and some much less by efforts to deal with these threats. It is more difficult for those who emit a lot of CO_2 to reduce emissions.

There are positive examples. A late, but ultimately successful solution could be found to the widening of the hole in the ozone layer due to chlorofluorohydrocarbon emissions (CFCs) in the form of the Montreal Protocol (see Section 6.4). In the case of the much bigger threat from climate change there has been a joint solution on the part of the international community since the UN conference in Paris in December 2015. It was long uncertain whether any agreement could be reached at all.

Rays of hope: the Montreal Agreement and the UN climate conference in Paris

A key role in such delays is played by the remaining uncertainties in the analysis of climate development. Such ambiguities are ruthlessly exploited by groups and countries such as the United States or commercial energy interests for whom adaptation to climate change would give rise to considerable costs. Many poor countries also fear that developing prosperity will be denied them in the name of climate protection. The rich countries, of course, developed without similar restrictions.

Cultural globalisation

Economic globalisation, promoted at a political level, has also fostered a cultural globalisation. English has developed into a global language. Values that emerge from one culture gain global significance. Global brands such as Coca-Cola, McDonald's, Google, Facebook, the Rolling Stones or Madonna shape consumer behaviour across the world. This development has been turbo-boosted by the digital revolution and the triumph of the internet.

Further reading:
Benjamin Barber (1996), Jihad vs. McWorld. How Globalism and Tribalism are Reshaping The World.

Levelling down or enriching?

However, this convergence trend is matched by a trend towards enrichment if people obtain easier access to different cultures. Tourism and migration bring people into direct contact. Meanwhile the cuisine, music, literature and art of other cultures enrich our lives.

Further reading:
Roberto Winzer (2006), Die Globalisierung und ich – ein persönlicher Bericht *[Globalisation and me – a personal report], FES-Online-Akademie, Bonn.*

Food for Thought
»Wanderlust. Productive disquiet. Curiosity about the world and the foreign. That is how I would describe what has driven me to travel the world for such a long time, at least 13 years.« Thus begins a personal report in which the author, »Roberto Winzer«, describes his life in a globalised world. Student exchange, foreign TV series, eating habits, studying abroad, friends in other countries or with an immigrant background, a job far from home. The text was written in 2006. Reflect on how globalisation permeates your everyday life.

2.2. Dealing with Globalisation

Globalisation affects all states

Virtually every state in the world is affected by globalisation in one way or another, whether it likes it or not:

- Willingly in the case of those who have imposed restrictions on themselves by means of political treaties and other commitments. This applies in particular to EU member states, which have surrendered important sovereign rights to EU institutions.
- Unwillingly in policy areas in which legislative competence remains with nation-states, although they are in economic competition with one another. One example of this is taxation. If a particular country wants to impose high taxes on companies it could result in their shutting up shop and moving elsewhere (see Section 6.3).

Two strategies

In order to deal with globalisation nation-states, as a rule, pursue two strategies: adaptation and cooperation. Often they combine the two.

Adaptation strategies

Adaptation

If states pursue an adaptation strategy they generally try to shape their policies in such a way that they can achieve such goals as growth and social security and thus avoid the negative consequences of globalisation. Paramount here is often the goal of achieving or maintaining international competitiveness. In Chapter 7 this notion is subjected to critical scrutiny.

From a social democratic perspective states should try, while pursuing an adaptation strategy, to improve worker productivity by investing in education and training. The aim here is to enable workers to produce goods more rapidly by means of better qualifications and capital equipment, for example, in the form of better machinery. Or so that they can produce more expensive goods with more value added, such as passenger planes instead of textile products.

In both cases productivity rises and companies could pay their employees higher wages. Higher competitiveness would be a side-effect. Companies would be less inclined to shift jobs to low-wage locations. Whether profits are in fact distributed fairly depends on political factors, such as trade union clout or government redistribution policy.

Cooperation strategies

Cooperation

Within the framework of a cooperation strategy states attempt to agree and implement international regulations with other governments. If it proved possible, for example, to implement international minimum taxation or minimum standards of employment protection the danger of a race to the bottom would be substantially diminished. European integration offers this second path at least for Europe and also boosts Europe's negotiating power in the global context.
A social democratic policy responds to globalisation using both strategies, adaptation and cooperation. It tries, on one hand, to make the welfare state globalisation-proof and, on the other hand, to implement common social and environmental standards by means of international cooperation, thereby reducing the pressure to adapt.

»World trade brings new work and wealth for many people. At the same time, however, global capitalism is characterized by a lack of democracy and justice. Thus it is opposed to a free world living in solidarity. It enhances old and creates new injustice. Therefore we fight for a policy defining a social response to global capitalism in our own country, in Europe and in the world.«
(Hamburg Programme 2007: 7)

Further reading:
Thomas Rixen and Susanne Uhl (2011), Unternehmensbesteuerung europäisch harmonisieren! *[Harmonise corporate taxation at European level!], FES, Bonn.*

Problem: negative globalisation is picking up speed

Positive and negative globalisation

A balance has to be struck between positive and negative globalisation. The notions of »positive« and »negative« here are not intended as value judgements, at least in the first instance, in the sense of good or bad.

Negative globalisation is the lifting of restrictions on cross-border (economic) activities. Positive globalisation is the construction of global political institutions that establish and supervise rules for the world economy, settle disputes and resolve market induced problems that are beyond the capacity of individual, especially smaller states to handle.

In the global context positive integration lags behind negative globalisation much more than it does in Europe. It has proved easier to liberalise and deregulate markets than to reach common agreement and implement new, global rules. This is also due to the unequal structure of interests and power.

The *eminences grises* behind the opening up of markets are multinational companies, large financial institutions (banks, hedge funds and so on) and the strong, competitive countries. Restrictions and rules often have to be implemented in the teeth of these powerful actors and negotiated between many governments, whose countries are differently affected by them.

Losers and winners within states

Winners and losers from globalisation

However, in fact the lines of conflict run less between national governments or states, on one side, and global markets and actors on the other, than between winners and losers within countries.

The possibilities of the majority of citizens to exercise political influence over economic processes are diminishing. In this respect globalisation is opening up new room to manoeuvre only for a rich minority.

»One has to look carefully, however: there are tremendous new opportunities – and there are entrenched interests … We can and must ask: who are – to date – the winners and who so far are the losers from globalisation?«
(Johannes Rau 2002: 2–3)

In the rich countries of the global North, people who have lost their jobs as a result of global competition belong among the losers. They are found especially in the old industrial regions, in which in former times the textile industry, steel production, coal mining and shipbuilding provided jobs and prosperity. The owners of transnational companies, but also workers in new dynamic industries and the consumers of cheap imported goods are the winners.

Losers in the North: often industrial workers

In authoritarian regimes – for example, in dictatorships – small elites of globalisation winners try to ignore or supress the interests of the majorities of globalisation losers. They can violate the rights of employees in order to facilitate their exploitation or break the opposition of the local population to the plans of foreign investors (for example, mining projects). For many people from the global South globalisation thus entails impoverishment and deprivation of rights.

Losers in the South: exploited workers

VOICES FROM THE SOUTH

Vandana Shiva, human rights activist and recipient of the Alternative Nobel Prize: *»A system in which the rich decide the fate of all resources, decide that the resources of the poor are theirs to grab, the economies of the poor are theirs to destroy, is an unjust system.«* (Shiva 2015)

Alberto Acosta, former president of Ecuador's Constituent Assembly and development minister: *»Our lifestyle is not sustainable, that is becoming increasingly clear to people. Sources of drinking water are being lost, biodiversity is declining in the fields and in the forests, as is the living space of indigenous communities.«* (Acosta 2011)

The developments ascribed here to globalisation have already occurred in the developed countries of the North, however, and without external pressure. They were part of a modernisation process. This process destroyed the livelihoods of millions of small farmers or workers in obsolete industries (for example, weavers) in nineteenth century Europe. However, new opportunities for higher productivity were thereby created, together with more prosperity, whose fair distribution has to be fought for.

Globalisation or modernisation?

2.3. Ten Generalisations and Complex Reality

Many generalisations are made about globalisation, both by those who reject and by those who cheerlead for it. The reality is usually more complex.

1. Does globalisation create growth?
In fact, the growth rates of the world economy in the 1950s and 1960s, when there was less globalisation, were higher. Although globalisation generally boosts growth potential, realisation depends on demand and on income distribution that is not too unequal: since the 1980s both of these things have suffered a decline.

2. Does globalisation reduce poverty?
In recent decades global poverty has indeed declined, especially thanks to growth in China. On the other hand, income distribution has deteriorated almost everywhere, in particular in China.

3. Does globalisation destroy jobs?
The effect of globalisation on employment depends strongly on the development of demand for the relevant products. Millions of jobs have been created, but many others have been destroyed. The coming into being and passing away of jobs are unequally distributed both regionally and between the different economic sectors.

4. Does globalisation keep the developing countries poor?
Growth in most developing countries long remained behind that in the industrialised countries, so that the income gap grew ever wider. In recent decades, however, this development has gone into reverse – also due to globalisation – primarily as a result of China's growth.

5. Does globalisation lead to a race to the bottom with regard to taxation?
In fact, as regards the kinds of taxation with regard to which competition is particularly strong – corporate taxation and top tax rates – a fall in rates can be observed. Overall the tax burden has not shrunk, but it has shifted to wage income and consumption (VAT) away from capital owners.

6. Does globalisation force down wages?

Economic theory predicts that wages in poorer countries should rise due to globalisation and wages in rich countries should fall. That has been observed only to some extent and it is uncertain whether this can be attributed to globalisation (rather than, for example, technological progress). The global wage share – share of wages in GDP – has fallen since 1990 and wage differentials have increased.

7. Does globalisation undermine trade union rights and working conditions?

The suppression of trade unions and the exploitation of employees have played a part in many industrialisation processes and the development of export-oriented agriculture and mining in the Third World. However, this is due to an alliance between domestic elites and international companies, not entailed by globalisation.

8. Does globalisation hinder environmental protection?

Although many countries are trying to improve their competitiveness through lax environmental regulations pioneers in environmental protection often have competitive advantages because they develop the relevant technologies and products early on. With growing income the public interest in a cleaner environment increases.

9. Does globalisation endanger democracy?

The decision-making scope of popular representation is restricted by international treaties and the rules of »clubs« to which their countries belong. Such steps are decided democratically in democracies and thus can be reversed, at least in principle. But they do give governments more room to manoeuvre than parliaments.

10. Is globalisation irreversible?

Although a complete reversal of globalisation is improbable it is not a one-way street. The globalisation process has been largely reversed once before, between 1914 and 1945, due to war, depression and protectionism. In the event of certain economic developments – such as increasing transport costs or very unevenly developing productivity in different countries – the benefits of international trade could be severely curtailed.

What does this mean for social democracy?

- The range of options open to social democracy for shaping policy has become narrower within the framework of the nation-state because nation-states have lost ground.
- Nevertheless, it remains important and possible to develop smart policies that make it possible to take advantage of the benefits of globalisation without having to succumb to its disadvantages.
- It must be taken into account in this regard how international solidarity can be reconciled and combined with the direct interests of citizens.
- In order to regulate global markets within the framework of international cooperation progressive forces – in other words, actors striving for more social democracy – must join together internationally.

3. HISTORY AND BACKGROUND OF GLOBALISATION

In this chapter

- the history of globalisation from the colonial empires to the world financial market crisis in 2008/2009 is related;
- the political and technological conditions of globalisation are described;
- it is explained what interests are associated with globalisation and what counter-forces have developed;
- an overview is given of important economic theories that analyse – and have also influenced – the development of globalisation.

Six periods of globalisation

The economic interweaving of different parts of the world is much older than globalisation in its current understanding, which is only around 25 years old. Starting with developments before around 1450 one can distinguish six phases:

1. the global imperial expansion of Western Europe (Portugal, Spain, the Netherlands, England, France, Belgium, Germany, Italy);
2. the first economic globalisation (under British hegemony) due to falling transport and communication costs from around 1800 to 1914;
3. the integration of the capitalist hemisphere under US hegemony from 1944;
4. the phase of the breakdown of Bretton Woods to the collapse of the Eastern Block (1973–1989);
5. the apparent triumph of globalisation in the period from 1989 to 2008;
6. the global crisis of capitalism since 2008.

»What is today called globalisation has historical roots. Today it is not that everything has changed overnight, but we are experiencing more than the mere continuation of the past. We are living through changes of a new kind.«
(Johannes Rau 2002: 4)

And in the past?

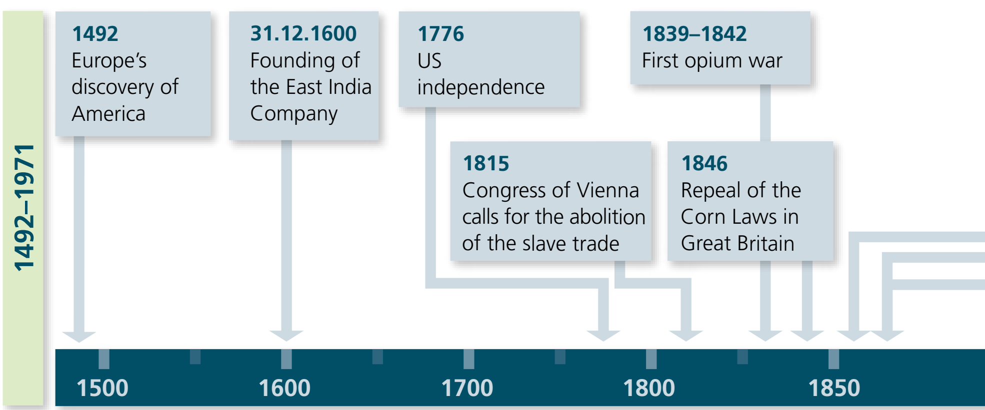
The human race has been spreading all over the world from its original African home for millennia. In the process it has learned to cope with a wide range of climatic conditions, flora and fauna.

It was primarily these natural conditions that enabled such varied lines of development from around 10,000 BCE. The domestication or taming of certain animals and plants enabled agricultural productivity to rise in Europe and Asia and led to further technical and civilisational progress.

Adverse conditions blocked such development in broad swathes of Africa, America and Australia. In the arc from the Mediterranean to China, by contrast, high cultures and large empires – Roman, Arabian, Mongol, Indus valley, Chinese – slowly extended their economic, technical and – boosted by this – military capabilities.

Economic integration largely remained regional, however, and occurred within empires, especially because the transport of goods by land, as far as possible, was tedious and costly. The sea route over the Atlantic and the Pacific remained closed in the absence of adequate ships and navigational instruments. Long-distance trade was restricted to caravans (Silk Road) and coastal shipping; only valuable freight – for example, human beings/slaves, silk, spices, precious stones and metals – made this worthwhile.

China developed its sea power from around 1400 for both trade and military purposes. Its ships reached Africa and Arabia. This strategy ended abruptly in 1435, thereby removing a potential curtailment of European expansion.



Key dates in globalisation

3.1. The Rise of Western Europe (Colonisation)

One can only talk about globalisation from the second half of the fifteenth century, when Columbus discovered America and the Portuguese found the sea route to India. Thanks for advances in ship building and navigation and new weaponry Spain and Portugal were able to conquer large territories overseas. In fact, the conquerors controlled and settled only the coastal regions, for the most part, for climatic and health reasons (malaria and other diseases).

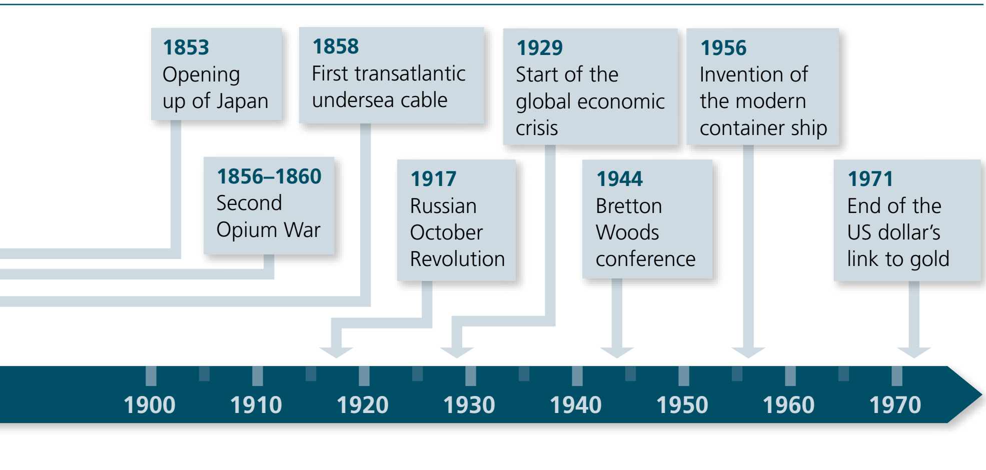
Bioglobalisation also commenced at an early date. Seeds, plants and animals accompanied people in both directions: from Europe overseas and vice versa. At the same time, large numbers of local people in the »new world« died from diseases such as smallpox to which they had no immunity. In the temperate zones the settlers planted European crops on a large scale, which crowded out domestic varieties. They also brought horses to America. In the other direction potatoes were introduced to Europe, where they became a staple food.

Further reading:
Alfred A. Crosby (1991), Ecological Imperialism: The Biological Expansion of Europe, 900–1900, *CUP.*

Due to the still high transport costs trade was focused on goods with a high value by weight. Spain plundered Central and South America, especially for precious metals. This helped to finance the Armada, but how it was used also led to inflation and ultimately Spain fell behind England.

The rise of Britain

Gradually, England carved out an enormous global empire. France, after a number of defeats in several European wars, retained territories in the Caribbean, Africa and Southeast Asia, as well as in the Pacific. The late developers among Europe's nation-states – Germany and Italy – were able to acquire a few areas in Africa only at the end of the nineteenth century.



3.2. British Globalisation (1815–1945)

Britain: military and economic power

After the end of the Napoleonic War in 1815 British hegemony was asserted. It was based not only on dominance of the seas but increasingly on economic power. It grew relentlessly thanks to industrialisation and innovations. Both drove the next wave of globalisation. Global communications and transport became faster and cheaper. Canals, within countries, but also the Suez and Panama canals, were dug. Railway networks were built, steam ships shortened journey times and the telegraph made possible the instant transmission of information.

There was already a **slave trade** in Antiquity and the middle ages, right across the Sahara. After the conquest of America the white settlers used black slaves, especially for harvesting or picking cotton, sugar and coffee. Between the sixteenth and nineteenth centuries an estimated 11 million slaves were taken from Africa to America. Millions died in chains in prison and en route. The triangle Europe–Africa–America was immensely profitable for traders: European goods for slaves in Africa, slaves for plantation products in America, which in turn went to Europe. In 1815 the Europe states agreed, under pressure from England, to end the slave trade, although this could not be achieved overnight.

Britain drives the opening up of markets…

Britain was also the driving force in relation to the political conditions of globalisation. The most highly developed economy wanted to export industrial finished products and import agricultural and other raw materials. It opened its market to corn (abolishing the corn laws), lowered customs duties and advocated the gold standard, the coupling of its currency to the gold price. British economists such as David Ricardo and Adam Smith created the theoretical basis on which it came to be assumed that free markets increased prosperity.

… by force if necessary

When its example alone was insufficient to assert its interests Britain wielded its military power. It was able to set trade policy in its own empire, in any case.

Thus the Indian market was opened up for English textiles. Millions of Indian weavers lost their jobs and incomes. In the case of China Britain waged two so-called »Opium Wars« to open up the market for opium there, so that Chinese goods – for example, tea and porcelain – could continue to imported to Britain. In Japan it was the US fleet that compelled it to open up its markets.

CLASSICAL ECONOMISTS David Ricardo (1772–1823)/Adam Smith (1723–1790)	
Context	Rise of Britain, Land owners wanted protective tariffs, industrial free trade
Core arguments	Free trade benefits all the countries that engage in it. They have to concentrate on the products that they can produce more favourably than others: for example, Britain wool and Portugal wine. Even if a country can produce all goods more favourably than all other countries it should still concentrate on its best product and acquire the others through trade.
Problems	The theory assumes full employment and that labour and capital do not move from one country to another. Furthermore, it fails to take into account, for example, that specialisation can lead to the loss of many jobs (adjustment costs).

Figure 6: Theories: the classical economists

As a result, tariffs fell worldwide and the volume of world trade grew enormously. The industrialisation of Europe and North America boosted demand for raw materials and the supply of goods from industrial production.

The **Terms of Trade** refer to the exchange ratio between a country and the rest of the world. In this way the price level of imports and exports are compared. An improvement of this ratio – for example, due to a revaluation of the currency or strong demand for exports – raises real national income.

This improved the terms of trade in favour of raw materials exporters. Many countries in the global South underwent growth phases, for example, Brazil and Argentina, which supplied the North with rubber, coffee and beef. These raw material booms also led, however, to deindustrialisation or prevented industrial development. They thus created the basis for the later underdevelopment of the relevant regions.

Further reading:
Reader 2, Economics and Social Democracy: *Chapter 2.1: Adam Smith.*

Protective tariffs?

Strong countries such as the United States or Germany protected their industries against this threat with tariffs. The German economist List justified this protectionism for »infant industries« on theoretical grounds.

CRITICS Friedrich List (1789–1846)/Karl Marx (1818–1883)	
Context	Germany's development under British hegemony; first crises of capitalism.
Core arguments	The catch-up development of poorer countries is jeopardised by free trade. The protection of infant industries by means of tariffs enables their development (List on Germany). Capital is a global force that is fundamentally progressive, but ultimately it brings about its own demise through crises and class struggle (Marx).
Problems	Protective tariffs can hamper necessary adjustments and be sources of income for elites (on protectionism see p. 56 f.: »For and against protectionism«).

Figure 7: Theories: the critics

The gold standard

Global monetary relations regulated the gold standard, to which more and more countries committed themselves and under which the value of a currency was linked to gold. It was very hard to rectify imbalances in this system. Gold flowed out of a deficit country, its prices fell and deflation and recession ensued, which choked off imports and made exports cheaper. By contrast, in a surplus country the influx of gold led to inflation.

Deflation is the opposite of inflation. In the case of **inflation** prices rise, while in the case of deflation they fall. Both harm the economy. In the event of inflation workers' purchasing power falls. A deflation generally leads to an economic crisis because consumers postpone purchases in the prospect of lower prices and companies invest less because of the prospective lack of profits.

Severe crises: Marx foresees the demise of capitalism

British globalisation was accompanied by severe crises that, not least, led Marx to call into question capitalism's long-term viability. Nevertheless this period was one of unprecedented growth and technical progress. This phase of globalisation ended with the outbreak of the First World War in 1914.

IMPERIALISM V.I. Lenin/Rosa Luxemburg	
Context	Competition for colonies; First World War
Core arguments	Colonialism is a symptom of capitalism in crisis. Capitalism can postpone its collapse only by opening up new markets and opportunities for exploitation.
Problems	The theory overlooks the fact that colonialism also entails high costs and problems for the colonial masters.

Figure 8: Theories: Imperialism

After the First World War

The First World War imposed considerable strain on British hegemony, thereby weakening it, but the United States was not yet ready to take over. For a while many countries returned to the gold standard – which had been suspended for the duration of hostilities – but in the world economic crisis the global economy shattered in a spiral of protectionism, recession and mass unemployment. The Second World War ended British supremacy and Germany's global ambitions once and for all.

NEOCLASSICAL ECONOMISTS Eli Heckscher (1879–1952)/Bertil Ohlin (1899–1979) Wolfgang Stolper (1912–2002)/Paul Samuelson (1915–2009)	
Context	Between the two world wars
Core arguments	Because of their lack of capital poorer countries specialise in labour-intensive production, richer ones in capital-intensive production (Heckscher and Ohlin). Because of higher demand wages rise in poorer countries and fall in richer ones; the reverse is true of capital income (factor price equalisation, after Stolper and Samuelson).
Problems	Important empirical research goes against the theory (Leontief paradox). It also falsely assumes that labour and capital do not move from one country to another.

Figure 9: Theories: Neoclassical economists

3.3. American Globalisation (1945–1973)

USA: biggest military and economic power

At the end of the Second World War the United States was the leading economic and military power. In contrast to the situation after the First World War it was ready and determined to implement a new world economic order.

Bretton Woods system

The decisive guidelines were laid down at the Bretton Woods conference. A system of fixed exchange rates with a US dollar gold standard was introduced. It bound the other currencies to the US dollar, which in turn was backed by gold (35 US dollars per troy ounce). The German mark (DM) for decades had a fixed exchange rate of 4.2 DM/1 US dollar.

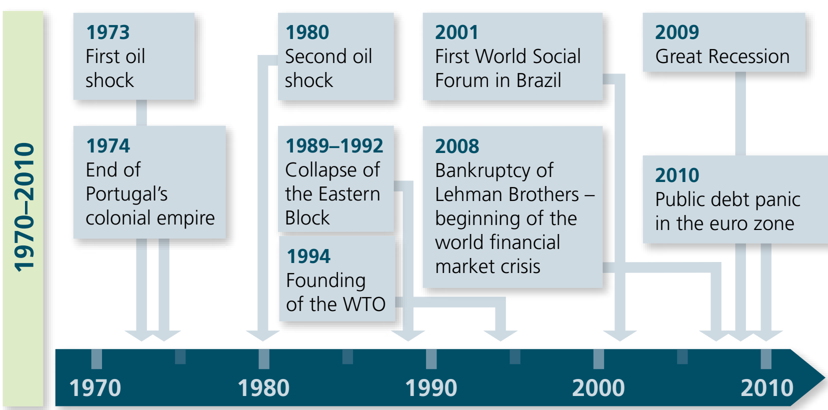
IMF, World Bank

Cross-border capital flows were strictly controlled. The IMF and the World Bank were supposed to help participating countries to overcome crises and to support their reconstruction and development. In the context of the Cold War former war-time enemies Japan and Germany were provided with assistance to develop stable economies.

»Containment strategy«

Cold War

After the end of the Second World War the Soviet Union extended its control in Central and Eastern Europe. The United States launched a »containment policy« against Soviet influence. This led to a far-reaching split in the world economy.



Key dates in globalisation

The **International Monetary Fund** (IMF) and the World Bank were set up at the conference of Bretton Woods in 1944, at which the principles for a reordering of the world economy after the Second World War were decided. The IMF is supposed to supervise its members' monetary policies and, in case of need – high current account deficit, debt crisis – grant them short- to medium-term loans on certain economic policy conditions (principle of conditionality). The so-called »austerity« policies demanded in this connection – for example, abolition of subsidies on bread or fuel – or devaluations are often politically controversial. The World Bank was set up to support reconstruction after the Second World War and the development of poorer countries through long-term loans and advice. Its priority goal is to combat poverty.

The economic model known as **»Fordism«** – after automobile manufacturer Henry Ford (1863–1947) – is based on mass production, mass purchasing power and mass demand. An example of mass production was the assembly-line production at Ford's plants. Mass purchasing power and mass demand arose because Ford paid wages at a level that would enable his workers to buy the cars they produced. The welfare state and redistribution further stabilised demand.

Economic upswing thanks to reconstruction and Fordism

Nevertheless, the world economy experienced a powerful and sustained economic upswing after the war due to the necessary reconstruction. Many countries quickly sought to emulate the Fordist US growth model and relied on the production of cars, washing machines, refrigerators, televisions and the associated infrastructure (streets, energy, communications). But in Europe's Eastern Block, too, industrialisation was methodical, rapid and, at first, successful. In 1957 the Soviet Union surprised the West with Sputnik, the first satellite, and in 1961 with the first manned space flight.

Division: First, Second and Third Worlds

The world was divided into three. The First World was capitalist, the Second was characterised by »actually existing socialism« and the Third World of poorer countries oscillated somewhere in between. Where their foreign policy loyalties lay was hotly contested, both militarily and economically: in many civil wars, for example, in Greece, Korea, Indochina, Vietnam, Angola, Mozambique, Cuba, El Salvador and Nicaragua. But »development aid« also owes its emergence to the clash of systems between West and East.

»DEPENDENCIA« THEORISTS Samir Amin (*1931)/André Gunder Frank (1929–2005) Raúl Prebisch (1901–1986)	
Context	Underdevelopment of the developing countries
Core arguments	The industrialised countries are responsible for the underdevelopment of the developing countries. The exchange ratio between raw materials and manufactured goods deteriorates over time at the expense of the raw materials exporters.
Problems	The theory cannot explain the successes of the South-East Asian countries.

Figure 10: Theories: »Dependencia«[4] theory

1973: The Bretton Woods system collapses

Finally, however, the Bretton Woods system started to crack. The hegemonic power of the United States was increasingly coming under strain, among other things because of the Vietnam War. In 1971 the Nixon administration severed the dollar's link to gold. In 1973 the system finally collapsed. Germany revalued the Deutschmark several times. Many countries switched to flexible exchange rates. Capital movement was »liberalised«.

The Western European empire crumbled only gradually. **Decolonisation** unfolded very slowly. In 1776 the United States was the first colony to declare independence. In the nineteenth century most Latin American countries freed themselves from Spanish or Portuguese rule. After the Second World War a new period of decolonisation set in. India became independent in 1947. In many colonies there were insurrections and wars of independence (for example, Indochina). Almost all colonies in Asia and North Africa eventually achieved autonomy. In the early 1960s there was another great surge in which most African countries achieved their independence. The last colonial empire – that of Portugal – collapsed in 1974. Decolonisation generally changed little with regard to economic relations, however. The poor countries were still largely dependent on raw materials exports and close cooperation with their former colonial rulers. Local elites and ruling classes assumed power and benefited from economic rents, usually from natural resource revenues and control of foreign trade. To the extent that democratic structures did emerge they were rapidly eroded or crushed entirely.

4 From Spanish »dependencia«, meaning »dependence«.

3.4. Between the End of Bretton Woods and the Demise of the Eastern Block (1973–1989)

With the devaluation of the US dollar the real value of commodities priced in US dollars also fell, especially that of oil. In order to steal a march on this development the OPEC (Organization of Petroleum Exporting Countries) countries raised oil prices sharply. For political reasons some Arab countries also imposed embargos for a while. They wanted to punish the West for its support for Israel in the Middle East conflict. As a result oil prices rose sharply, in two phases (1973 and 1980). These shocks led to severe global recessions.

Supply side-oriented policy gains ground

The economic policy ideas usually labelled »Keynesian«,[5] apparently tried and tested since the 1930s, no longer seemed to work. Supply side-oriented ideas gained ground. Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States broke the trade unions and implemented a monetary policy ostensibly designed to curb inflation. As interest rates and the US dollar exchange rate rose sharply the highly indebted developing countries could no longer service their loans. In the early 1980s a severe debt crisis developed.

The IMF dictated the conditions for new loans to the debtor countries (conditionality). The economic policy it (and the World Bank) implemented followed the so-called »Washington Consensus«, relying on privatisation, deregulation and »liberalisation«.

Competition from Asia

The western industrialised countries increasingly came under pressure from new competitors from Asia, especially Japan, but also Korea, Singapore, Hong Kong and Taiwan. These countries were becoming more and more competitive in sectors such as textiles and clothing, ship building, automobile production and electronics. Japan, which had risen to become the world's second strongest economy, had high export surpluses with the United States. In the United States the spectre was conjured up of the whole country being sold to Japan.

The Eastern Block falls behind

The Eastern Block in Europe, with its »actually existing socialism«, fell further and further behind. It simply could not keep up with technological progress and the corresponding productivity increases. The costs of the accelerated arms race

5 Cf. p. 106.

with the United States and popular discontent with low living standards and political oppression led in the Soviet Union to the first reforms, under President Gorbachov. China had already taken some cautious steps to open up its economy under Deng Xiaoping, which was to result in a spectacular catch-up process.

3.5. The Triumph of Globalisation? (1989–2008)

1989: The Eastern Block collapses

In 1989 the Eastern Block collapsed. The countries of Central and Eastern Europe commenced a more or less rapid transition from a planned to a market economy. East Germany was reunified with the Federal Republic, thereby creating a new (at least economically) central power.

2004–2013: EU eastern enlargement

The European Union reacted, on one hand, with the Economic and Monetary Union (EMU) and on the other, with eastern enlargement, which by 2013 had brought 11 post-communist countries into the fold as EU members. This made the EU a globalised region par excellence, with minimal trade barriers despite substantial differences in terms of development.

Hopes after the end of the Cold War

With the end of the Cold War the options for international cooperation seemed to have grown. The UN reacted firmly to Iraq's invasion of Kuwait in 1990. In 1994 the World Trade Organisation (WTO) was founded, incorporating numerous post-communist countries. Russia was accepted in the G7, making it henceforth the G8. The World Economic Forum, founded in 1971, developed into an annual international summit of political and business-sector decision-makers.

The United States seemed to have recovered its dominance.

> The **WTO** (World Trade Organization) was founded in 1994 as the successor of the GATT (General Agreement on Tariffs and Trade). Its aim is the liberalisation of world trade by eliminating trade barriers and resolving trade conflicts. It has 160 members, including major former planned economies, such as China (since 2001) and Russia (since 2012).

Military rival the Soviet Union or Russia was substantially weakened and economic rival Japan has been bogged down since 1990, after the bursting of its real estate bubble, in stagnation and deflation.

In 1994 NAFTA (North American Free Trade Agreement) liberalised trade between the United States, Canada and Mexico.

However, the »monopolar moment« was short-lived. The rise of China once more called US supremacy into question, at least on the economic front. China's growth has been based strongly on foreign investment, sometimes producing more than half of Chinese exports. Despite rising inequality this growth has lifted 300 million Chinese people out of poverty.

New technological developments

On top of the new political conditions there are also new technological possibilities. Global communications have become faster and more tight-knit as a result of satellites and the internet. Transport costs and times have diminished due to containers. Low oil prices between 1985 and 2003 made long-distance transportation – also by air – even cheaper. Together these developments enabled the expansion of global production networks and value chains, in which individual production stages are relocated to the most cost-effective locations. However, workers in the poor countries retain only the smallest part of value creation.

These changes since 1989 have driven the globalisation debate since the mid-1990s.

Triumph of capitalism?

For the first time since 1913 the world economy had again become truly global and the proportion of world trade in global output was now higher than at that time. Capitalism appeared to have emerged as the most successful economic system and its principles now determined the development of all regions of the world.

1997: first cracks

The first fissures in the newly deregulated global capitalism appeared in the Asian and Russian crisis. Both regions had received a lot of capital and were thus indebted in foreign currency. After crisis struck in Thailand in March 1997 it rapidly spread to other Asian countries and to Russia.

GLOBALISATION THEORY Elmar Altvater (*1938)/Ulrich Beck (1944–2015)	
Context	Globalisation since around 1995
Core arguments	Within the framework of globalisation the rich countries and large companies assert their own interests. The theory combines the economic, political, environmental and cultural dimensions of globalisation.
Problems	The theory encompasses, in some instances, contradictory arguments and the empirical evidence is selected unsystematically.

Figure 11: Theories: Globalisation theory

3.6. The Crisis of Global Capitalism (since 2008)

Up to 2008: the world economy was growing

Nevertheless, the years up to 2008 only seemed to support the case of those advocating globalisation. Driven by China's growth the world economy grew more strongly than ever before, with the poorer countries posting particularly high growth rates.

Even Africa, long the poor relation of global development, showed considerable progress thanks to rising demand for commodities and to Chinese investments. At the same time, inflation rates remained astonishingly low, also because China was supplying the world with cheap consumer goods and wages scarcely rose. China's enormous savings stabilised the US dollar and held interest rates relatively low.

Problem: growth in debt due to inequality

This growth model was built on feet of clay, however. As income inequality continued to grow demand was based increasingly on private debt, especially in the United States. There, banks searching for high yields and other financial institutions issued more and more loans to low-income households. They sought to offset the ensuing risks by carving up mortgages and other loans, bundling them together and selling them on to other speculators. When central banks started to raise interest rates from 2004 and the real estate boom in the United States in 2007 started to falter, this debt pyramid started to topple. Initially, as crisis loomed the US government bailed out several financial institutions, but in September 2008 it allowed Lehman Brothers to go bankrupt. Influential voices claimed that a global bank run was a real danger as depositors the world over tried to withdraw their money all at the same time.

2008: Lehman bankruptcy

Governments were persuaded that they had no choice but to bail out the banks, either by taking them over (at least temporarily) or by guaranteeing their positions. But although the financial system is globalised to a high degree nation-states were left holding the baby when it came to bailouts. Each country had to save its own banks, even when deposits originated in other countries or their loans had gone to other countries.

Bank bailouts

In the wake of the financial crisis the world economy was gripped by a severe recession. The main trigger was the abrupt collapse of international trade by around 12 per cent. Governments were steered towards a surprising – in light of their recent economic philosophy – return to what is generally known as »Keynesianism«, with economic stimulus packages. Although public debt rose sharply, due to bank bailouts, revenue shortfalls due to recession and higher spending, the approach proved itself when economies rapidly revived. The recession was very deep, but also very short, as a result of which it came to be known as a V-shaped recession. Nevertheless the economy was weakened.

International trade down by 12%

Above all financial globalisation appeared to suffer a lasting setback. In the euro zone a public debt panic arose, starting in Greece and, because of the hesitant and one-sided response – under pressure from Germany – of the EU and the ECB, other countries (Ireland, Portugal and Spain) were affected. This misguided policy drove the euro zone into crisis, which bears fatal similarities to that of Japan since 1990.

Public debt panic

Continuing low growth in the richer countries and new political crises were reflected in 2014 in falling commodity prices and growth rates in the poorer countries. Their catch-up process – one of the main successes of globalisation – has stalled.

NEW TRADE THEORY Paul Krugman (*1953)/Richard Baldwin/William Milberg	
Context	Rise of multinational companies and emergence of global production networks and value creation chains
Core arguments	Investors chose locations for their projects based on current cost advantages. This does not lead to general economic development for the country concerned. In contrast to what the classical economists assumed incomes do not converge and not all participants benefit. Monopolies and already privileged locations are able to consolidate their position at the expense of weaker groups and regions.
Problems	The theory is predominantly descriptive.

Figure 12: Theories: new trade theory

What does this mean for social democracy?

- Social democracy is characterised by a historical awareness; in other words, the fact that Europe and the United States have boosted their prosperity partly at the expense of less developed countries.
- The era of the Bretton Woods regime with capital controls and fixed exchange rates shows that it is basically possible to create a global political regulatory system that enables and supports growth and social equality.
- The globalisation that has prevailed since around 1980 permeated by market-liberal interests and ideas has jeopardised economic stability and social progress in the world.
- The global financial crisis and recession of 2008/2009 made it clear that finance capitalism must be better regulated.
- Internationally coordinated economic policy can alleviate crises.

4. SOCIAL JUSTICE AND GLOBALISATION

In this chapter

- the basic values of social democracy are outlined against the background of globalisation and the idea of »global justice« is discussed;
- it is shown how inequality within states, between states and in the world population, as well as between genders and generations has developed in relation to incomes and wealth;
- strategies are discussed that might reduce these inequalities;
- it is shown that only 2 per cent of the GDP of the rich countries would be sufficient to halve global inequality and that absolute poverty could be eliminated worldwide.

Globalised capitalism versus the basic values?

The conflict between opponents and supporters of globalisation worldwide shows how controversial is the discussion of its effects on people's lives. The conflict is felt not least at the level of political basic values. Groups critical of globalisation, such as trade unions, human rights activists and the Left share the basic values of social democrats. They regard them as under threat from global capitalism.

4.1. Basic Values and Globalisation

The basic values of social democracy are freedom, justice and solidarity. They both complement and constrain one another. That means that one basic value cannot be achieved without the others – there cannot be real freedom for all without justice, for example. But relations between the basic values are also characterised by a certain degree of tension.

Freedom leads, for example, to unequal and even unfair outcomes if those with power use it to the detriment of the weaker. In order to achieve justice certain restrictions on freedom are necessary.

Further reading:
Reader 1, Foundations of Social Democracy, *Chapter 2: Basic Values.*

Solidarity can be understood as a kind of voluntary mutual support. Associations of the weak and the poor based on solidarity represent a counter-force over against the rich and powerful. The sacrifices required for this can also be felt to be unfair, however.

Food for thought

In Reader 1, *Foundations of Social Democracy*, the history of ideas background and the relations between the basic values are discussed in detail. Figure 13 shows some ideas and problems concerning the realisation of the basic values under the aegis of globalisation. What would you add?

Basic value	Realisation at national level under conditions of globalisation	Realisation at global level
Freedom	New dependencies impose practical limitations on the scope for freedom, but in principle it remains subject to democratic decision-making. Globalisation should be halted or limited if no acceptable regulatory framework can be established at global level.	Many societies are not free. The freedom of the powerful (states, companies) threatens that of the weak and the poor.
Justice	Income distribution is partly shaped by global opportunities. But redistribution remains possible.	Global distribution depends above all on the development progress of poorer countries.
Solidarity	The more homogenous a society the greater the willingness to show solidarity at home. This homogeneity diminishes with globalisation, so that a particular effort must be made to foster spaces in which solidarity can be exercised.	Development cooperation and cooperation between progressive forces (trade unions, political parties, NGOs) can boost the development of poorer countries, although they are usually less important than internal factors.

Figure 13: Realisation of basic values nationally and globally

Global justice

A term that often comes up in connection with basic values and globalisation is »global justice«. But can there really be something like »global justice«?

Can there be global justice?

The representatives of so-called **»particularism«** can conceive of justice only within the framework of a clear state or communal order. They would reject the question. Although liberal (in the ethical and political sense) theoreticians such as John Rawls regard inequality as justified if it serves to improve the position of the worst-off member of a community, traditionally they regard this community as existing in a nation-state; thus global justice would not be possible.

Particularism: No!

The so-called **cosmopolitan school** is the polar opposite. Its adherents assume that all people have the same rights, even if these rights can scarcely be asserted in the absence of a global authority or power.

Cosmopolitan school: Yes!

A positive representative of a broad interpretation of the cosmopolitan school is Thomas Pogge. He sharply criticises the injustice of the current world order.

Thomas Pogge: Injustice due to neglect

A particular feature of Pogge's position is that he not only evaluates positive action as just or unjust. Injustice also arises from the fact that certain policies are neglected that could, for example, improve global income inequality. Thomas Pogge thus declares that the current state of affairs and politics violate the human rights of the poor.

> *»[W]e may now turn to the question of whether we are indeed violating the human rights of the world's poor. The answer is yes. There exists a supranational institutional regime that foreseeably produces massive and reasonably avoidable human rights deficits.«* (Pogge 2011: 20)

If one takes global justice seriously the current world order and the growth model under the aegis of globalisation turn out to be extremely unjust and in urgent need of reform. The finding that the number of poor people has fallen in recent decades does not make globalisation fair. A different world order and global policies may well have been able to achieve much more.

Further reading:
Henning Hahn (2009), Globale Gerechtigkeit. Eine philosophische Einführung *[Global justice. A philosophical introduction], Frankfurt am Main.*

Five dimensions of inequality

Social justice in the sense of lower inequality thus demands a reduction of global inequality in five dimensions: within a society, between states, in the world community, between the generations and between the sexes. This is described in detail in what follows.

4.2. Global Inequality

Global social justice requires a fair distribution of incomes, wealth and opportunities. Five kinds of distribution are to be distinguished.

1. **Within states**, although distribution does indeed depend on globalisation, even more important are the labour market, technological development, politics and the level of concentration of capital, especially the inequality of wealth distribution.
2. **Between states**, distribution depends, in the short term, on the terms of trade and exchange rates. Thus oil exporters become rich when the oil price rises. Over the long term productivity development determines a country's prosperity.
3. **Between people**, by global comparison, distribution depends on the overlapping effects of intra- and inter-state distribution (1 and 2 above), with the trend of the second dominating.
4. **Between current and future generations** distribution depends on the kind of environmental burdens (climate) on the one hand, and what kind of natural resources and capital stock, on the other, those now living leave behind. Capital in this sense includes, for example, infrastructure, the stock of buildings, technology and accumulated knowledge. Financial assets are without significance in a comparison between generations because both debts and assets are passed on.
5. **Between the sexes** inequality depends very much on national structures, which generally disadvantage women. However, global differences with regard to income and opportunities are becoming more strongly determined by level of development and socio-cultural factors.

Inequality within states

Increasing!

Inequality within states has been increasing almost everywhere in recent decades, especially in many post-communist countries, including China in the transition to an open capitalist form of economy. But inequality has risen sharply in many rich countries, too, above all in the United States. Inequality has fallen only in some Latin American countries – for example, Brazil – and African countries. Their Gini value varies between 25 and 65 (Figure 14), the S80/S20 ratio between 3 and 15.

Two **measures of inequality** are particularly widespread. The **Gini** coefficient is an indicator of inequality ranging from 0 to 100 (sometimes between 0 and 1). 0 means that the income (or wealth) is distributed absolutely equally and 100 (or 1) that only one person receives all income (or wealth). The **S80/S20** ratio is the ratio between the income (or wealth) of the richest fifth and that of the poorest fifth of the population.

Usually, inequality within countries is measured on the basis of a comparison of household incomes. Thus inequality between men and women often eludes the statistical gaze. In most countries women earn less than men.

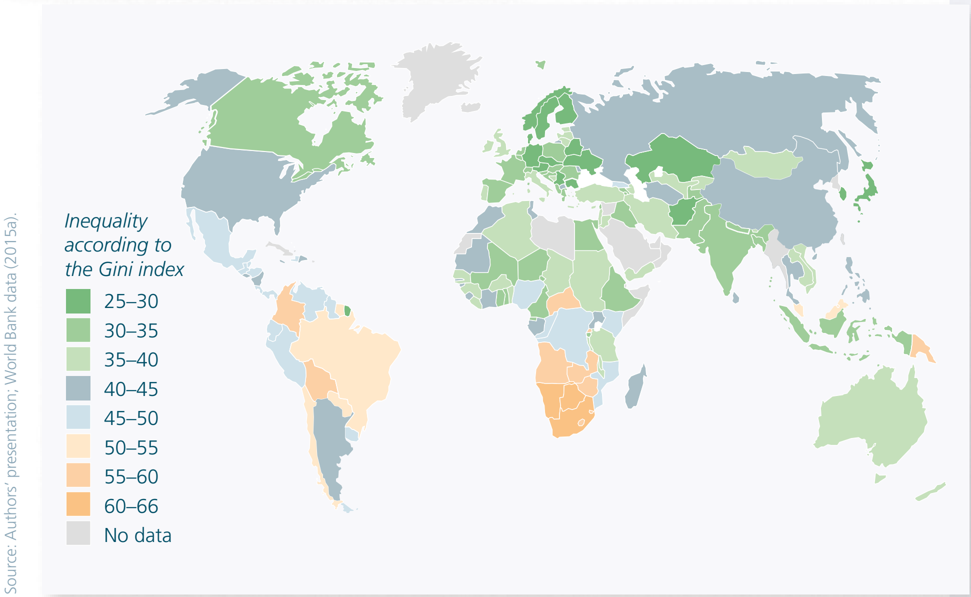


Figure 14: Income distribution within countries

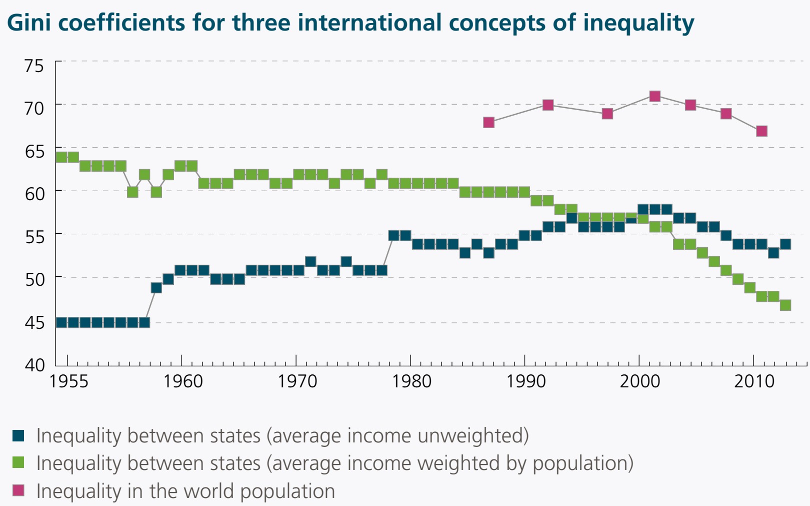
Global inequality

Global inequality is substantially higher than inequality within countries. Having said that, it has fallen since 2000. The level is different depending on whether one looks at distribution between countries or between persons.

Inequality according to the Gini Index

Leaving aside distribution within countries and size of population and comparing only average per capita income the Gini between countries in 2013 stood at around 55 (Figure 15, blue line).

If one weights countries with their populations a reduction in inequality has been observable for quite some time, attributable primarily to economic growth in population-rich China (Figure 15, green line).



Source: Calculations by Milanovic, see also Milanovic (2012: 6).

Figure 15: Global inequality

EXPLANATORY NOTE: The figure shows three different inequality indicators. In 2013 inequality in the world, comparing all states without weighting by population, stood at around 55 (blue line). Taking into account the different population sizes the value was around 45 (green line). Looking at the whole world as one unit the value in 2011 stood at around 70 (red points). The higher the value, the higher the inequality. A value of 1 would indicate that one person owns everything.

Inequality in the world higher than within states

Inequality between people by global comparison

If one looks at the whole world as one unit income distribution is even more unequal than in individual countries. The Gini in that case stands at 70 (Figure 15, red points) and the S80/S20 ratio at 50 (this means that the richest fifth of humanity receives 50 times as much income as the poorest). Global inequality in these terms rose up to around 2002, since when it has fallen slightly.

Figure 16 shows how distribution of world income changed between 1988 and 2005. During this period global growth benefited primarily the richest 5 per cent. Although the incomes of others rose, only the richest saw their share in world income increase.

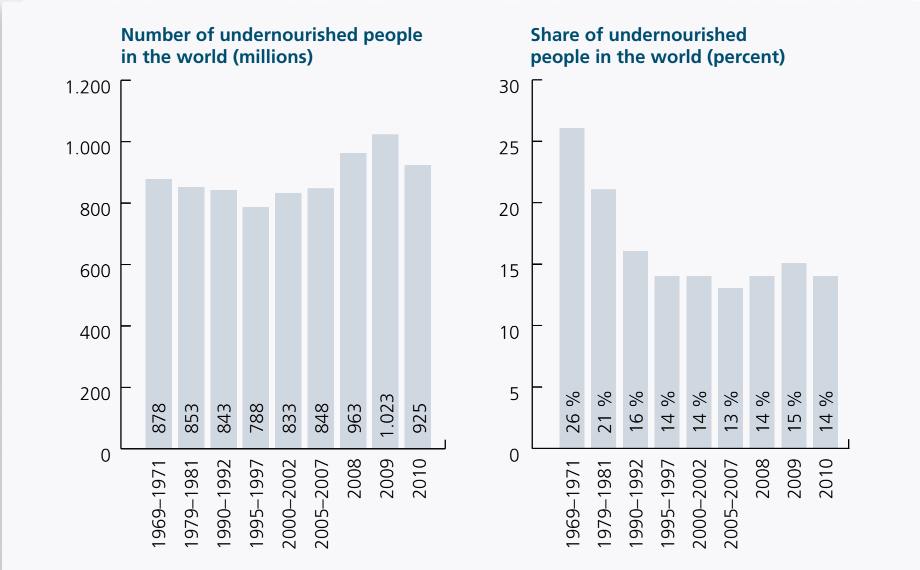
Segment of world population	Share of global household income 1988	Share of global household income 2005	Absolute change in income share	Relative change in income share
Richest 5%	42.87	46.36	+3.49	+8.1%
Next richest 5%	21.80	22.18	+0.38	+1.7%
Next richest 15%	24.83	21.80	–3.03	–12.2%
Second richest income quartile	6.97	6.74	–0.23	–3.3%
Second poorest income quartile	2.37	2.14	–0.23	–9.7%
Poorest income quartile	1.16	0.78	–0.38	–32.8%

Source: Pogge (2011: 22).

Figure 16: Development of the distribution of world income (1988 and 2005)

EXPLANATORY NOTE: The figure shows how the income of the world population changed between 1988 and 2005 with regard to different income groups. The richest 5 per cent of the world population had a share of 42.87 per cent of world income in 1988, which had increased to 46.36 per cent by 2005. Their share in world income was thus 3.49 per cent higher; measured from the baseline level it had grown by 8.1 per cent.

Turning to the consequences of this income development, take the example of nutrition. After falling sharply in the 1970s and 1980s the proportion of undernourished people in the world population remained relatively stable, even though their number increased (Figure 17).



Source: Pogge (2011: 23).

Figure 17: Development of undernourishment in the world (1969–2010)

EXPLANATORY NOTE: The figure shows the absolute number of people with deficient nourishment over time and their share in the world population. In 2008 the number of undernourished people was 963 million, falling to 925 million by 2010. Their share in the world population remained at 14 per cent because the world population increased.

Inequality in relation to wealth

Inequality of wealth distribution is even greater. Russia represents an extreme case, within a within-country Gini of 93. The figure in the United States is 85. For global distribution the corresponding values for the S80/S20 ratio are not available, but a comparison of population and wealth shares (Figure 18) indicates that the S80/S20 ratio is at least 30 between countries and 100 between persons.

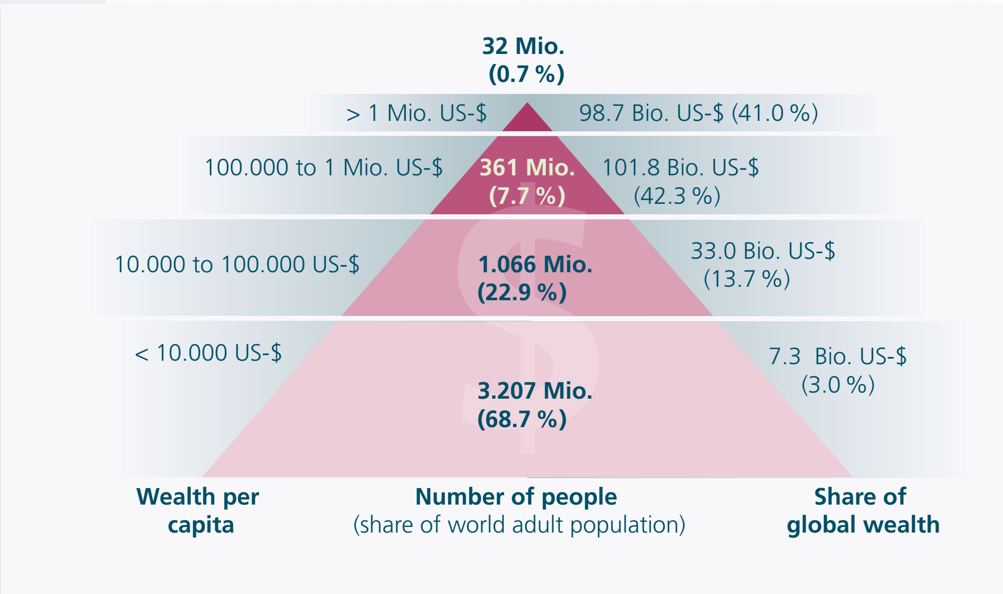
Only 32 million people – that is, around 0.5 per cent of the world population – own 41 per cent of the world's wealth. Recall that the world population is 7 billion.

Country	Share of adult population (%)	Share of global wealth (%)	Share of world GDP (%)	Gini of wealth distribution
Spain	0.80	1.92	1.90	66.1
Australia	0.36	2.78	2.08	63.6
USA	5.13	29.91	22.1	85.1
Germany	1.44	5.35	4.75	77.1
France	1.03	5.91	3.69	69.0
Switzer-land	0.13	1.30	0.82	80.6
UK	1.03	4.88	3.36	67.7
Russia	2.37	0.50	2.85	93.1
Japan	2.24	9.38	8.05	63.5
China	21.40	9.21	11.25	69.5
India	16.45	1.50	2.58	81.3
Brazil	2.90	1.31	3.39	82.1
Nigeria	1.72	0.12	0.38	80.0
South Africa	0.67	0.25	0.57	83.6
Saudi Arabia	0.36	0.26	0.85	79.3

Source: Shorrocks/Davies/Lluberas (2013: 34; 98).

Figure 18: International wealth distribution (selected countries), 2013

EXPLANATORY NOTE: The figure shows for selected countries their share in the world's adult population, their share of global wealth, their share of global GDP and how unequal their domestic wealth distribution is (Gini). Germany, for example, has 1.44 per cent of the world population, but its share in global wealth is 5.35 per cent and its share of global GDP is 4.75 per cent. The Gini is 77.1. In France there are fewer people, but it has more wealth; its output is lower, but wealth is more equally distributed. In India there are almost 12 times as many people as in Germany, but they have only a fraction of German wealth and produce around half as much, with more unequal wealth distribution to boot.



Source: Shorrocks/Davies/Lluberas (2013).

Figure 19: Global wealth pyramid

EXPLANATORY NOTE: The figure shows the worldwide distribution of wealth as a pyramid. To the left of the figure are the threshold values for wealth per capita. The values in the middle show the number of people in the relevant wealth category, with the number and share of the world population. The values to the right of the pyramid show the total wealth of these persons and the corresponding share of global wealth. Thus around 3.2 billion people – around 69 per cent of the world adult population – have wealth of less than 10,000 US dollars. Altogether this 69 per cent possess 3 per cent of global wealth or 7.3 billion US dollars. By contrast, 0.7 per cent of the world population – 32 million people – have wealth exceeding 1 million US dollars per capita. Altogether they own 41 per cent of global wealth or 98.7 billion US dollars.

As Piketty has shown, wealth is continuing to increase in relation to GDP. Hand in hand with this, income distribution is continuing to deteriorate because returns on wealth – that is, the income received by wealth owners from, for example, capital gains, interest payments or rents (in the broad sense) – make up an increasing proportion of GDP. Piketty also expects that the regional distribution of wealth will shift sharply in favour of Asia.

Further reading:
Thomas Piketty (2013), Capital in the Twenty First Century, *Harvard University Press.*

Thomas Piketty (*1971) is a French economist who teaches in Paris. His book *Capital in the Twenty First Century* appeared in 2013, creating an international media stir. In it Piketty examines how so-called »return on investment« and economic growth are interrelated in different historical periods and how the concentration of wealth has developed. He comes to the conclusion that average »return on investment« has been around 4 per cent, while economic growth has often been lower. Return on investment in this context is defined as the ratio between yield (including interest rates and rental income) and wealth. From his researches he derives a strong argument for more redistribution and more closely coordinated capitalism. However, he has been strongly criticised for his narrow definition of capital and for the statistical sources he draws on.

Inequality between generations

Justice between generations has deteriorated

Justice between generations has probably deteriorated in recent decades. The overexploitation of resources and the burden imposed on the atmosphere with greenhouse gases have increased strongly. Future generations are likely to have to do more in order to be able to use the same quantity of raw materials or to protect themselves from the consequences of climate change.

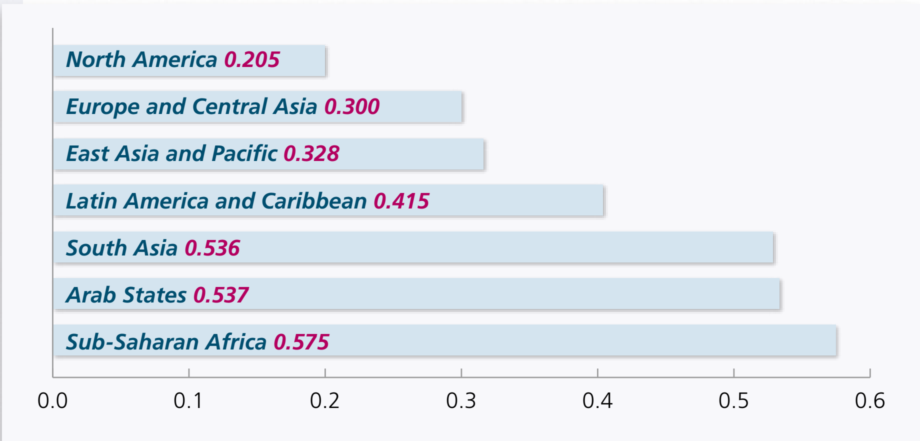
However: more infrastructure and knowledge!

A positive point to note, however, is that future generations will have a substantially larger capital stock at their disposal. This includes infrastructure, the stock of buildings and facilities. Even more important than that are accumulated knowledge and education. Potentially, these achievements will make it possible to increase productivity so much that the extra effort due to earlier recklessness mentioned above will diminish over time. If in the future well-being comes to depend more on immaterial goods and services then a fall in natural resource reserves will be less significant. The trade-off between the two is difficult and controversial. Those seeking to protect the environment emphasise the burdens, while those putting their faith in progress stress technological opportunities. Suggestions for a fairer growth policy in the interests of future generations are discussed in Section 6.4.

Inequality between the sexes

Strongly dependent on the country concerned

Inequality between the sexes differs strongly from country to country. The UN's Gender Inequality Index takes into account maternal mortality, the rate of pregnancies among young people (15–19 years of age), number of seats in parliament, proportion of women in education and labour market participation. The best (lowest) values in 2013 were to be found in North America, Europe and East Asia.



Source: Human Development Report (2014: Table 5), value for North America: authors' calculations.

Figure 20: Gender Inequality Index

In addition, the UN Development Programme (UNDP) compiles the Gender Development Index (GDI). It differentiates the well-known Human Development Index (HDI) in terms of gender. A high value (approaching 1) indicates particularly good development. North America does best, with Europe and Central Asia some way behind.

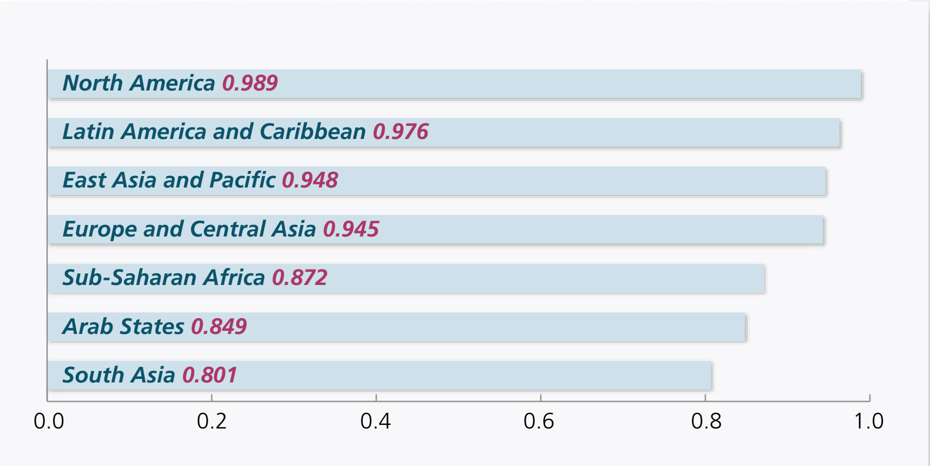


Figure 21: Gender Development Index

Source: Human Development Report (2014: Table 4), value for North America: authors' calculations.

Globalisation has driven forward modernisation processes, which have also improved the life circumstances of many women. But it has also exacerbated some problems. Because women are often employed in low qualified and badly paid activities (for example, the clothing industry) they are particularly hard hit by production relocations to low wage countries. The opening up of borders and cheaper transport options have also facilitated and expanded trafficking in women (mainly for prostitution). Women – especially in Asia – often emigrate, in the process of which they are exploited and bereft of rights.

4.3. Approaches

In order to bring about global justice or, more realistically, to make progress in the direction of a fairer world society, political changes are needed at both national and global level. Figure 22 gives a first overview of what will be presented in more detail in Chapters 5 and 6.

GOAL: Improvement of…	Approaches at national level	Approaches at global level
… distribution within states	Labour market policy, social policy, redistribution, possibly protectionism	Global social standards (ILO conventions), global rules against tax competition and flight
… distribution between states	Growth policy in poor countries (possibly protectionism), forgoing mercantilist policies in rich countries	Development cooperation, market access for poor countries, stable global financial order
… global distribution	Labour market policy, social policy, redistribution	International financial transfers
… distribution between generations	Forgoing subsidies that harm the environment, green growth	Global environmental standards
… distribution between genders	Gender mainstreaming, equal rights, labour market policy, social policy, education	»Naming and shaming« by published comparisons, international standards,[6] combating trafficking in women

Figure 22: Options for action against global inequality at different levels

Controversial: protective tariffs

For and against protectionism

Protectionism as a progressive policy instrument is a double-edged sword. If richer countries make market access more difficult for poorer countries – for example, because the exporters violate social and environmental standards – they may hamper their growth. Growth, however, generally results in better off people who urge the adoption of better social and environmental conditions. Although protectionism makes it possible to defend domestic producers who maintain standards from being undercut, that is possible only in the domestic market. On export markets competitive disadvantages remain in place or even get worse if inputs for export production become more expensive.

6 Both the Millennium Development Goals and the Sustainable Development Goals (see p. 94).

In the poorer countries protectionism can facilitate the expansion of domestic industry. East Asian countries have made ample use of this instrument and have been able to make considerable modernisation gains. In many countries, however, protectionism has not led to a dynamic and competitive industry, but rather has alleviated pressure to adapt and thus has harmed domestic consumers and only ensured and increased incomes in the protected sectors.

Redistribution

It would be possible to achieve a tangible reduction in global poverty and improve global income distribution at relatively low cost. At an initial distribution of 50:1 between the poorest and richest quintiles of the world population 2 per cent of the income of the rich would suffice to double the income of the poorest quintile, thereby improving the ratio to 24:1.

2% of the income of the rich would halve inequality!

Pogge (2011) estimates that 2 per cent of global household income would be enough to eliminate poverty. Politically, such a transfer would be hard to achieve. Today not even the goal of spending 0.7 per cent of GDP on development cooperation has been achieved, apart from in a few countries (see Section 6.2).

What does this mean for social democracy ?

- Given the enormous global inequality in the world as a whole the social democratic programme is highly topical.
- Social democracy supports more rapid and sustainable growth in poorer countries.
- Social democracy advocates equal rights and equality for women.
- The rights of future generations require that desirable growth should be sustainable today.
- The current architecture of the global economy violates the human rights of a large part of the world's population.

5. ORGANISATIONS, ACTORS AND THEIR POSITIONS

In this chapter

- the main actors and organisations of globalisation are presented in the three realms of the state, the economy and civil society;
- the positions of critics of globalisation are presented;
- an overview is provided of the political and trade union organisations of the labour movement that operate transnationally;
- the platforms and election programmes of the main German parties are analysed with regard to what they say about globalisation.

5.1. Introduction and Overview

Realms: state, civil society and the economy

Global society, like national societies, is shaped by numerous organisations and actors. If one differentiates rather roughly between state, civil society and the economy one can find an international counterpart to many national organisations. Often, for example, there are international associations of the relevant national organisations (see also Figure 23).

Special role: ILO

Many organisations, however, have emerged as international actors from the outset and have developed subdivisions in individual states. One example is ATTAC. The International Labour Organization (ILO) plays a special role because in it all three realms – state, civil society and economy – are represented by governments, trade unions and employers' organisations.

In the following sections civil society actors – above all political parties, trade unions and NGOs – are in the forefront. First of all, however, we shall take a brief look at the subsystems of the state and the economy.

LEVEL	National	International
State	• Government • Parliament • Courts • Police	• UN, IMF, World Bank, WTO, WHO, ILO • International parliamentary assemblies • International courts • Interpol
Civil society	• Parties • Trade unions • Occupational organisations • Churches (national branches) • National divisions (»chapters«) of Attac, Amnesty International, Greenpeace, Tax Justice Network, Transparency International • Terre des Femmes	• Party alliances • ITUC • Umbrella organisations • Churches • Attac • Amnesty International • Greenpeace • Tax Justice Network • Transparency International • UN Women
Economy	• Companies • Banks	• Transnational companies • International Chamber of Commerce • International Banking Federation

Figure 23: Overview of organisations and actors

Global statehood

State: executive, legislative and judicial branches

In relation to the state a distinction is often drawn between the executive (government and administration), legislative (parliament) and judicial (courts) branches. All three »powers« have their counterparts in the global framework.

The executive has the most important international role because it controls external relations. If states join international organisations (see above, Chapter 2) they are primarily represented by the government. At global level it is mainly the UN and its sub-organisations (see pp. 17–18; Section on development cooperation 6.2.1).

But certain parts of the administration – for example, the police – also have international networks (Interpol). Finally, parliaments and courts have supra- or international counterparts. Within the EU these structures are fully developed. At supranational level parliaments or parliamentary assemblies (for example, NATO or the OSCE) usually have only advisory competences. Although international courts formally have more far-reaching competences, they can seldom assert them against powerful states.

Global democracy and the rule of law

Global politics: only partly democratic

The political system of world society is not really a democracy; nor is it subject to the rule of law. Although practically all states of the world are represented in the UN, they do not all have equal rights. In the General Assembly each state has a voice. That means that the residents of small states have relatively more weight. In the Security Council there are five permanent members – United States, Russia, China, United Kingdom and France – with a veto right, which gives them a special role. In the IMF votes are apportioned in accordance with the level of capital, which gives rich countries more influence than poor ones.

A bicameral system, in which one chamber represents states (more or less on an equal footing) and one chamber represents the people on the basis of »one person, one vote« does not exist internationally. However, in the European Union many votes require a double majority; in other words, a majority must achieve not only 55 per cent of EU member states, but these states must account for 65 per cent of the EU's population. On top of that comes the approval of the European Parliament, in which the members do not represent the same number of people.

International courts: generally speaking only states can bring a case

Similarly in contrast to Europe, where individuals can bring human rights cases even before the European Court of Justice, only states have right of action before international courts. The rights of individuals are thus protected only insofar as their severe violation leads the prosecutors at the International Criminal Court (ICC) to instigate an investigation and bring charges. But the ICC is not recognised by many important states. For example, China and India have not signed the Rome Statute that underlies it, the United States and Russia have not ratified it and thus their parliaments have not confirmed it.

The largest global companies (**transnational groups**) are bigger than many states. Other rankings depend on market value, turnover or employees. With regard to employment national companies dominate. Top of the list is Walmart, a US retailer with around 2.2 million employees. Walmart again leads the field in terms of sales, followed by oil companies. Toyota and Volkswagen are the biggest industrial companies. Top in terms of market value is Apple. Market value can fluctuate, however. Large banks far exceed these figures if one takes into account their assets (balance sheets).

World economic actors

The actors of the economy and their organisations are the real drivers of globalisation. Talking about markets in an abstract sense it has to be remembered that the actual market participants have very different degrees of market power and organisations that »make« markets. The most important of these global or multinational organisations are transnational companies. Because their production networks stretch around the world a large part of international trade is trade between companies; in other words, trade between affiliates of the same parent company.

A total of 60 per cent of world trade is part of the value chains within the production networks of multinational companies.

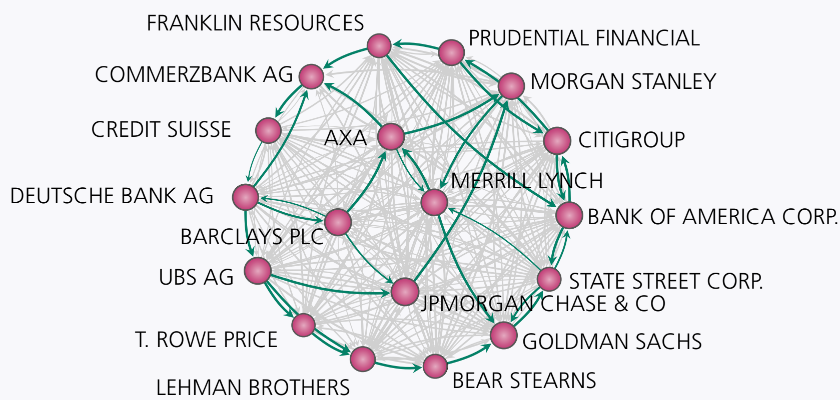
Global capital is a tightly knit web of financial holdings, directorships and exchange relationships. Relatively few companies control a large part not only of economic relations, such as trade and financial flows, but also the capital of transnational companies.

EMPLOYEES	Persons	TURNOVER	USD million	MARKET VALUE	USD million
Wal-Mart Stores	2.200.000	Wal-Mart Stores	485.651	Apple	724.773,1
Hon Hai Precision Industry	1.290.000	Sinopec	433.310,15	Exxon Mobil	356.548,7
Volkswagen	592.586	Royal Dutch Shell	385.634,46	Berkshire Hathaway	356.510,7
Yum! Brands	537.000	PetroChina	367.853,67	Google	345.849,2
PetroChina	534.652	Exxon Mobil	364.763	Microsoft	333.524,8

Source: Financial Times (2015), as of 31 March 2015.

Figure 24: The largest companies by number of employees, turnover and market value

A total of 737 companies at the top of the global control pyramid control 80 per cent of all transnational companies. A markedly smaller core of 147 companies control 40 per cent of transnational companies. Three-quarters of these key enterprises of global capitalism come from the financial sector. Figure 25 shows this worldwide network of banks and insurance companies. The point often made in the globalisation debate that the power of nation-states is declining must be understood against the background of this rising power of transnational companies, which have been able to play governments off against one another. By contrast, two types of organisation in labour market policies are fighting back, namely non-governmental organisations critical of globalisation (see Section 5.2) and the transnational organisations of the labour movement (Section 5.3).



Source: Vitali et al. (2011: 4).

Figure 25: Interrelations of transnational companies in the financial sector

5.2. Transnational Civil Society

»The shaping of our common future is much too important to be left to governments and experts alone. Therefore, our appeal goes to youth, to women's and labour movements; to political, intellectual and religious leaders; to scientists and educators; to technicians and managers; to members of the rural and business communities. May they all try to understand and to conduct their affairs in the light of this new challenge.« (Brandt 1980: 59)

Transnational civil society is weaker and has fewer resources than global business and cooperation between states. Its actors and their protest actions, however, have intermittently been able to draw the attention of people throughout the world to the problems they have denounced.

Civil society: fewer resources

A number of major events have become well known, such as the World Social Forum, which met for the first time in 2001 in Porto Alegre in Brazil and since then has met almost annually and now has various national and regional subdivisions.[7] Demonstrations against the WTO summit in Seattle in 1999 and the G8 summit in Genoa in 2001 also caused a stir.

Well known: World Social Forum

The main actors include Attac, Amnesty International, Greenpeace and the Tax Justice Network, but also churches and trade unions. Many development-policy organisations – for example, Welthungerhilfe [World Hunger Aid] – are also in this spectrum. The goal of the movement is less to roll back globalisation than to usher in »another world«, in which global relations are reshaped in the interests of people, especially the poor and disenfranchised.

Key actors

Attac stands for »Association pour la taxation des transactions financières et pour l'action citoyenne« (Association for the taxation of financial transactions and aid to citizens), which was founded in 1998 in France. The original narrow aim – as the name makes clear – was the introduction of the so-called Tobin tax (see below, Section 6.3). In the meantime Attac has come to operate on a broader front against neoliberal globalisation, for human rights, fairer taxation, restrictions on trade and capital flows with the aim of helping in particular weaker and poorer societies. Members of Attac include both individuals and organisations (for example, the trade union confederation ver.di in Germany). There are Attac organisations in many countries throughout the world.

Amnesty International started in 1962 with the aim of helping political prisoners. The organisation now has more than 3 million supporters and is represented in 80 countries. Over time it has taken up the cases of tens of thousands of prisoners and helped to free many of them. Amnesty now campaigns for human rights in general.

Criticisms and dilemma

NGOs: Globalisation is neoliberal!

These organisations criticise what they see as the neoliberal character of current globalisation. It gives the private sector and markets too much leeway and thus endangers the ability of states to take action as they see fit, the provision of public goods and the rights and options of weaker societies (especially in the developing countries). However, the opponents of globalisation often find themselves in a dilemma when the problems of people in poorer countries are partly caused by the local elites and governments, in par-

7 For example, European: http://www.fse-esf.org

ticular when these elites are hand in glove with transnational capital.

Agreement: Better taxation!

Problem of global redistribution

The counter-strategy and alternative outline for »another world« often remain unclear and at least controversial. However, there is broad agreement that the rich and the global financial markets should be taxed more heavily and more effectively. The rich countries should give the poorer countries more help (for example, more money for development cooperation and the opening up of markets). Natural resource reserves and the environment should be conserved and maintained for future generations.

Greenpeace was founded in 1971 and today has almost 3 million supporting members, 40 offices and 2,400 employees worldwide. The organisation campaigns primarily for the protection of the environment, against global warming, the unsustainable exploitation of nature and nuclear power. To that end it occasionally engages in spectacular actions in order to raise public awareness. It also has its own fleet of ships. One of them, »Rainbow Warrior«, was sunk by members of the French secret service in 1985 when it was being used to protest against planned nuclear tests.

Given the sharp conflicts between many governments in the world it remains open how such measures could be implemented. Above all the distribution of burdens and benefits within national communities is inevitably highly controversial. Lord Bauer's quip that aid is »money from poor people in rich countries going to rich people in poor countries« highlights the problems facing a policy of global redistribution.

Controversial: »degrowth«

Controversial: negative growth

One common position, although not shared by all critics of globalisation, is the so-called »degrowth« strategy, which opposes continuing growth. Its supporters fear the ruin of the planet due to climate change, extinction of species, exhaustion of resources and environmental pollution.

They combine this rejection of growing consumption with a scepticism concerning whether an accelerating rate of technological turnover is capable of making people happy. They ask, for example, whether new generations of mobile phones are really satisfying fundamental needs or rather the desire for status symbols.

Redistribution!

One thing is certain, however: if the incomes and consumption options of hundreds of millions of poor people are to increase, that would be possible only by means of redistribution in a situation of zero or negative growth.

Alternatives to traditional growth include, for example, social or qualitative growth. They bank on the development of areas that satisfy fundamental human needs, such as health and education, and require relatively few natural resources.

Qualitative growth!

5.3. Transnational Organisations of the Labour Movement

The labour movement recognised capitalism early on as a global power and called for »the proletarians of all countries to unite« (see Chapter 2). Accordingly, trade unions and left-wing parties formed international associations.

5.3.1. International trade union movement

First associations from 1880!

The first attempts at international cooperation occurred in around 1880 at branch level (for example, among metalworkers, building and wood workers, print workers). The first international trade union federation developed at the start of the twentieth century. Interrupted by the First World War trade unions resumed their cooperation in 1918. One success was the founding of the International Labour Organization (ILO) at the League of Nations in 1919; since 1946 it has been a UN agency with its headquarters in Geneva. It is dedicated to social justice and the protection of labour.

With the splitting of the political labour movement into democratic socialists or social democrats, on one hand, and communists, on the other (from about 1917), the trade union movement also split. The definitive break occurred in the course of the Cold War (Chapter 3) when the movement divided into the communist-led World Federation of Trade Unions and the International Confederation of Free Trade Unions.

ITUC

After the collapse of the Eastern Block consolidation ensued. The International Trade Union Confederation founded in 2006 (ITUC, www.ituc-csi.org) has over 300 member trade unions in over 150 countries with more than 160 million members. President of the ITUC from 2010 to 2014 was Michael Sommer, former leader of the German Federation of Trade Union and Deputy Chair of the Friedrich-Ebert-Stiftung. The current president is João Antonio Felício from Brazil. Beneath this umbrella organisation are international associations of branch trade unions and continental umbrella associations.

Further reading:
Hans-Wolfgang Platzer (2010), Europäisierung der Gewerkschaften. Gewerkschaftspolitische Herausforderungen und Handlungsoptionen auf europäischer Ebene *[The Europeanisation of trade unions. Trade union policy challenges and options at the European level], FES (ed.), IPA, Berlin.*

At the European level there are comparable structures, such as the European Trade Union Confederation (ETUC) as umbrella organisation and branch organisations, such as the European Metalworkers' Federation (EMF). They are in a better position to face transnational employers in the EU because of the institution of European works councils.

The international trade union organisations advocate more rights for employees, the development and implementation of ILO conventions and for human rights in general (see Section 6.1).

5.3.2. Socialist International and Progressive Alliance

1951: Founding of the Socialist International (SI)

The International Working Men's Association (the »First International«) was founded as early as 1864, although it soon split and then disintegrated. The Second International followed in 1889. It fell apart in 1914 when the socialist parties were unable to agree on a common anti-war position. In 1919 the communists founded the Communist International, which disintegrated in 1943. In 1951 the Socialist International (SI) was established, which had 162 members at the turn of the century (www.socialistinternational.org). In 2014, 59 of these parties were in government in their respective countries.

The SI was long made up overwhelmingly of European and Latin American parties, with anti-capitalist and moderate social democratic positions (a »third way« between communism and capitalism) mixed in together and wrangling with one another. The SI was particularly important under the leadership of Willy Brandt between 1976 and 1992.

Brandt: North-South Commission

At the request of World Bank president McNamara Brandt also chaired the so-called »North–South Commission« (Independent Commission for International Developmental Issues), which presented its report »A Programme for

Survival« (the »Brandt Report«) to the UN Secretary General in 1980. This programme could be regarded as a social democratic answer to early globalisation (oil crisis, debt crisis).

> *»Together with my colleagues in the Commission I believe that the nations of this world not only have to but are able to live together in peace. We think that the task is to free mankind from dependence and oppression, from hunger and distress. New links must be developed which substantially increase the chances of achieving freedom, justice and solidarity for all. This is a great task for both the present generation and for the next.«* (Brandt 1980: 59)

2013: Founding of the Progressive Alliance

After the collapse of the Eastern block it became more difficult to find common answers. Between traditional left-wing parties and representatives of a more (economic) liberal course (Blair, Schröder) formal compromises were the best that could be managed. In 2013, 80 parties (mainly from Europe) split from the SI. They formed the Progressive Alliance, founded in Leipzig at the instigation of the SPD. Sigmar Gabriel was elected its first chair. The background of this falling out, besides various internal problems, was the SI membership of parties that are not democratic and indeed had spawned dictators (for example, in Tunisia, Egypt and the Ivory Coast).

5.4. National Parties and Their Programmes

Describing the positions of political parties in relation to globalisation is challenging. After all, globalisation encompasses, as we have seen, a variety of political areas of activity. On top of that, concrete demands – for example, for the opening up or closing of borders – can be associated with very different ideas.

It is interesting in this respect to examine how the parties of various political stripes describe globalisation in their manifestos. The following lines of evaluation can be discerned.

»Die Linke«: »neoliberal«

The 2011 manifesto of »Die Linke« is very critical of globalisation. It describes it as »neoliberal«, although even more central to the party programme is the notion of

»global capitalism«. The party declares, for example: »A world under the diktat of an omnipotent global capitalism is not a desirable world« (Die Linke 2011: 5).

FDP: »more opportunities«

An entirely different outlook pervades the FDP's programme: »We liberals see more opportunities than dangers in globalisation« (FDP 2012: 90). The FDP hopes for prosperity and growth. It emphasises that globalisation is also supposed to bring positive effects in emerging and developing countries and sees opportunities with regard to the global struggle against poverty (see FDP 2012: 18, 43, 89).

The way in which the FDP would like to bring this about is also interesting: »For this purpose the world primarily needs more freedom and open markets for goods, services and capital … At the same time, we need more public acceptance of global competition and its benefits« (FDP 2012: 89).

CDU: »fruitful development process«

For the CDU globalisation is an »irreversible politically and economically beneficial development process« and the CDU's 2007 party programme is particularly globalisation-friendly. It contains such statements as »globalisation means worldwide opening up of political, economic and communicational borders …

It is the expression of freedom and strengthens competition« (CDU 2007: 15). Although the CDU also pays lip service to fears related to globalisation and the loss of control options it plunges straight in to the opportunities and benefits for Germany, formulating the goal of Germany »asserting itself in global competition« (CDU 2007: 16). The party would like to establish the social market economy as an international framework.

Greens: »resistance necessary«

In the party programme of Bündnis 90/The Greens the term »globalisation« appears in four chapter headings: »Globalisation and Justice«, »Globalisation and Sustainability«, »Globalisation and Democracy« and »Globalisation and Peace«.

A sceptical standpoint can be discerned in the Green's programme adopted in 2002: »The outcome of the global link between trade and financial markets is a division of the world … The divide is increasingly running between winners and losers from economic globalisation. Environmental destruction and hunger in many countries of the earth, racism, nationalism and violence, the oppression of women and the exploitation of children have not receded, but increased. Thus resistance to globalisation is right and necessary« (Bündnis 90/Greens 2002: 17).

In principle, however, the party does see an opportunity – more than 128 pages later – »to realise a humanistic idea: humanity regards itself as bearing worldwide responsibility and solidarity – and acts accordingly« (Bündnis 90/Greens 2002: 145).

SPD: »social response to global capitalism«

The SPD, in its Hamburg Programme, also adopted in 2007, takes a balanced view of both the opportunities and the risks of globalisation. It sees opportunities for Germany as an industrial country, for example, but at the same time differentiates between losers and winners from economic development. The following words typify the SPD's social democratic approach:

»Globalization, open borders and markets are not only the result of technical innovations but also of political decisions. This offers the chance to overcome famine, poverty and epidemics. World trade brings new work and wealth for many people. At the same time, however, global capitalism is characterized by a lack of democracy and justice. Thus it is opposed to a free world living in solidarity. It enhances old and creates new injustice. Therefore we fight for a policy defining a social response to global capitalism in our own country, in Europe and in the world.« (Hamburg Programme 2007: 7)

A key element of the »social response to global capitalism« for the SPD is the European Union, which should serve as a counterweight to the diminishing power of nation-states. The relevant political goals and arguments include the participation of all peoples and individuals in prosperity, protection of human rights and the expansion of cooperative structures. International organisations should be strengthened. It takes a particularly critical view of the lack of regulation of global financial markets and capital flows.

For Discussion

Cosmopolitism versus Communitarianism?

Political scientists Onawa Lacewell and Wolfgang Merkel have proposed distinguishing between political parties' approaches to globalisation in terms of cosmopolitism and communitarianism.

They characterise cosmopolitanism in terms of three principles: »individualism, universalism and general validity. Cosmopolitans want open borders, liberal migration, easier naturalisation, cultural inclusion and global responsibility for human rights and environmental protection. They emphasise the opportunities of globalisation« (Lacewell/Merkel 2013: 1).

They describe communitarians as follow: »communitarians, by contrast, criticise globalisation. For them human nature rests on community«. Community, particularity and context are their main principles. Communitarians support controlled borders, advocate restrictions on migration, choose cultural delimitation and emphasise the value of social cohesion and social security« (Lacewell/Merkel 2013: 1).

Accordingly they discern two main lines of conflict. One concerns the cultural dimension, including such issues as state citizenship, multiculturalism and environmental protection. Then there are, on one hand, people who feel more comfortable with cultural differences and mobility and, on the other hand, people who feel overwhelmed. In the economic dimension a distinction can be drawn between employees who benefit from the opening up of borders, who are primarily well educated, and those who experience or expect the disadvantages.

Lacewell and Merkel categorise various political tendencies within this schema. They attribute a »squalid« version of communitarianism to right-wing populist parties. On the other hand, they regard, among others, post-materialist parties as very cosmopolitan. In relation to major »catch-all« parties they see the lines of conflict as many and various, but crosscutting their electorates. To put it differently, major parties are characterised by the fact that they bring people of the two persuasions together.

Where would you place German political parties in the schema proposed by Lacewell and Merkel? What changes over the course of time would you describe? How should the party that you feel closest to position itself and how should it try to put its message across?

What does this mean for social democracy?

- Social democracy supports the development of international parliamentary and rule-of-law structures.
- Trade unions and civil society organisations are key allies of social democracy.
- Social democracy criticises national egoism and a reliance on the ability of global markets to put solve problems.

6. GLOBAL CHALLENGES: CONCRETE PROBLEMS

In this chapter
the key challenges of global growth are analysed in the following policy areas:

- »workers' rights and social standards«
- »global poverty and sustainable development«
- »financial market regulation and tax competition«
- »global environmental policy and climate protection«
- »migration«

Globalisation has given rise to numerous challenges for national societies and states. They overlap and reinforce one another and are becoming global challenges.

Five major challenges: work, poverty, financial markets, climate, migration

In the following sections of the present chapter, five major challenges for globalisation are discussed that are of particular importance for social democracy. They closely concern the risks of global growth and its consequences:

- Workers' rights and social standards influence the distribution of value creation within society, domestic demand and competitiveness.
- Global poverty and development depend closely on world economic growth and its distribution.
- Financial market regulation facilitates or impedes the international deployment of savings and can prevent financial crises.
- Globalisation makes climate protection both more difficult and more important.
- Although worldwide migration can reduce poverty, it threatens the prosperity of vulnerable groups in rich countries.

6.1. Workers' Rights, Trade Policy and Social Standards

In this section

- it is shown why in the industrialised countries workers' wages and social gains are under threat;
- the conflict of interests between the development aims of poor countries and the employment interests of richer countries is discussed;
- the problems that arise due to the implementation of the ILO's minimum labour standards in low-wage countries and in international trade policy are explained;
- the consequences of globalisation for wages and global distribution of employment and value creation are analysed.

What does globalisation mean for employees? This was the worry in the developed countries from an early date. It emerged in the wake of rising imports from the so-called low-wage countries and the investments there of multinational companies.

1977: »New international division of labour«

In Germany this debate was under way as early as the 1970s, before the term »globalisation« had even been used. In 1977 a path-breaking study by Folker Fröbel, Jürgen Heinrichs and Otto Kreye appeared. Its full title – *The New International Division of Labour. Structural Unemployment in the Industrialised Countries and the Industrialisation of the Developing Countries* – clearly described the problem.

Relocations: the Beetle goes to Mexico

Unemployment, which had been rising since 1972, was at least partly ascribed to globalisation, which had pitched such branches as textiles and clothing, as well as shipbuilding into crisis in the high-wage countries. In 1978, for example, VW discontinued production of the Beetle in Germany and began to import it from Mexico.

Low-wage competition

Industrialisation in Asia

But competition came not only from the affiliates of multinationals. It also arose from local companies in other countries, for example, in the course of industrialisation in Korea.

For Korea and comparable countries it was important to sell their new industrial products on the world market. In that way they could obtain the foreign currency revenues they needed to pay for imports. These imports were needed, in turn, for economic development.

The international division of labour had thus changed. In the developing countries, thanks to better infrastructure, transport costs had fallen and they had the benefit of low labour costs.

Causes of low labour costs ...

The low labour costs are due to several reasons. Low wages and longer working hours (per day, week and year), but also lower spending on health and safety in the workplace, and also suppression of trade unions and other attempts by the employees to organise. All these aspects of »sweatshop« production were not only to be found in factories working for the export market or foreign investors, but were common practice in the relevant societies.

In many poor countries, but also in poor regions of rich countries, one can find production sites with degrading and dangerous working conditions. They are often referred to as **»sweatshops«** because the employees have to work hard in high temperatures. There have been many cases of unsafe workplaces, which have burned down or collapsed, resulting sometimes in hundreds of deaths. For example, in June 2013 in Bangladesh more than 1,000 employees died when a textile factory collapsed.

... state of development, but also exploitation

When evaluating these low labour costs a number of aspects have to be taken into account. Low wages generally go hand in hand with low average productivity in the developing countries and the low cost of so-called »wage goods«. Wage goods are goods that workers need for subsistence, such as food and accommodation. But even wages with the same purchasing power as in rich countries tend to be much lower (by a factor of between three and 10, depending on the country). They therefore make possible corresponding cost benefits.

Longer working time and poorer employment protection are also typical of a lower stage of development, in which higher production and more consumption at least for the time being are valued more highly than, for example, leisure time or lower risks. Oppression – in particular of workers – was also part and parcel of early industrialisation in today's rich countries.

Reactions of the industrialised countries

From the standpoint of the workers (or soon unemployed) threatened by this low-wage competition in the industrialised countries the threat justified – regardless of the background – protective measures, such as customs duties or import quotas. From the 1960s international agreements – Cotton Textile Agreement, Multi-fibre Arrangement, Agreement on Textiles and Clothing – were concluded that provided for exceptions from the dismantling of other tariffs. The aim was and remains to protect the relevant industries in the global North.

Dilemma: promote development while protecting domestic production

This poses a dilemma for social democrats. On one hand, they want to ensure the wellbeing of workers in the industrialised countries, but on the other hand they do not want to put a brake on industrialisation in the developing countries.

A compromise rests on two pillars:

Compromise with two pillars

1. the cushioning of structural change;
2. concentration on eliminating extreme forms of »exploitation« and oppression.

Cushioning structural change

The abovementioned protectionism is aimed at reducing the pressure of imports without eliminating them completely. After all, it is to be expected – at least through market economic lenses – that new jobs will emerge in other areas.

Old jobs go and new jobs come at different times

As already described, on one hand exports to the North bring revenues to the low-wage countries with which they can import goods and services from the industrialised countries. This gives rise to demand and employment in the export industries of the North. On the other hand, households in the North pay less for, say, clothing because of the cheaper goods from the South. This gives them the chance to purchase other goods and services, the production of which creates new jobs.

Until the new jobs actually come into being, however, time is needed, which can be won by means of protective tariffs. But protective tariffs should not be permanent. This process can be facilitated if in the course of development wages – and other cost components – in the developing countries rise in relative terms. This can also be a result of currency revaluation: for example, the United States has constantly urged China to revalue its currency to make it more expensive in relation to the US dollar.

Temporary protective tariffs a good idea

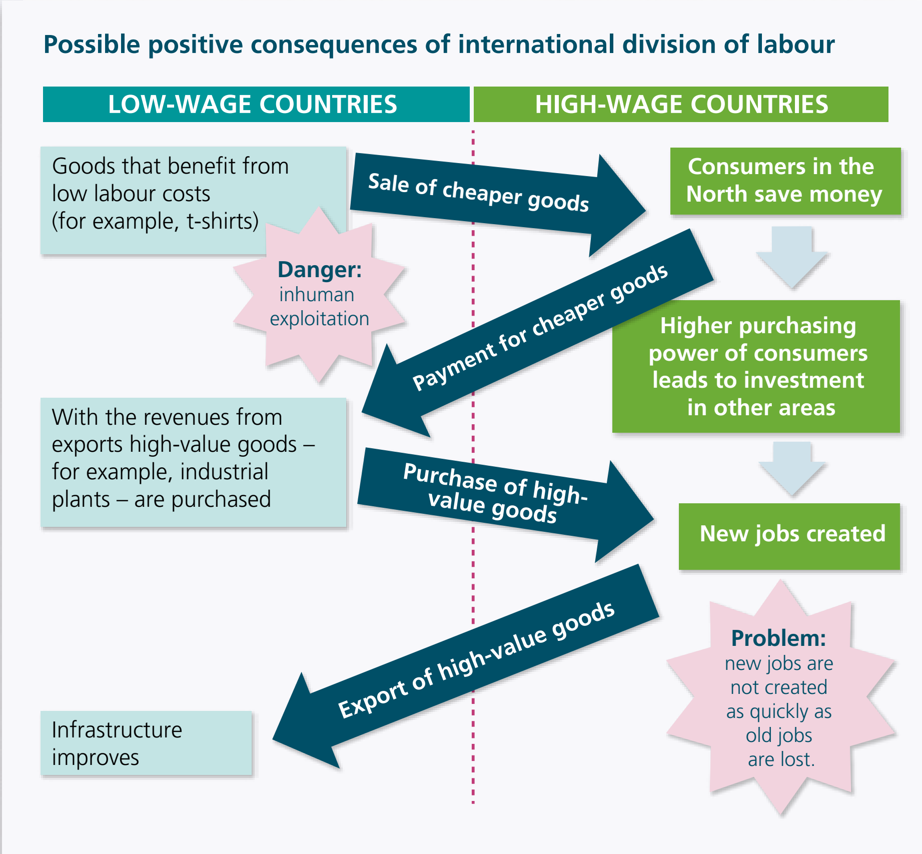


Figure 26: Consequences of international division of labour

Concentration on eliminating extreme forms of exploitation and oppression

Enabling development and preventing exploitation!

The trade unions in particular have tried to put constructive limitations on low-wage competition without taking away jobs from workers in the developing countries. To that end they have differentiated between wages that are low because of low productivity and the low cost of living and more extreme forms of exploitation, which keep costs down by means of child labour, debt peonage or the suppression of trade unions. Their demands thus are aimed at achieving compliance with workers' rights and living standards.

A frequent core demand is to link market access to the recognition and implementation of ILO standards. Exports from countries that have not adopted or not implemented these standards with regard to freedom of association, the ban on child labour and so on (see below) should have punitive tariffs imposed on them.

The ILO's Core Labour Standards and their global implementation

Idea: anchor core labour standards in treaties!

Pressure from trade unions and NGOs to make compliance with ILO standards binding in trade agreements has met with only limited success to date. However, there are a number of agreements that contain the relevant regulations.

ILO Core Labour Standards

The ILO (see Section 5.1) stands up for four fundamental principles:

1. freedom of association and the right to collective bargaining;
2. the elimination of forced or compulsory labour;
3. the abolition of child labour; and
4. the elimination of discrimination in respect of employment and occupation.

In order to give practical application to these fundamental principles eight core labour standards have been laid down in conventions, the first of which was adopted as early as 1930. In what follows the conventions are listed with their subject matter and the year they were agreed.

- Convention No. 29 – Forced Labour (1930 and Protocol of 2014 on the Forced Labour Convention)
- Convention No. 87 – Freedom of Association and Protection of the Right to Organise Convention (1948)
- Convention No. 98 – Right to Organise and Collective Bargaining Convention (1949)
- Convention No. 100 – Equal Remuneration Convention (1951)
- Convention No. 105 – Abolition of Forced Labour (1957)
- Convention No. 111 – Discrimination in Employment and Occupation (1958)
- Convention No. 138 – Minimum Age (1973)
- Convention No. 182 – Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (1999)

Ratification of these conventions is voluntary for ILO member states. Even Germany has not yet ratified some conventions. China has only ratified the last four core labour standards from the above list. India, too, has only ratified four (29, 100, 105, 111).

Example: The EU

In particular the United States, Canada and the EU have included clauses on the protection of workers' rights in agreements. In the case of violations, however, mainly complex processes (investigations, arbitration proceedings, and so on) are provided for, so that real sanctions have to overcome substantial obstacles.

Does not count for much in the WTO

In its Generalised System of Preferences (GSP), which gives third countries tariff-free access under certain conditions to the EU market, the EU has bound access to the ratification and implementation of over 20 agreements. On account of violations access was suspended for Belarus, Sri Lanka and Myanmar. However, in many trade agreements the possibilities for achieving sustainable improvements in working conditions are too meagre.

In the WTO's multilateral trade policy the ILO core labour standards play only a subordinate role. Although the WTO is committed to cooperation with the ILO, free trade takes priority. For example, in its Singapore Declaration of 1996 it pays lip service to the core labour standards, but emphasises that developing countries should not be deprived of their »natural« cost advantage of low wages.

Linking trade policy to human rights and social standards is fundamentally difficult, although one has to distinguish between the dilemmas facing states and those facing companies.

TTIP (Transatlantic Trade and Investment Partnership)

The problems of free trade or – to take a broader perspective – opening up to cross-border flows of goods, services and investments can be elucidated on the example of the agreement (TTIP) currently under discussion between the United States and the EU. Its advocates claim that it will increase trade and investment with positive consequences for growth and employment. Critics fear a hollowing out of environmental and consumer protection standards and of workers' rights, as well as restrictions on national economic policy as a result of so-called »investment protection«.

EXCURSUS: TTIP

Carsten Schwäbe

TTIP is the name of a planned free trade agreement that the EU and the United States have been negotiating since 2013. The main topic of negotiation is the abolition of tariffs and regulatory convergence.

Advocates anticipate more growth and employment from the agreement, as well as more decision-making power. The new free trade zone would be the largest in the world and thus have much bigger clout in world trade policy. In this way the common standards could be exported to other countries.

Critics point, among other things, to the danger of lowering environmental and consumer protection. In the EU, for example, the precautionary principle applies in environmental policy: a new chemical product is permitted only if it is proved to be environmentally safe. The US regulatory authorities, by contrast, take a risk-based approach, taking action only after evidence of danger is provided.

Other objects of criticism include giving investors the right, in the case of losses or forgone profits or gains due to regulatory reforms at national level, to seek damages from a court of arbitration. In that way investors would be protected but states would find their sovereign decision-making curtailed – an example might be a state that wants to ban nuclear energy.

In order to counter the scepticism aroused by the investment protection agreement in the TTIP the European Commission proposed as an alternative to private courts of arbitration the establishment of an international trade tribunal staffed by public officials. They also emphasised that TTIP would not lead to a lowering of standards in the EU. In controversial areas there would be no harmonisation of standards.

A further point of disagreement between critics and advocates is the issue of transparency and of access to the outcome of the negotiations.

Because TTIP affects European as well as national law it will presumably count as a mixed agreement. That means that it requires the approval of both the European Parliament and of the member states. The European Parliament, for example, has already ruled that it will not assent to private courts of arbitration. In Germany the Bundestag would have to agree. The SPD, too, has adopted 14 points as a minimum that would have to be fulfilled before it would give its consent to the treaty in the Bundestag.

»The free trade agreement must not jeopardise workers' rights, consumer protection, social and environmental standards. We reject a race to the bottom in which states and companies seek to gain an advantage by means of social and environmental dumping. Thus efforts must be made within the framework of the trade agreement to improve codetermination rights, employment, health and safety and consumer protection, as well as social and environmental standards.« (SPD 2014: 2)

Further reading:

SPD (2014), Unsere Erwartungen an die transatlantischen Freihandelsgespräche *[Our expectations concerning the Transatlantic Free Trade Agreement], resolution at the Fifth Party convention on 20 September 2014, Berlin.*

SPD Basic Values Commission (2015), TTIP und die sozialdemokratischen Grundwerte – ein Konflikt? Zur Diskussion über die Transatlantische Handels- und Investitionspartnerschaft *[TTIP and the basic values of social democracy – are they in conflict? On the debate on the Transatlantic Trade and Investment Partnership], Berlin.*

Gesine Schwan and Gustav Horn (2015), Erst Demokratie, dann Freihandel *[First democracy, then free trade], in: Frankfurter Rundschau, 20 February 2015.*

Christian Thorun and Jana Diels (2014), Chancen und Risiken der Transatlantischen Handels- und Investitionspartnerschaft (TTIP) für die Verbraucherwohlfahrt *[Risks and opportunities for consumer welfare arising from the Transatlantic Trade and Investment Partnership (TTIP)], FES, WISO Diskurs, Bonn.*

Jan Priewe (2014), TTIP oder transatlantische Währungskooperation? *[TTIP or transatlantic currency cooperation?], FES, WISO direkt, Bonn.*

Clean hands, fewer friends?

Let us look first at the levels of government and the law. Any policy that makes the conclusion of an agreement conditional on a partner country legislating and implementing certain laws conflicts with other foreign policy and economic interests. To take one example: evidently no one will prohibit trade with China despite the fact that it still has not outlawed forced labour. The debate on the planned transatlantic agreement TTIP also reflects this conflict.

Implementation problems

Even in countries in which corresponding regulations have been adopted social reality is often quite different. In particular, poorer countries often do not have a state administration that is capable of investigating whether companies are complying with certain standards. Inefficiency, lack of personnel and resources and corruption are rather the rule than the exception. And the probability that labour standards are being flouted increases further still in the informal economy.

The **informal sector** is that part of the economy beyond the purview of officialdom. In developing countries, that often includes large parts of agriculture, crafts and simple services, such as shoe polishing or the street selling of food and drink. In some societies the informal sector makes up a considerable part of the economy. As a rule, no tax is paid on such activities, which poses a sizeable challenge to the tax system in these states.

Special role: affiliates

The other level is that of companies producing goods and services for export. The affiliates of foreign (multinational) companies are often those that comply with national legal standards and generally speaking have better working conditions than domestic firms – especially because they are often more exposed to the criticisms of NGOs, trade unions, works councils and public opinion in the importing countries. The circumstances of domestic supplier companies are less clear, however.

Boycott as a weapon?

The prospects of trade policy pressure improving working conditions in the developing countries are thus limited. More promising are threats of consumer boycotts often driven by civil society organisations. They are increasingly inducing importers and well-known multinational brand companies to pay more attention to the conditions of their suppliers and affiliates. But here too real monitoring, which has to include visits to local establishments, is expensive and rarely possible on an adequate scale.

But protecting employees affected by low-wage competition in high-wage countries is also difficult. Consumers and companies that benefit from low wages elsewhere are influential interest groups. The same applies to employers and employees in export sectors. To date, those wishing to implement protectionist measures have not been able to overcome the opposition of such groups.

In any case, protectionism can defend only the domestic market. If third markets are supplied from low-wage locations the jobs in the domestic market that depend on the production of this supply will be lost, with or without protectionism. At best they could be saved by subsidies, which would allow exporters to underbid competitors from low-wage countries. Retaliatory protectionism or subsidies, however, could lead to other countries sealing off their own markets or getting into a subsidy race. That would lead to employment problems in one's own export industry.

CSR and Global Compact

At the enterprise level, finally, there are voluntary initiatives, such as *corporate social responsibility* (CSR) and, at the international level, the UN initiative Global Compact. They seek to show that companies are not interested solely in exploiting their employees but also – on efficiency grounds – in maintaining cooperative relations with their workforces and other stakeholders; in other words, with interest groups such as the local community, suppliers or customers. Such agreements are not legally binding, however, but voluntary.

»Decent work« under threat in global location competition

Free trade: prosperity for all?

According to the classic model of international trade (see Chapter 2) free trade ultimately brings about a rise in prosperity for all. In a world with open capital markets and structural underemployment, however, this assumption simply does not correspond to reality.

In fact, countries do their best to foster value creation and employment on their territory by enticing globally mobile capital. Many factors are taken into account when firms are selecting a business or production location, however.

Location: more than wages!

For example, if the wage level and the most employer-friendly conditions were the only things that mattered, virtually all jobs would have been shifted to low-wage locations ages ago. Every bit as important, however, are factors such as the productivity and training of the workforce, proximity to sales markets, taxes and the prices of products and services used locally (inputs), for example, energy costs and availability.

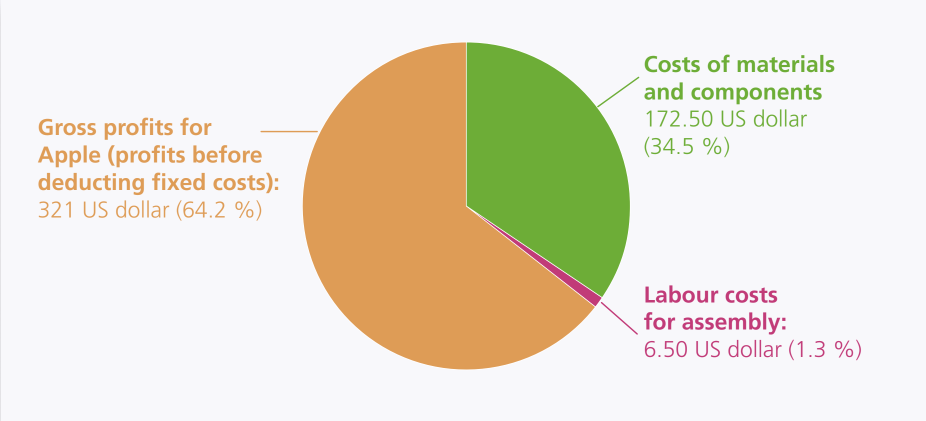
Multinational companies (see Section 5.1) organise their value creation or supply chains via production networks, sometimes stretching across many countries. Production stages that are labour intensive but do not require particularly well qualified workers are often established in low-wage locations in less developed countries. Typical examples of this include sewing work or the assembly of electronic products (such as mobile telephones). What attracts firms in this instance, apart from wage and other labour costs (for example, arising from health and safety considerations), is flexibility.

REPORT: Why Apple produces in China

»Accordingly [choice of location] does not depend only on more favourable costs promised by OEM producers such as Foxconn or Pegatron. Even more important is the flexibility made possible by the gigantic horde of production workers – Foxconn alone employs almost 1 million people. [The New York Times], for example, cites the example of the launch of a new iPhone generation, for which Apple had only recently changed the screens. A foreman dragged 8,000 workers out of their beds in the middle of the night, gave them tea and biscuits, and within half an hour had browbeaten them into taking on a 12-hour shift in order to put the new displays in their frames. After 96 hours 10,000 iPhones a day had been produced.« (Schwan 2012: 1)

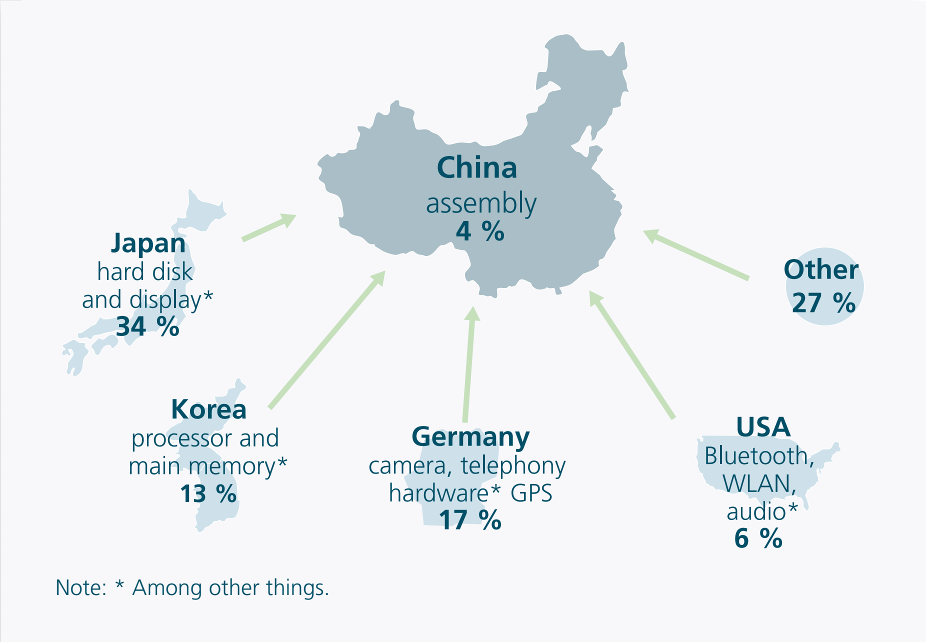
Value creation is very unevenly distributed over the different production stages. Wage costs at low-wage locations usually make up only a tiny proportion of overall costs, overall value creation and the final price.

Naturally, labour costs in the parts of the overall chain located in high-wage countries represent a much higher proportion. This concerns not just well paid jobs in research, design or marketing, but also the lower paid employees in transport or wholesale and retail, whose wages are still many times higher than those in poor countries. Rental costs in more expensive locations and profits comprise a further major component.



Source: Data from Xing/Detert (2010: 4), authors' calculation and presentation.

Figure 27: Cost structure of the iPhone 3GS (selling price 500 US dollar)



Source: Data from Xing/Detert (2010: 4), authors' calculation and presentation.

Figure 28: Regional distribution of the costs of components and assembly

If Apple produced the iPhone in the United States wage costs would increase tenfold (by around 60 USD), but because of the high final price production would still yield a high profit.

Such location competition puts wages and working conditions under pressure worldwide. It is one of the reasons for the global retreat of wage rates, especially in the richer countries. Improving working conditions and slight wage rises in the low-wage countries will bring about only gradual change in this basic structure.

> The **wage rate** is the share of wages in national income. Other parts of national income include earnings from capital, such as profits, interest and rents.

Digitalisation and robotisation of work

Over the long term the trend is for simple, but sometimes also more complex work to be done by robots and computer-aided systems rather than by human beings. As a result the demand for labour in general, but especially in low-wage locations may fall.

Besides wages and working conditions social security is also crucial from the standpoint of employees and more generally in the perspective of social democracy. In particular in poorer countries systems to protect against life's contingencies, such as sickness, unemployment or old age are less developed and mainly cover only privileged groups (for example, the military). The ILO is thus calling not only for compliance with the core labour standards mentioned above, but also minimum standards of social security (Convention No. 102), general known as the »social protection floor«. Since 2012 it has pursued a strategy of calling on the member states to comply with a series of standards.

The objective limits for higher wages, costly improvements in working conditions and better social security depend on the real capacity of the respective national economy. Although correcting the unequal distribution of real value creation that favours rich elites and capital owners would make possible an improvement in the situation of employees, only what has been produced can be distributed.

Wages rise when labour becomes more scarce

To the extent that productivity and employment increase in the course of development, however, more room to manoeuvre becomes available. If the supply of cheap labour from the rural economy becomes exhausted workers become more scarce. In many catch-up countries – first of all Japan, later on Korea, Taiwan, Singapore and so on – wages (even after some delay) rose and converged with or even outstripped the level in the developed countries.

This process can also be observed in China, even though wages are still a long way below the OECD level. Economic development theorists talk of the »Lewis turning point«.

In the globalised world economy there are still large reserves of cheap labour, even if many countries underwent similar dynamic development to China's. But if workers' rights and social standards were complied with everywhere and, with the help of more effective trade unions, wages rose in line with productivity, catch-up processes would proceed a lot faster and global demand would lead to more rapid employment growth.

The **Lewis turning point** is named after the development economist Arthur Lewis. It is achieved in a country's development when demand for labour in the urban areas due to modernisation of industry and services can no longer be covered by workers who previously worked in agriculture. After this point wages, at least in theory, rise and inequality falls; before it, inequality rises.

What does this mean for social democracy?

- A balance has to be found between protecting domestic employees, the rightful interests of poor exporting countries and the interests of domestic consumers.
- International pressure should be brought to bear to ensure compliance with the ILO core labour standards and productivity-oriented wage policy.
- Competition policy and tax policy should use the high profits and capital gains that have been allowed to accrue to global capital because of the global oversupply of labour for the benefit of consumers and for more social equality.

6.2. Global Poverty and Sustainable Development

In this section

- the causes of underdevelopment and poverty are analysed;
- the history of development cooperation is outlined;
- the main organisations involved in combating poverty are presented;
- the scope and strategies of development cooperation are explained;
- a critical view of the role of development aid is taken.

At the start: geopolitical interests

Today we associate the term »development cooperation« with the goal of helping particularly poor states in their development and combating poverty worldwide. In fact, initially, tangible geopolitical interests underlay development cooperation.

Context: Cold War

In the context of the Cold War (see Chapter 3) the United States wanted to strengthen the states that were allied with it. Prosperity and development were supposed to take the wind out of the sails of communist opposition movements in these countries. The idea was launched in Germany and Japan.

Economic interests went hand in hand with geopolitical interests. Pro-Western elites in the so-called Third World furnished multinational companies with profitable conditions, especially in the agricultural sector and in mining. That often involved the oppression of farmers and workers.

Not only for the United States, but also for the (former) colonial powers Great Britain, France, Belgium and Germany political and economic interests played a key role in their relations with developing countries.

FRG: Hallstein doctrine

For the Federal Republic of Germany development aid was long used as an instrument to discourage developing countries from recognising the GDR (the Hallstein doctrine) and of course export interests were important. A major opportunity was seen to participate in Third World development, of course with investment as a major factor.

»Development« develops an independent existence

Development as a policy area in its own right

Initially, the system of development cooperation was thus dominated by foreign policy and economic interests. Then it developed rapidly as an area of activity in its own right. Supporters of disinterested motives for fighting poverty and development aid sought to carve out a space for themselves over against the original driving forces.

The **Hallstein doctrine** was a foreign policy directive of the Federal Republic of Germany between 1955 and 1969. It was supposed to prevent countries from recognising the statehood of the GDR by holding out the prospect of such negative consequences as the withdrawal of development aid. The doctrine was based on the FRG's claim to sole representation of Germany as a whole, although it was still divided. Under Willy Brandt's new *Ostpolitik* the Hallstein doctrine was abandoned.

Role of the UN

The international efforts in this direction began shortly after the end of the Second World War within the framework of the UN. Development cooperation was and is primarily the task of the UN Development Programme (UNDP) and the World Bank Group. This includes the International Bank for Reconstruction and Development (World Bank, for short) and the International Development Association (IDA). The latter is supposed to support poor countries in particular.

Since 1960 donor countries in the OECD have coordinated their activities in the Development Assistance Committee (DAC). The DAC tries to establish standards for development cooperation by means of coordination and exchange.

Development cooperation developed as a policy area in its own right. This took the form of dedicated institutions and organisations. For example, in Germany it even has its own ministry, which unlike in many other countries is not merely part of the foreign or economic ministry. Erhard Eppler and Heidemarie Wieczorek-Zeul made a particular mark as development ministers.

Erhard Eppler (*1929) is a leading figure in German social democracy and was Germany's development minister between 1968 and 1974. He was a staunch advocate of the 0.7% target and for the status of development policy as an area in its own right.

Further reading:
Jochen Dahm (2015), Erhard Eppler – Die Kraft der Sprache [Erhard Eppler – The power of language], in: Christian Krell (ed.), Vordenkerinnen und Vordenker der Sozialen Demokratie, 49 Porträts *[Thinkers of social democracy, 49 portraits], pp. 112–188, Verlag J.H.W. Dietz Nachf., Bonn.*

Social democratic parties have often played a leading role in the process of emancipating development cooperation. The British Labour Party founded the Ministry of Overseas Development as early as 1964. The 1970 Conservative government integrated it as a department in the Foreign Ministry before Labour under Tony Blair restored its cabinet status in 1997.

»I believe that foreign policy and development policy have the same goal, namely the creation of a peace order. Development policy has a completely different time horizon from foreign policy, however. It cannot simply be harnessed for short-term foreign policy goals because it is inherently long-term. In foreign policy the main aim is to assert ourselves in today's world. Development policy, however, is mainly about working for the world of tomorrow and our place in the world of tomorrow.« (Eppler 1968: 4–6)

Why are some countries poorer than others?

The answer to the question of why some countries are particularly poor and others are not is complex. Certain development paths have their roots in early human history. For example, plants and animals suitable for use as livestock and crops were, needless to say, very unevenly distributed. Unfavourable natural conditions, such as the climate, but also the distribution of dangerous diseases – such as malaria – almost inevitably constrained development in many states. Finally, colonial exploitation and its lasting unequal division of labour created structures that hindered self-sustaining growth.

By current comparison – without taking prehistory into account – income differences can be explained primarily in terms of lack of capital (infrastructure, education, health care) and deficient governance. The most successful former developing countries – Japan, Korea, Taiwan – in their efforts to catch up with the developed industrialised countries focused mainly on selective world market integration, an emphasis on exports underpinned by protectionism and managed capital markets with low interest rates and forced saving (»financial repression«).

Further reading:

- Jared Diamond (1997), *Guns, Germs and Steel. The Fates of Human Societies*, New York.
- David S. Landes (1999), *The Wealth and Poverty of Nations. Why Some Are So Rich and Some So Poor*, New York.
- Dambisa Moyo (2009): *Dead Aid: Why Aid Is Not Working and How There is Another Way for Africa*, New York.
- Daron Acemoglou and James Robinson (2012), *Why Nations Fail: The Origins of Power, Prosperity and Poverty,* Crown Business.
- Angus Deaton (2013), *The Great Escape: Health, Wealth, and the Origins of Inequality*, Princeton.

Differentiation between donors, sectors and form of aid

Systematisations of development cooperation

In order to systematise development cooperation one can distinguish, first, between bilateral and multilateral donors; second, between public and private aid; and third, between various forms and targets of aid, such as financial transfers, advice, disaster relief, food aid and democracy-building.

Problem: possible fragmentation, often interest-based

Bilateral development cooperation

Bilateral aid means cooperation between two states, the donor and the recipient country. Most donor countries have special organisations to run such cooperation. In Germany there is, on one hand, the Gesellschaft für Internationale Zusammenarbeit (GIZ – Society for International Cooperation), which is primarily responsible for technical cooperation, sending out experts. On the other hand, the Kreditanstalt für Wiederaufbau (KfW – Reconstruction Loan Corporation) issues loans.

Further reading:
Alberto Alesina and David Dollar (2000), Who Gives Foreign Aid to Whom and Why, in: Journal of Economic Growth, March 2000, pp. 33–63.

Both organisations receive their funding and guidelines from the Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – BMZ). They also work for other clients, however, by whom they are paid for their activities. In the United States the Agency for International Development organises bilateral cooperation, under the aegis of the Department of State (»foreign ministry«). In the United Kingdom there is the Department for International Development (DFID). Bilateral development cooperation is a form of aid that nation-states are keen to accept. However, bilateral development cooperation is often criticised either because it may lead to a fragmentation of aid or because the donor countries tend to prioritise their own interests instead of the good of the recipient country.

Aid recipients more strongly in focus

Multilateral development cooperation

In multilateral development cooperation the donor side comprises a group of countries or an international organisation. In the global environment of the UN there are, besides the already mentioned UNDP, World Bank and IMF a plethora of specialist organisations with a specific mandate for particular sectors, task or sets of aims (see Figure 29).

NAME	ABBREVIATION
Food and Agriculture Organization	FAO
World Health Organization	WHO
UN Industrial Development Organization	UNIDO
UN Children's Fund	UNICEF

Figure 29: Selected UN agencies

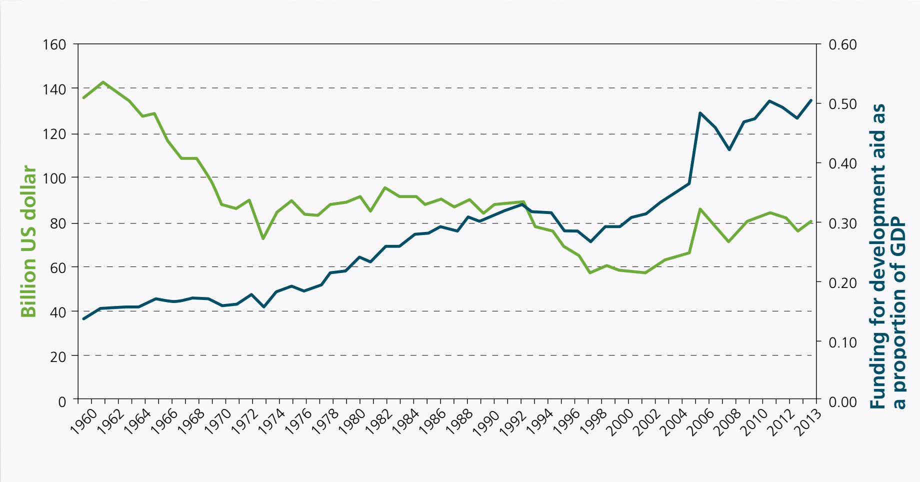
At the regional level the EU and regional development banks are important multilateral donors. The OECD, however, does not allocate its own funding, but supervises and coordinates bilateral aid within the framework of the Development Aid Committee (DAC – see p. 88). A total of 27 states and the European Commission belong to it. Since its founding in 1960 countries that previously were aid recipients have also contributed to it. This switch from recipient to donor country is referred to as »graduation«. Increasingly, the new donor states (»emerging donors«) are criticising the development standards that the DAC has pursued hitherto.

The EU as donor

The EU has evolved into one of the biggest multilateral donors. European development cooperation began with the very founding of the EEC in 1957. An initial focus was support for colonial territories, especially those of France. With the accession of the United Kingdom in 1972 this aid was extended to its former colonies. The framework for all this was established with the Lomé Agreement of 1975 between the EEC states and the 77 ACP (Africa, Caribbean and Pacific) countries, which besides trade facilitation provided for a European Development Fund. The European Investment Bank (EIB) also issues loans to ACP countries.

Scope and strategies of development cooperation

The volume of official funding for development cooperation is considerable: in 2012 the absolute sum was 162 billion US dollars, of which around two-thirds was bilateral and the rest multilateral aid. About half is not repayable, the remainder in the form of loans. Adjusted for inflation the volume of aid has increased substantially since 1982 (by around 60 per cent – see Figure 30). As a proportion of the national incomes of the donor countries, however, it has barely changed, at around 0.3 per cent, which is well below the official target of 0.7 per cent. Only some donors have achieved or even surpassed this (the Scandinavian countries, Luxembourg).



Source: OECD (2014).

Figure 30: Funding for development cooperation in US dollars and as a percentage of GDP

EXPLANATORY NOTE: The figure shows how expenditure on development cooperation has evolved. The blue line shows how much money was spent by the donor countries overall (left-hand axis). In 1960 the total was around 37 billion US dollars, rising to 135 billion by 2013. The green line shows how development aid has developed as a proportion of donor country GDP (right-hand axis). The share of GDP in 1960 was 0.51 per cent, but in 2013 only 0.3 per cent. The world thus gives more in absolute terms, but relatively less because it has become richer overall. The figures are adjusted for inflation.

Strategy: capital inflow

Goal: enable »takeoff«

The strategies of donors have changed constantly. The traditional approach in the 1960s was capital inflow. It was supposed to help developing countries to achieve »take-off« (Rostow) towards self-sustainable growth. The reason for lack of development was taken to be a twofold gap: too little savings and too little foreign currency revenues.

Linear development

This approach was based on a notion of linear development. It assumed that all countries would follow the growth model of the industrialised countries (catch-up development). This theory was, however – rightly – disputed. Theoreticians such as Myrdal recognised that the causes of underdevelopment were more complex. Adherents of the dependence school (see p. 36) brought to the fore the development-preventing role of the global North and the local elites who were hand in glove with it.

1970s: rise of OPEC

The 1970s, with the rise of OPEC, saw the emergence of a new self-confidence in the Third World. Developing countries and critical development theorists called for a »new world economic order«, more funding and stable revenues from the export of agricultural and mineral commodities. The EEC introduced such a scheme (STABEX) for the ACP countries in the Lomé Agreement.

Focus: human rights and basic needs

The industrialised countries reacted with a sharper focus on human rights and basic needs. In response to the debt crisis at the end of the 1970s an expert group led by German Social Democrat Willy Brandt put forward proposals for a cooperative North–South relationship, although the outcome on the ground was modest (see also Section 5.3.2).

Neoliberal turn: market-oriented reforms

Neoliberal: underdevelopment is a government failure

Instead, the neoliberal wave that commenced in the 1980s led to a new emphasis on market-oriented reforms. Now underdevelopment was presented as a government failure.

»Washington Consensus«

Liberalisation, deregulation, privatisation and »rolling back« the state's involvement in economic development became the decisive approaches, which later came to be known under the rubric »Washington Consensus«.

The collapse of the communist planned economies at the end of the 1980s boosted this strategic orientation. But this approach, too, was not uncontroversial. Above all the experiences of the Asian countries, which were virtually unique as major development success stories, pointed in a different direction. China's development since 1990 stands out in this respect.

Counter example: Asian development

Asian development was characterised by early agricultural reforms, selective protectionism, export promotion and controlled capital markets. The state played a key role as »developmental state«.

Sustainable Development Goals

From 2000 to 2015 development cooperation was determined by the Millennium Development Goals (MDG). They laid down quantitative targets in a series of important policy areas – for example, education, health care, equal rights and environmental protection – that were supposed to be achieved by 2015.

Since 2015 a new development policy period has commenced under the aegis of the Sustainable Development Goals (SDG). There are 17 main goals and 169 so-called »targets«.

The 17 goals are:

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and quality education for all and promote lifelong learning
5. Achieve gender equality and empower all women and girls
6. Ensure access to and sustainable management of water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote permanent, inclusive and sustainable economic growth, productive employment and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
10. Reduce inequality within and among countries
11. Make cities and settlements inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production patterns
13. Take comprehensive measures to combat climate change and its impacts (in recognition of the fact that UNFCCC (United Nations Framework Convention on Climate Change) is the central international intergovernmental forum for negotiations on the global response to climate change)

14. Conserve and sustainably use the oceans, seas and marine resources

15. Protect and restore national ecosystems and promote their sustainable development, manage forests sustainably, combat desertification, halt and reverse land degradation and halt biodiversity loss

16. Promote just, peaceful and inclusive societies for sustainable development, enable the provision of access to justice for all and build effective, accountable institutions at all levels

17. Revitalise the global partnership for sustainable development and boost resources for implementation

Development successes to date

Recent decades: progress

The development of the Third World over the past half century has made considerable progress. Indeed, the very term »Third World« seems obsolete. On one hand, that is only to be expected because with the end of the Cold War the division between a First and a Second World – that is, between West and East – became void. On the other hand, within the group of developing countries there are considerable differences. Above all in East Asia some previously poor countries have achieved substantial prosperity.

The average per capita income of all countries rose between 1960 and 2010 by around 150 per cent, but in the rich countries by 235 per cent. Highest of all, however, the average incomes of those in the upper middle income brackets rose by almost 400 per cent. Growth for the lowest income bracket was disappointing, however: indeed, between 1970 and 2000 their incomes fell (see Figure 31).

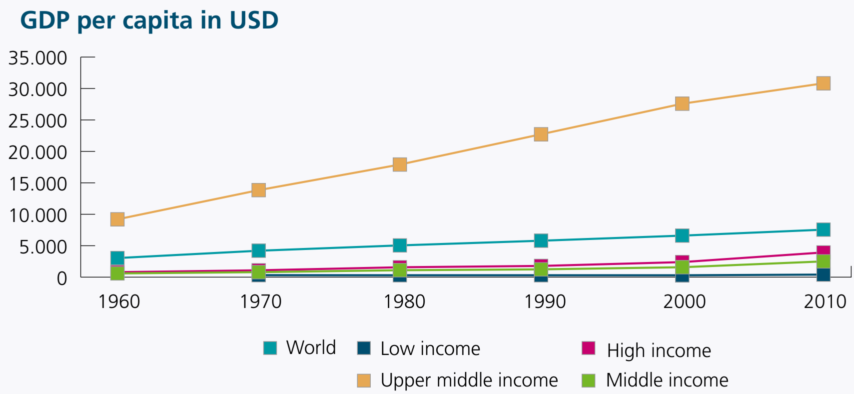


Figure 31: Development of incomes in various population groups[8]

Source: World Bank (2015a), World Development Indicator.

As shown in Section 4.2, although global inequality has fallen if one compares countries weighted in terms of their populations, the gain is relatively modest and recent if one looks at the whole (Figure 15). Global growth has benefited primarily the richest 5 per cent of the world population, while the poorest quarter has fallen further behind (Figure 16). The number of undernourished people has increased in the past ten years (Figure 17). No doubt the worldwide increase in life expectancy can be regarded as a success (cf. Figure 32).

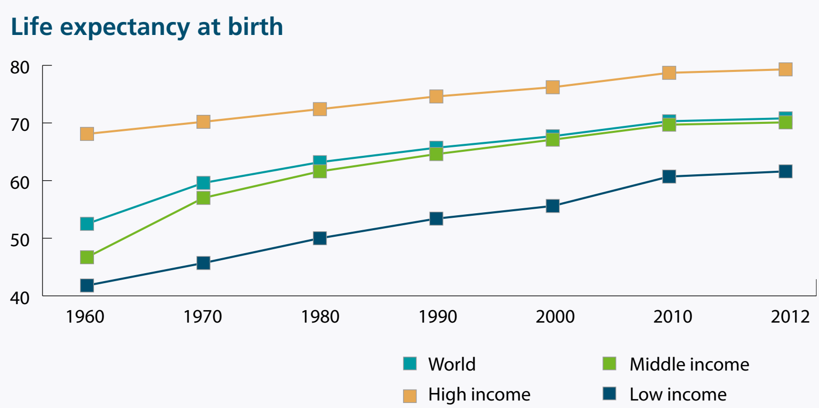


Figure 32: Life expectancy at birth

Source: World Bank (2015a), World Development Indicator.

8 Note: Dollar values adjusted for inflation. Data correspond to the purchasing power of the US dollar in 2005.

Since 1990 the UN has published the Human Development Index (HDI). It summarises in one figure various areas of development (including income, life expectancy and education) with a specific weighting. The values lie between 0 and 1, 1 being the highest. In 2014 the values ranged between 0.944 for Norway (ranked 1) and 0.348 for Niger (ranked 187). The average value improved from 0.559 in 1980 to 0.711 in 2014 (Human Development Report 2015: Table 1).

Human Development Index

Global poverty has also fallen in recent decades. Traditionally, poverty is defined as a daily per capita income of below 1.25 US dollars at purchasing power parity; in other words, taking into account different living costs. Recently this was raised to 1.90 US dollars.

Fall in poverty: above all in China

The proportion of poor people in the world population fell from 37.1 per cent in 1990 to 12.1 per cent in 2012 (World Bank 2015b). The absolute number of poor people fell between 1990 and 2012 from around 1.9 billion to around 900 million. This fall is almost entirely due to Chinese development.

Further reading:
Michael Dauderstädt (1984), Entwicklungspolitik – Politik ohne Entwicklung. Eigenanstrengungen, Ordnungspolitik und Politikdialog im Nord-Süd-Verhältnis [Development policy – Policy without development. Own efforts, regulatory policy *and political dialogue in North–South relations], FES, Bonn.*

Progress has been made not only in fighting poverty but with all eight MDGs since 2000. School attendance is up sharply, also among girls. Child and maternal mortality have halved. The number of people dying from AIDS, malaria or other diseases has fallen substantially. Supplies of drinking water have improved and the number of people living in slums has fallen. Overall, mortality in developing countries is down. However, the resulting strong population growth brings new problems of its own.

Development cooperation and development successes

But what part of this development can be attributed to development cooperation – both the remaining inequalities and the advances? Given the multiplicity of influences the effects of particular policies are difficult to evaluate. But clearly there is no unambiguous link between development success and the amount of aid received.

Link between aid and success?

Initially, in the 1960s and 1970s, expectations were high concerning development cooperation. That was in keeping with the then dominant view that growth processes were readily susceptible to the influence of policymakers. At the latest in the 1980s, however, scepticism began to take hold. Radical critics had always viewed aid with some suspicion, believing that it served the purposes of the donor and was of little real benefit to the recipient countries.

In the 1980s criticisms came primarily from the (neo)liberal camp. Economists such as Lord Bauer claimed that the lack of capital was not really a hindrance to development. If countries established favourable investment conditions sufficient private capital would be forthcoming. But in the absence of such conditions even any kind of public capital inflow would be wasted and come to nothing.

After the turn of the century this old debate was rekindled by a controversy between two prominent development economists: Jeffrey Sachs and William Easterly. Sachs was the mastermind of the MDG programme. He assumes that external intervention, especially financial inflows, can lead countries out of poverty. William Easterly, by contrast, sees structural problems in the recipient countries that prevent productive use of external aid.

Further reading:

William Easterly (2007), The White Man's Burden. Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good, Oxford.

Jeffrey Sachs (2009), The End of Poverty. Economic Possibilities for Our Time, New York.

Despite the relatively high public sums private capital inflows were in many respects more significant. In terms of closing the dual gaps – savings and foreign currency – the countries that have successfully attracted private capital have achieved more. The problem with private capital flows, however, is their volatility.

Does the money flow back to the donor countries?

Another frequent reproach directed against development cooperation is that the funds largely return to the donor countries. In order to make work in the recipient countries attractive, for example, the wages of foreign experts are very high compared with incomes in the recipient countries. Resources are often used for imports from the donor countries, or even linked – which is often the case – directly to certain deliveries (»tied aid«).

On the other hand, it should be noted that the recipients have the use of the goods and services. That means that at best the prices paid could be too high. Figure 33 provides an overview of the advantages and disadvantages of different forms of aid.

FORM OF AID	BENEFITS/ OPPORTUNITIES	DISADVANTAGES/ RISKS
Capital inflow	Import capacity	Currency appreciation; loss of competitiveness
Budget aid	Lower administrative costs	Success depends on the good governance of the receiving government
Project aid	Monitored results	Oases of development in a desert of underdevelopment
Political dialogue	Framework conditions are addressed	Donors often don't know any better than the recipients how development can really be achieved
Food aid	Hunger is combated directly	Domestic production is jeopardised
Preferential market access	Opportunities for export production	Profits go to foreign investors; devaluation might be better

Figure 33: Advantages and disadvantages of different donor policies

New forms of development cooperation

The poor themselves know best what they need and how they can improve their situation. **Direct financial transfers to poor households** are based on this principle. Many organisations and even governments prefer this form of aid to projects. Despite fears to the contrary many studies have shown that this instrument is highly effective. For example, it has by no means led to increased consumption of alcohol or tobacco. Instead, even the results in the environment of receiving households have been positive.

There have been successes in the immediate vicinity of projects. However, in the absence of the relevant environment in terms of the national economy and society as a whole they are often not sustainable or at best islands of progress in a context of otherwise thwarted development. A new trend of development cooperation consists of direct payments to poor families.

Direct subsidies

A little more patronising, but nevertheless very effective are programmes that link cash payments to recipient families' sending their children to school and to medical examinations. Brazil and Mexico have programmes of this kind (Fome Zero, Bolsa Família, Oportunidades).

Figure 34: Direct subsidies approach

Development of democracy

Successful development as social democracy sees it means growing and fairly distributed prosperity under democratic supervision. Clearly in many instances neither the national development dynamic nor external »help« have led to such development. Post-war Germany and Japan and post-communist central and eastern Europe are exceptions.

Among the poorer countries, however, there are still few democratic welfare states. One of the main reasons for that is that many of these countries are authoritarian rentier economies. That means that the state is financed primarily from natural resource revenues and the ruling elite distributes resources among its clientele. Instead of from work and innovation prosperity in such societies comes from clientism. Democratisation is difficult because there are few tax payers calling for budgetary rights (»no representation without taxation«).

Development thus requires primarily political reforms. A state is needed that aims at real development for all and not the self-enrichment of the government class. At this point forms of cooperation are called for that bring forward people and organisations in the partner countries that promote such reforms.

Further reading:

Erfried Adam (2013), Vom mühsamen Geschäft der Demokratieförderung. Die internationale Entwicklungszusammenarbeit der Friedrich-Ebert-Stiftung [On the laborious business of democracy-building. The international development cooperation activities of the Friedrich-Ebert-Stiftung], Verlag J.H.W. Dietz, Nachf., Bonn.

Michael Dauderstädt and Marika Lerch (2005), Internationale Demokratieförderung: Mit begrenzter Macht zur Machtbegrenzung [International democracy promotion: patiently redistributing power], FES (ed.), IPA, Bonn.

OECD (2014), Development Cooperation Report 2014.

The democratisation of Portugal and the role of the Friedrich-Ebert-Stiftung are an example of development cooperation based on political institutions. Up to 1974 Portugal was a fascist dictatorship. On 25 April 1974 it was overthrown by the so-called »Carnation Revolution«. The FES was already supporting the democratic opposition. For example, the Socialist Party (PS) that was prohibited in Portugal was founded on 19 April 1973 in Bad Münstereifel with the help of FES, which continued to support it. It played an important role in Portugal's democratic development, often forming the government and providing the state president (for example, Mário Soares).

Michael Dauderstädt and Arne Schildberg (eds), (2006), Dead Ends of Transition. Rentier Economies and Protectorates, Frankfurt am Main/New York.

Democracy promotion has gone from strength to strength since 1989 and although it has not met all expectations it has achieved considerable successes. The Friedrich-Ebert-Stiftung itself participated prominently in the successful transitions to democracy in South Africa, Portugal and Spain. Besides the other German political foundations the US National Endowment for Democracy is also a key player in this area.

What does this mean for social democracy?

- Development cooperation is effective only when it is underpinned by development-oriented policymaking in the recipient country.
- In order to prevent clientism it is essential to establish the requisite institutions and to promote democracy.
- The poor know their needs best and should not be patronised.
- Development should not be jeopardised by other policies (protectionism against imports from the global South, agricultural subsidies, monetary and exchange rate policy).

6.3. Financial Market Regulation and Tax Competition

In this section

- the structure of the new finance capitalism and its susceptibility to crisis is explained;
- proposals for the regulation of financial markets are put forward;
- the problem of tax competition for the three types of tax – corporate, income and consumption – is discussed.

As already explained in Chapter 3 there was a change in the the world economic system when the Bretton Woods system collapsed in 1972. With the shift to flexible exchange rates and the liberalisation of capital movements the significance of the financial markets increased enormously. The global »set-up« (Schulmeister) had changed.

From real to financial capitalism

Age of Fordism

In the Fordist growth model (see p. 35) there was a – not conflict-free – alliance between the real economy, employees and the state. In the absence of other, speculative investment opportunities companies invested in the expansion and modernisation of production. That created employment and raised productivity. Higher wages and state redistribution ensured rising mass purchasing power, which created demand for the increasing supply of goods and services. The financial markets played a subordinate role and were restricted to making household savings available to the corporate sector to finance investments in the real economy. The Bretton Woods system put in place capital controls, which hindered speculative in- and outflows. National savings and investments were closely linked (Feldstein-Horioka).

New rules of the game under neoliberalism

With the end of the Bretton Woods system and the rise of neoliberal economic doctrine the »arrangements« changed. With the new autonomy of the global financial markets fluctuations in exchange rates, interest rates and commodity prices increased. Investments in the real economy became riskier and financial investments, by contrast, more attractive. Figures 35 and 36 (from Schulmeister) summarise these changes in their broad outlines.

	EMPLOYEES	REAL CAPITAL (for example, companies)	FINANCE CAPITAL (for example, investment banks, insurance companies and hedge funds)
Economic interests	• Full employment • Real-wage increases	**High returns on real investments:** • low interest rates and exchange rates • stable financial markets	**High returns on financial investments and speculation:** • high interest rates and exchange rates • unstable financial markets
Examples of conflicts of interest	Wage increases		• rising interest rates • real currency appreciation
Potential partners for alliances of interest	Real capital	Labour or finance capital	Real capital
Economic interest in the state	• Full employment policy • Social security • Education • Public services	**Economic stabilisation and growth policy:** • demand management • public investments	• Powerful central banks • Restrictive monetary policy • Privatisation of social security
Main political interests	• Strong welfare state • Strong trade unions	• Weak welfare state • Weak trade unions	• No welfare state • No trade unions

Source: Schulmeister (2012: 19–20), partly augmented.

Figure 35: Juxtaposition of the interests of employees, real capital and finance capital

The new finance capitalism model is characterised by weaker growth and a higher susceptibility to crisis. In the past 40 years there have been numerous financial crises: the debt crisis of the 1980s, the Mexican crisis of 1994, the Asian and Russian crisis in the late 1990s, the Dot.com crisis of 2000 and, most recently, the financial market crisis and great recession of 2007–2009.

	REAL CAPITALISM	FINANCE CAPITALISM
Implicit alliance	Labour and real capital	Real capital and finance capital
Companies/ trade unions	Corporatism	Conflict
Relations between state and market	Complementary	Antagonistic
Economic policy goals	Many: from full employment to income distribution	Few: monetary stability, »robust« state finances, falling ratio of government expenditure to GNP
Economic policy »power centre«	Governments	Central banks
Economic theoretical model	»Keynesianism«	Monetarism/neoliberalism
Diagnosis/ therapy	Systemic	Symptom-oriented
Financial framework	Interest rate < growth rate, »calm« financial markets	Interest rate > growth rate, »boom and bust« on financial markets
Profit-seeking focused on	Real economy (positive sum game)	Financial economy (zero sum game)
Economic model	Social and regulated market economy	(»Pure«) market economy
Social policy goals	Equal opportunities, individual flourishing, social cohesion	Create the conditions for: »Everyone makes their own luck«

Figure 36: Juxtaposition of real and financial capitalism

Source: Schulmeister (2012: 19–20).

At the latest since the most recent global super-crisis three central questions have arisen:

- How can financial markets be better regulated?
- How can their susceptibility to crisis be reduced?
- How can they be led back to performing their core task?

At the same time, given the sharp increase in the level of public debt incurred because of the financial bailouts the topic of more efficient taxation has also hooved into view. This is because the same financial sector that the states had to rescue spares no efforts to help wealth-owners and companies reduce their tax burden. In what follows we therefore look at the problems of financial market regulation, the financial transaction tax and tax competition.

Financial market regulation

Proposals made immediately after the crisis…

In response to the financial market crisis new regulations have been introduced worldwide. In the immediate aftermath of the crisis some far-reaching proposals were discussed, including:

- switching to a sovereign money system; in other words, banks are only permitted to lend money on the basis of their deposits (they would not be permitted to create it »out of thin air«, as is presently the case);
- a total ban on all derivatives, in other words, purely speculative products whose price is not fixed, but is derived from other variables;
- a dramatic increase in capital ratios; in other words, the ratios in terms of which lending is covered by the banks' own capital;
- a separation between commercial and investment banks; this was established in the United States in response to the 1929–1933 crisis with the Glass-Steagall Act, but lifted again in 1999.

…but foundered against the financial lobby

Little headway has been made with these proposals so far in the face of the mighty financial lobby.

»Basel III« is a recommendation by the internationally recognised Basel Committee on Banking Supervision, which proposes standards for banking regulation. Basel III proposes, among other things, that banks should back loans with larger reserves (capital requirements). Basel III has been accepted as standard in many countries.

Nevertheless many countries have introduced comprehensive new regulations. In 2010, for example, the United States adopted the Dodd-Frank Act, a mammoth document running to several hundred pages, which first and foremost limits banks' proprietary trading and strengthens the competences of the supervisory authorities. The EU has established a banking supervision in the euro zone and rules for liquidating banks. This is supposed to provide states and tax payers with better protection in future. The Basel III agreement tightens up banks' capital requirements.

Financial transaction tax

1936: first proposed by Keynes

As early as 1936 Keynes, in his General Theory of Employment, Interest and Money, proposed a transfer tax on financial market transactions in order to protect the real economy from the excesses of speculation.

John Maynard Keynes (1883–1946) was a British economist who exerted a key influence on economic theory in the twentieth century. In his influential work the *General Theory of Employment, Interest and Money* (1936) he called into question the self-correcting powers of markets and thus »Keynesianism« came into being, which seeks to guide capitalism. Keynes was also instrumental in the conception of the Bretton-Woods system, which determined the world economy and financial markets in the post-war period.

1972: more concrete proposal by Tobin

The first and best known impulse for a specific tax on currency transactions came in 1972 from Nobel Memorial Prize winner James Tobin. His proposal also led to the founding of Attac, which, as its name suggests, originally set itself the goal of bringing this idea to fruition (see p. 62). However, such proposals have long been resisted and have made little political headway. Taxes on the transfer of securities are something of an exception, but they are not particularly useful for regulatory purposes.

Shift in the debate in 2008

The situation changed somewhat with the global financial market crisis of 2008 and the gigantic costs that governments assumed for bank bailouts and anti-crisis policies. Now there was a dual aim of putting a brake on speculation (control motive) and getting the financial sector to pay its share of the crisis costs (revenue motive).

However, despite the favourable political situation the resistance was enormous. Opponents claimed that a financial transaction tax would not have prevented the crisis and that the expected revenue would be relatively low. The latter depends on the rate at which it is levied and the tax base, however; in other words, which transactions would be taxed.

Another argument put forward by critics was that introducing such a tax in one country would result in transactions being shifted to other jurisdictions, in which case both aims would be thwarted (on the problem of tax competition see the following section). Thus a joint global or at least European introduction is to be preferred, but that is politically very difficult.

2011: promising step taken by the European Commission

The most promising step was taken by the European Commission in 2011. It presented a proposal for a financial transaction tax to the EU, justifying it in terms of the consolidation pressures arising from highly indebted state budgets, on one hand, in the hope of higher revenues and on the other hand with the aim of unifying such taxation in the Single Market to improve competitiveness.

The draft provided for a charge of 0.01 per cent on derivatives trades and of 0.1 per cent on all other transactions. The expected revenues were estimated at between 35 and 55 billion euros (European Commission 2013).

Derivatives are speculative financial products whose price is not fixed, but derived from other variables. They are basically a bet on developments in the financial market.

The proposal failed in 2012 in the Council of Ministers, however, primarily due to UK opposition. The euro countries made another attempt, but in these countries, too, the idea met opposition, especially from Luxembourg and the Netherlands.

»Enhanced cooperation«

In October 2012 some euro countries – ultimately 11, including the major economies of France, Germany, Italy and Spain – then decided to try to make progress by using the EU Treaty rule on »enhanced cooperation«. The Council endorsed this initiative, against which the United Kingdom brought a case before the European Court of Justice, but lost in 2014. Nevertheless implementation continues to be slow. France and Italy have introduced financial transaction taxes, but with different rates and tax bases.

Tax competition

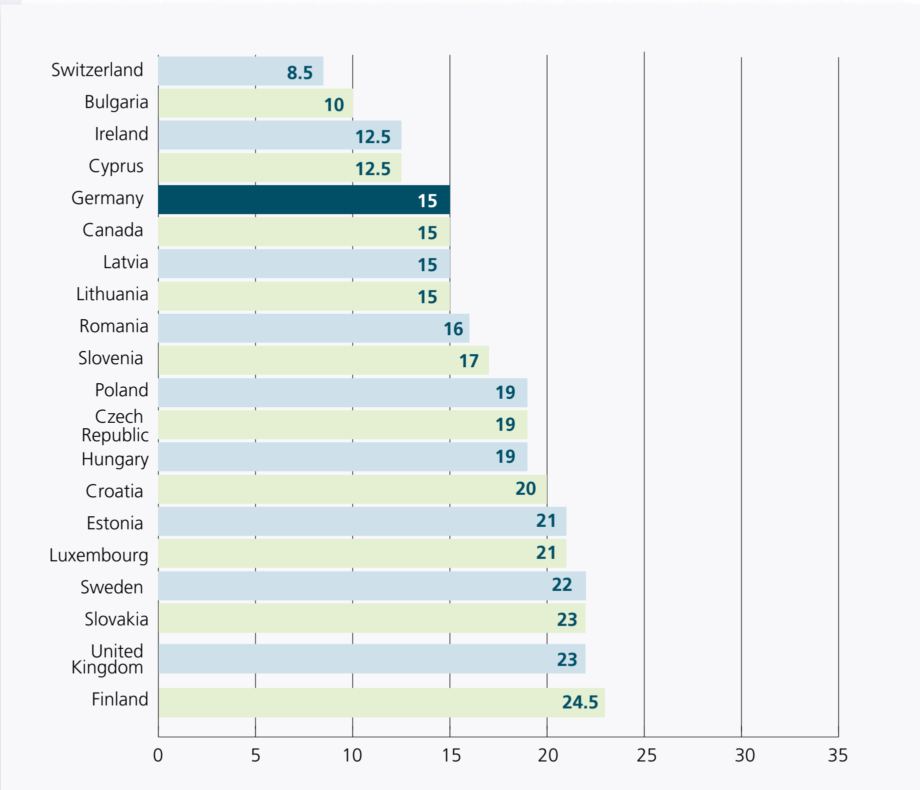
Tax competition involves states or municipalities competing to attract companies, rich individuals or transactions to their tax jurisdiction by means of lower taxation. The ultimate goal is to obtain higher tax revenues through the volume generated by lower rates. At the same time, other economic policy goals, such as more employment, are supposed to be achieved.

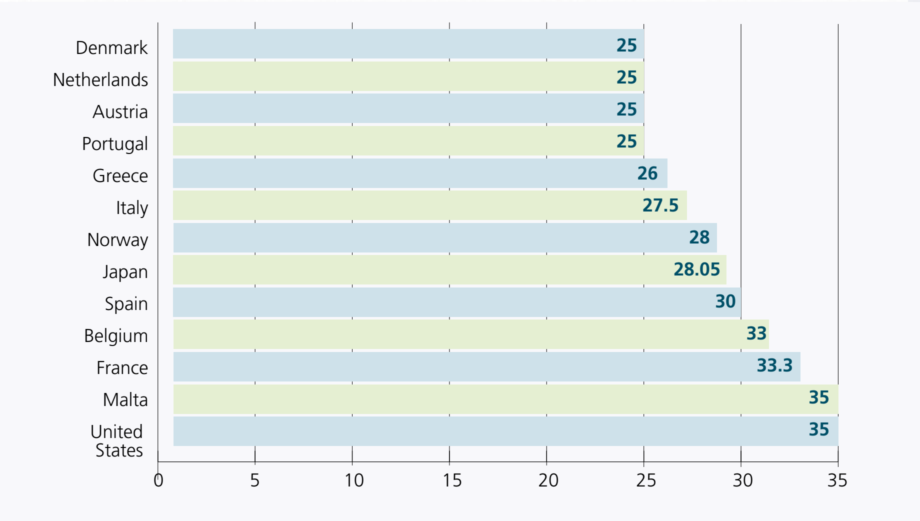
Problem: shifting of locations, but also of profits

Corporate taxation

The principal area of tax competition is taxation of companies. Companies themselves are mobile, for example, with regard to siting new plants. When it comes to taxable profits, however, a multinational company can shift them to a particularly favourable location. Traditionally, poorer countries in particular have tried to attract foreign investors by means of low taxes in the form of tax concessions or tax holidays.

This was neither unusual nor entirely unjustified because taxation in poorer countries is often low in any case, which is reflected in the paucity of public goods and services on offer in such countries. This applies, on one hand, to many developing countries and on the other hand to some poorer European countries (such as Ireland), but above all to the post-communist states of central and eastern Europe (the Baltic states, Hungary, Slovakia – see Figure 37). The opening up of these countries to global capitalism is one of the main components of globalisation (see Chapter 3). Their EU accession also removed many barriers that had hindered such competition.





Source: Bundeszentralamt für Steuern (2013) [Federal Tax Office, Germany].

Figure 37: Corporate tax rates 2013 (standard rates in % not including local surcharges)

Actual location: choice between more favourable taxes and better infrastructure

However, companies paying lower taxes accordingly get less for their money. In this model an investor must, theoretically, decide whether they prefer to locate in a high tax country with a well educated and trained workforce, good infrastructure and an efficient administration, police and justice system or in a low tax country where it has to provide many of these things itself, which increases costs (for example, private security services, training establishments and so on). This is the only explanation of why all mobile companies not dependent on local resources or customer proximity did not relocate to low tax locations long ago.

But companies often do not need to change location to save taxes. If they have establishments in different locations they can use so-called »transfer pricing« and corresponding ownership structures to shift profits to locations where taxes are lowest.

Profit shifting

For example, internal group deliveries from parts of the company in low tax countries to locations in high tax countries are invoiced at a high mark-up price. As a result high revenues are booked in low tax countries and high costs in high tax countries (and thus low or no profits).

Deliveries of this kind also include licenses, if patent rights are formally the property of a company affiliate in a low tax country. Complex tax avoidance models combine specific company law structures – for example, foundations in the Netherlands – with »transfer pricing«.

In fact, competition has now led even countries with a good (and more expensive) provision of public goods and services to lower their corporate taxes in order at least not to lose companies whose decision to relocate hangs in the balance.

»Double Irish with a Dutch Sandwich« is the name of a tax-saving structure. With the help of two Irish and one Dutch affiliates firms such as Google, Apple and Starbucks are able to avoid tax payments in their home countries. The mechanism is based on shifting key patents and licences to affiliates. The parent company pays the affiliate fees to use the licences. These fees are booked in the home country as losses, thereby reducing the tax burden. In the countries in which the affiliates' profits are incurred tax rates are extremely low, if they even have to pay any taxes at all.

Smaller countries in particular can often compensate for the low tax revenues arising from lower tax rates by attracting more companies to relocate there.

In the case of large countries, by contrast, it is probable that they will not be able to make up for a low tax burden on many companies by attracting new companies. Within countries regional authorities – for example, federal states or municipalities – can try to achieve the same result by imposing their own tax rate. Since 1995 the trend has been for tax rates to fall.

Effective tax decisive

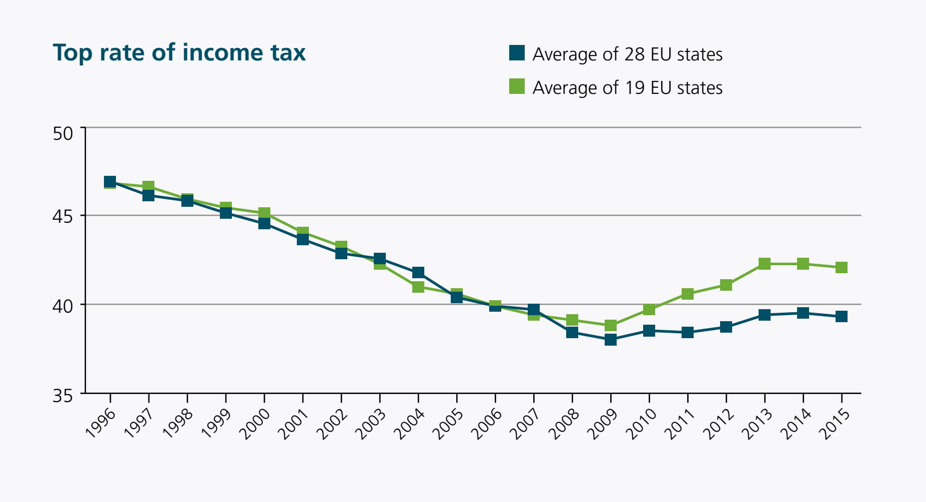
In this context countries do not compete by means of corporate tax rates alone. What is decisive for companies is effective taxation, arising from the rate and other tax regulations. This includes, for example, the tax treatment of different company forms, bases of assessment and depreciation allowances or accounting standards, the frequency and extent of tax audits and so on.

Particular measures can substantially increase or diminish the tax burden. In order to limit tax deficits many countries have linked rate reductions with an extension of the basis of assessment in the course of tax reform.

Personal taxation

Income tax rates have fallen

Another important area of tax competition is taxation of the incomes and wealth of individuals and households. This is difficult to separate from company taxation because especially richer people can organise their affairs or assets in the form of a company. It is thus not surprising that, in parallel with company taxes, states have been cutting the top rate of income tax (cf. Figure 38).



Source: Authors' presentation, based on Eurostat (2015: 143).

Figure 38: Development of top tax rates in the EU and the euro zone

EXPLANATORY NOTE: The figure presents the development of top rates of income tax over time. The green line shows the average of the then 19 member states of the euro zone, the blue line the development of the 28 current EU member states.
Both curves fell sharply between 1996 and 2008: from just under 47 per cent to 38.4 per cent (EU) and 39.1 per cent (euro zone). After a slight rise since 2008 the average top tax rate is currently 39.3 per cent (EU) and 42.1 per cent (euro zone).

Tax liability linked mainly to place of residence

Because the tax liabilities of individuals and households are linked mainly to place of residence only a few people can benefit from tax competition. This includes those for whom a change of residence or maintaining several places of residence does not represent a problem, saving more in tax than any costs that might arise. Prominent German sportsmen such as Boris Becker (who moved to Monaco) and Franz Beckenbauer (Austria) illustrate this state of affairs.

Tax havens

With regard to the taxation of assets and their proceeds asset management locations compete not only with low tax rates, but above all by making it possible to conceal taxable assets from the relevant tax authorities. Because asset management is generally a lucrative business many tax havens – including not only exotic islands, but many »proper« countries, such as Switzerland, Austria and Luxembourg – try to attract as much wealth as possible.

Transaction taxes

Little tax competition with regard to VAT

A large and increasing part of tax revenue comes not from the taxation of companies, high incomes or assets, but from taxes on transactions, such as sales taxes, taxes on energy, alcohol or similar.

In this area tax competition is less keen because special treatment is hard to implement and lower rates narrow tax revenues too much. Nevertheless this route recommends itself to smaller fortunately-placed countries.

Exception: Luxembourg

For example, Luxembourg can obtain unusually high VAT revenues despite its low VAT rates because many foreigners shop there. Especially in the border regions of high tax countries this can lead to considerable sales losses.

A special case is provided by financial transaction taxes or taxes on the transfer of securities that fall on asset transactions (see earlier in this section). Again, the objection raised to their introduction is that tax competition would result in such transactions being shifted to other jurisdictions.

Consequences and countermeasures

Tax burden higher on employees and consumers

Overall, although tax competition has not led to a fundamental reduction of the tax burden – as may be discerned from the relative consistency of the ratio of government expenditure to GNP – it has changed the structure of tax revenues at the expense of wage and consumption taxes. While companies and the rich have seen their burden eased, the rates of the kinds of taxes that fall in particular on lower and middle incomes have risen. Thus tax competition has contributed to the increasing inequality in many countries.

Not least the heightened awareness of this inequality – in the wake of the financial market crisis, in which banks and investors were bailed out with taxpayers' money – led to a new wave of proposals and measures to defuse tax competition. They are a continuation of earlier efforts by the tax authorities to reduce tax avoidance and evasion using an internationally coordinated approach.

As early as 2004 the United States, Canada, Australia and the United Kingdom established the Joint International Tax Shelter Information Center (JITSIC). On 1 July 2005 the EU Savings Directive came into force, which provides for automatic exchange of information between EU countries and other states concerning the interest income of foreign investors or, optionally, a progressive withholding tax. The OECD has driven and coordinated measures against »transfer pricing«.

Close loopholes!

In 2011 the EU presented a European Commission proposal on introducing a Common Consolidated Corporate Tax Base (CCCTB). Overall, however, these efforts have had only limited success. Among the NGOs who seek to combat the effects of tax competition one might mention the Tax Justice Network (http://www.taxjustice.net). After the financial market crisis some progress was made. On average, OECD top tax rates have risen again to some extent.

What does this mean for social democracy?

- Finance capitalism has to be regulated in such a way that the financial system reverts from being the master of the real economy to being its servant.
- A financial transaction tax can curb excessive speculation.
- International cooperation should be used to reduce tax competition, close loopholes and combat tax avoidance or flight.

6.4. Global Environmental Policy and Climate Protection

In this section

- the global economy's impact on the environment is presented;
- global warming, one of the key challenges of environmental policy, is explained;
- the connection between growth and environmental impact in an unequal world is analysed;
- options for a fair and sustainable distribution of growth opportunities are discussed;
- strategies for uncoupling growth from environmental impact are considered.

The earth as a planetary ecosystem is, by definition, a global phenomenon and its conservation a global challenge. Humanity has always interacted with this ecosystem. In the course of evolution it has come to occupy a niche that initially it rapidly filled and in due course has extended.

Environment shaped by human beings

In the course of history human beings have increasingly changed their environment. But for long ages such changes affected only their immediate surroundings. In recent years, however, scientists have begun to talk of the so-called »Anthropocene«, a new geological age in which humanity has become the decisive influential factor in planetary development.

Local and global environmental impact

Nevertheless, it makes sense to distinguish between global and local environmental changes. If human beings ruin the soil or water in their surroundings that does not spread as far or as rapidly as if the atmosphere is affected. Although widespread local processes can lead to global results, local environmental damage can be fixed locally.

Some success against local environmental damage

For example, many rich countries have alleviated pollution in their local environment. They have generally introduced stricter regulations on emissions from factories and vehicles and put more emphasis on consumer protection. For example, the Rhine is today comparatively clean and the sky above the Ruhr is blue again. Global problems, by contrast, require global efforts.

In the absence of globalisation it could be left to national or local communities to decide the extent to which they would allow reckless production growth or prioritise environmental protection. One could rely on societies that had overcome poverty to shift their preferences towards environmental protection.

Lower environmental protection should not be a competitive advantage!

However, environmental and consumer protection come at a cost and environmentally sustainable production raises prices. In open national economies sellers compete with other producers from countries with lower requirements, which therefore do not have to include the social costs in their prices.

As a consequence, companies and environmental groups repeatedly call for barriers to such imports. However, this only serves to reduce competition in the domestic market. In export markets the domestic firms eventually have to compete with suppliers that have to comply with fewer requirements (see Section 6.1 on the similar problem of protection against low-wage competition).

Labelling is needed!

For better consumer protection clear labelling should be made compulsory in order to make clear the level of impact or, for example, the product's origin in gene-manipulated cultivation, thereby enabling the consumer to choose between more risky, but cheap and more expensive, but safe products.

A special variation for exercising different preferences is to shift the costs beyond national borders, by relocating environmentally harmful activities to (mainly poor) countries in dire need of revenue from whatever source. An extreme case is the export of toxic waste to developing countries. Market-liberal economists regarded these countries as »underpolluted«, as then World Bank Chief Economist Larry Summers put it in an internal paper in

Overfishing – overexploitation of the sea's resources – is a typical example of the tragedy of the commons. A common or collective good is something that belongs to all as a community, from whose use no one is excluded, but which is consumed individually, leaving no more or much less available for others.
Fishing catches rose from around 20 million tonnes in 1950 to over 90 million tonnes in 2010. Per capita consumption rose from around 40 kilos a year to over 120 kilos, although this is partially supplied by fish farming. Nevertheless 90 per cent of global fish stocks have already vanished. Scientifically based catch quota recommendations are often diluted in the political process and in any case exceeded in reality. Thus the experts' recommendation for the Bluefin tuna catch was 10,000 tonnes; the politicians boosted that to almost 30,000 tonnes; and in the event at least 60,000 tonnes were caught. Many states and the EU still subsidise their fishing fleets.

1991. They are thus allegedly more suitable locations for environmentally dangerous production than rich countries.

Systematisation of damage

When it comes to the environmental consequences of the global economy a distinction has to be made between:

1. the burdens of the global commons and
2. other burdens, such as the exploitation of finite resources.

For many of the »services« »provided« by the ecosystem there is no conceivable price (for example, biodiversity). In the second case the price mechanism provides for a counter-pressure in the form of lower demand and higher investment in economisation (for example, with regard to oil). In the first instance, it is very difficult to develop a counter-strategy because that would call for effective regulation at the global level. Global warming also comes under this category of problems.

Global warming

Biggest global threat

The biggest global threat to the environment is climate change. The earth has been warming for several decades, with the oceans absorbing the bulk of the accumulated heat.

The extent to which this warming is due to human activities is controversial, among other things because there have been similar major fluctuations in temperature (warm periods, ice ages) resulting from different causes. Conservative think tanks, politicians and enterprises whose interests are threatened dispute climate change and/or its human-induced character. The overwhelming opinion among scientists, however, is that the sharp increase in the production of greenhouse gases – in particular carbon dioxide (CO_2) – is the main cause of global warming.

An exact evaluation of the risks is difficult because of the measurement problems and uncertain modelling of the planetary ecosystem. However, we can expect more extreme weather conditions, such as storms, heavy rain with flooding, droughts and so on. The regional distribution of these phenomena is very irregular and they will threaten agriculture especially, but may also cause other major damage.

Sea levels will rise further, although the extent and the pace of change are unclear. At present, sea levels are rising by around 3 millimetres a year. The rise is due to the expansion of sea water as a result of its warming and inflows from melting glaciers and polar ice on land.

By the end of the present century a rise of between 0.5 and 1.2 metres is expected. Over longer periods, however, much sharper rises are conceivable. That will threaten the very existence of certain territories, such as the Maldives. A total meltdown of those parts of the polar ice caps lying on land will result in a rise in the sea level of between 50 and 60 metres.

Such a process would probably take centuries, unless catastrophes or self-reinforcing processes occurred, which cannot be ruled out in complex systems. Climate change might also undergo so-called tipping point effects, that could massively accelerate developments. For example, the thawing of the Siberian permafrost would unleash enormous quantities of the dangerous greenhouse gas methane. The melting of the polar ice caps and glaciers would also reduce their ability to reflect solar energy and heat back into space (albedo). If this energy remains on earth melting could accelerate.

At the latest since the early 1990s the international community has taken these problems seriously and has been discussing political counter-measures.

Agenda 21

Programme for sustainable development

The first major attempt to address climate change was the so-called »Earth Summit«, the conference on environment and development in Rio in 1992, at which Agenda 21 and the UN framework agreement on combating climate change were adopted. A total of 172 states agreed this development and environmental policy action programme for the twenty-first century. It serves as a programme document for sustainable development. The conference has been followed by annual climate summits (Conference of the Parties or COP). In 1997, for example, the Kyoto Protocol provided for a reduction of CO_2 emissions on the part of the industrialised countries in the period 2008–2012, averaging 5.2 per cent in relation to the level of 1990.

The United States, in which certain interests have whipped up an extreme controversy concerning anthropogenic climate change, has still not acceded to the Protocol. At the various successor conferences the level and distribution of the reduction targets have been contested primarily between the industrialised and

2015: UN climate conference in Paris

the developing countries. At the Lima conference in 2014 a vague concluding document was initially adopted. However, a binding document proved possible only at the December 2015 UN climate conference in Paris.

Goal: limit warming!

Despite the major lines of conflict the states agreed on the goal of limiting global warming significantly below 2°C, if possible 1.5°C. Aid was agreed for less well-off countries.

The obstacles were high because 190 countries had to agree (unanimity). In the run-up to the conference there had been positive signs. In the United States President Obama had announced a plan on emissions reduction in power stations. China will reduce its emissions from 2030 at the latest. The Pope has called for climate protection in an encyclical.

The success of the agreement will depend on its ratification and implementation by individual states. Reaching agreement was already a success, however. An example of a climate protocol that succeeded because of the support of poorer countries was the Montreal Protocol of 1987, dealing with the destruction of the ozone layer by CFC emissions.

Montreal Protocol

The hole in the ozone layer is due to its thinning at the poles, especially over Antarctica. It was discovered in 1980 and grew rapidly. The loss of the ozone layer would mean that the sun's ultraviolet light would reach the surface of the earth unfiltered and cause burns and skin cancer. The ozone layer is badly affected by CFCs, which were used especially in refrigerators and air conditioners, from which they got into the atmosphere.

Given the clarity of the evidence and the causes an international agreement was reached relatively rapidly (Montreal Protocol). It was negotiated in Vienna in 1987 and came into force on 1 January 1989. The Montreal Protocol combined the aims of reducing CFC emissions and the establishment of a fund for poor countries to support their implementation of CFC-free installations.

The measures have halted the expansion of the ozone layer. It peaked in 2012 and is supposed to disappear by 2050. Thus the Montreal Protocol is a model for global environmental policy.

In response to climate change three – basically also combinable – strategies suggest themselves:

1. reduce emissions and try to reduce them better, for example, by means of reforestation;
2. take precautions against climate change, such as higher levees and more robust building methods, as well as resettlement from endangered areas;
3. take global technological counter-measures (geo-engineering) to lower the temperature or boost CO_2 absorption capacity. That could include, for example, the release of reflective particles into the atmosphere or the fertilisation of the seas with iron sulphate.

Three strategies against climate change

The **Yasuni ITT initiative** was directed against planned oil drilling in the Ecuadorian rain forest. Its aim was to protect the jungle, its biodiversity, its indigenous peoples and its capacity to absorb CO_2. NGOs collected money that Ecuador would receive if it banned the drilling. It was supposed to compensate the country for lost oil revenues. In an agreement with the UN the country agreed to this plan in 2010. The payments to a UN trust fund promised by the donor countries have not been made.

The climate conferences and a plethora of global, regional, national and local efforts – for example, the Yasuni ITT Initiative are concentrated on the first strategy. The second strategy is pursued locally throughout the world, not least because many people are very doubtful about the first strategy and (have to) respond to specific threats. The third strategy is very controversial because it harbours global risks that might be more dangerous for the planet than climate change itself.

Growth and environment

How environmentally damaging is economic growth?

Growth, especially material production, burdens the environment and uses up finite raw materials stocks. Many critics of growth thus call for a slowing down, a halt or even a reversal of growth (so-called »degrowth«). Such a policy without accompanying measures, however, would in particular affect people who are at present suffering from poverty and material deprivation (see p. 64).

The global environmental effects of growth can be presented as a combined effect of specific natural impacts per unit of GDP, growth of GDP per capita and population growth.

Environmental impact can be measured as CO_2 emissions, as an environmental footprint or as consumption of raw materials. In what follows CO_2 emissions are selected because the consequences for the climate are the most critical limit of global growth. As can be seen in Figure 39, before the most recent economic and financial crisis (between 1991 and 2007) global CO_2 emissions increased by 37 per cent, the main contribution to which came from growth in per capita income, while the environmental efficiency of growth even improved.

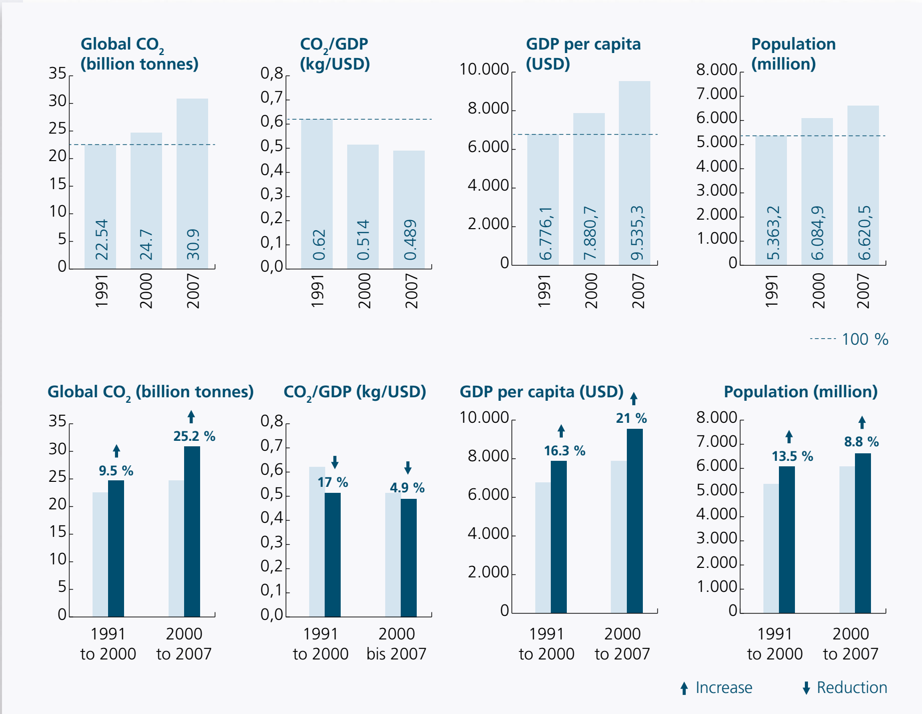


Figure 39: CO_2 emissions, incomes and population

Sources: International Economic Forum Renewable Energies (2015); World Bank (2015a); authors' calculations; real GDP in 2005 prices and purchasing power parities.

EXPLANATORY NOTE: Figure 39 shows how CO_2 emissions, incomes and population have developed in tandem. For example, one sees in the left-hand column that in the period from 2000 to 2007 global CO_2 emissions increased from 24.7 billion tonnes to 30.9 billion tonnes (25.2 per cent). CO_2 emissions per 1 USD growth, however, diminished substantially. Why CO_2 emissions nevertheless increased, however, can be seen in columns 3 and 4. Both GDP per capita and the world population rose considerably.

Three approaches

If one wants to reduce the environmental impact or at least decelerate growth, the following three approaches suggest themselves:

- unlinking environmental impact and GDP;
- lowering or a slower increase of per capita incomes;
- lowering or a slower increase of world population.

The last two alternatives are probably more difficult to implement. As a result, attempts are currently being made to achieve a decoupling of environmental impact from GDP by means of better resource efficiency and greater use of renewable resources.

The fact that such decoupling is possible is confirmed by the values in Figure 39, as well as the growth of countries that lowered their CO_2 emissions despite GDP growth between 1990 and 2008, such as Germany (–22 per cent), the United Kingdom (–18 per cent) and France (–6 per cent).

Germany has »benefited« from the radical reduction of industry in the eastern part of the country. Significantly, for similar reasons almost all post-communist countries, such as Russia (–33 per cent), Ukraine (–54 per cent) and the new EU member states (Latvia: –55.6 per cent) have been even more successful in reducing their CO_2 emissions. To that end they had to undergo massive deindustrialisation and temporary precipitate falls in growth.

Many other rapidly growing countries have experienced sharp increases in CO_2 emissions, however. For example, Turkey's CO_2 emissions rose by 96 per cent, those of Iceland and Spain by 42 per cent, Portugal's by 32 per cent, Greece and Ireland's by 23 per cent and – most alarming in terms of volume – those of the United States by 13 per cent.

Between 1991 and 2007 China's CO_2 emissions increased by 157 per cent, the Middle East's by 111 per cent, South America's by 59 per cent and Africa's by 51 per cent. However, these results in poorer countries are much more the outcome of population growth than rising per capita incomes.

Because economic development and energy consumption are closely related a reduction for these countries will require a switch to renewable energies. They would be relatively more expensive and thus hinder their development.

China: CO_2-intensive growth...

... but still relatively poor

Because of its strong growth China is regarded as one of the main culprits with regard to climate change. In fact, its growth is indeed relatively CO_2-intensive. Its CO_2/GDP value is 1 and thus double that of the world average or even that of the United States. And it is sinking only slowly.

Per capita consumption of the industrialised countries higher

However, it tends to be overlooked how poor China still is despite its explosive growth. Its per capita income is still below the world average and – at any rate before the crisis – was around one sixth of the US level. India is even further behind, at around half Chinese GDP per capita. These enormous differences in level indicate that the, in comparison with China, slower growth of the richer countries – especially the United States – produces huge quantities of CO_2. For example, between 1990 and 2009 China contributed just under 25 per cent of global growth, 7 trillion USD out of 28 trillion. The rich OECD countries, however, despite their smaller populations, totalled 12 trillion USD. The United States alone registered 4.8 trillion USD, the EU 3.9 trillion and Germany 0.6 trillion.

China's population grew during this period by around 200 million people, while the corresponding increase in the OECD countries was 161 million, 57 million of them in the United States and 27 million in the EU (Germany 2.4 million). Thus during these 20 years or so per capita GDP in China grew in absolute terms by only 5,099 USD, but in the OECD by 6,896 USD and in the United States by as much as 9,834 USD.

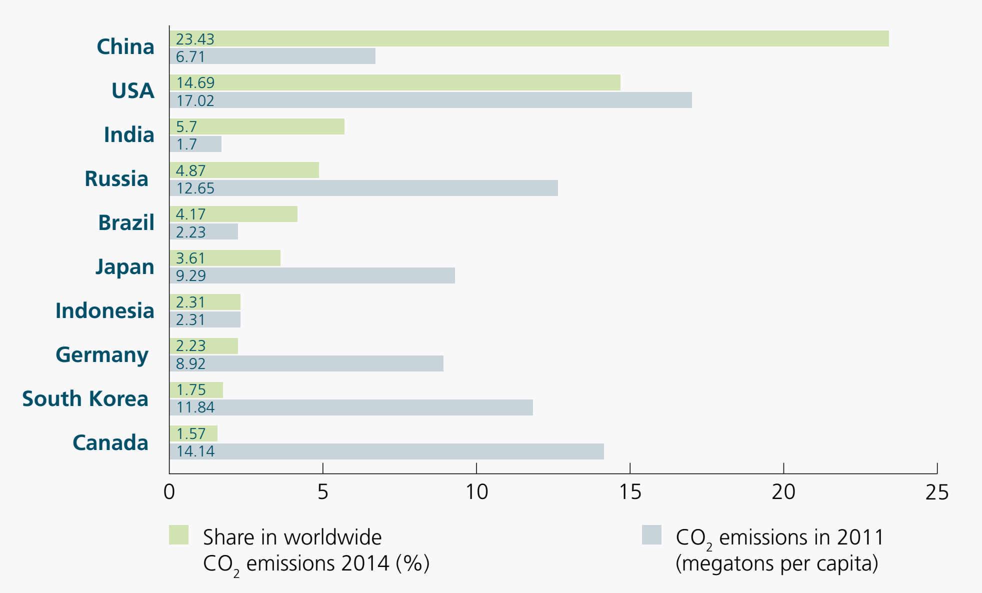
Further reading:
Reader 4, Europe and Social Democracy; Section 4.4: Ensuring sustainability.

Global distribution of greenhouse gas emissions

The central conflict in global climate politics concerns which state makes what commitments on reducing emissions. Above all the issue is the distribution of the burden between richer industrialised countries and poorer developing countries. Although in other respects this juxtaposition has long been obsolete, in climate politics it still plays an important role.

It is not only recently that the bulk of emissions come from the industrialised countries, even if China is now the biggest perpetrator. Per capita the emissions of the industrialised countries – especially the United States, but also Germany – are still far above those of the developing countries (see Figure 40).

The historical dimension is much more important: in the course of their economic development the industrialised countries also produced the mass of the greenhouse gases in the atmosphere today. The poorer countries are insisting on the same rights and possibilities for their own development.



Source: Statista (2015); Factfish (2015).

Figure 40: CO_2 emissions of the main emitters

EXPLANATORY NOTE: The figure shows the ten countries that emit the most CO_2. The upper bar shows their share in CO_2 emissions worldwide. China is in first place. The lower bar shows emissions per capita. Among the countries indicated here the United States leads, although worldwide Qatar takes first place.

In calculating quotas for CO_2 emissions and their reduction various problems arise:

- Choice of the base year as reference point from which cuts are to be achieved: for Germany, for example, the base year of 1990 is very advantageous because with the total collapse of the GDR's industry CO_2 emissions fell sharply (by around 17 per cent) with no need for a special effort (United Nations Framework Convention on Climate Change 2012).
- Taking into account consumption rather than production: countries that import many goods, whose production in other countries releases a lot of CO_2 score relatively better, even though ultimately their consumption is responsible for the CO_2 emissions. This applies, for example, to imports from China to Europe and the United States. Focusing on production is to the detriment of emerging countries in favour of richer industrialised ones.
- Taking into account CO_2 sinks: forests absorb CO_2 and their expansion (for example, by reforestation) and maintenance (for example, by banning felling in the rainforest) should be classified as a reduction in CO_2 emissions.

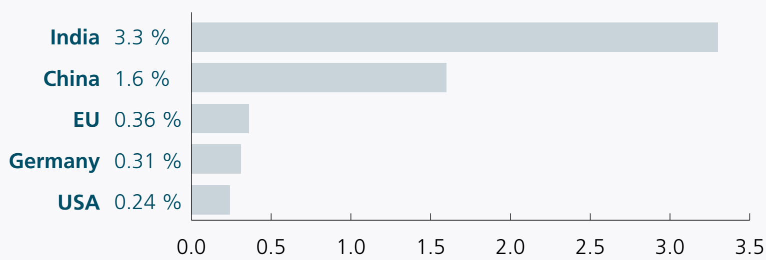
Given the difficulty of decoupling growth and environmental impact it appears unavoidable to limit GDP growth per capita because rapid population reduction is to be expected in very few countries and is even more difficult to bring about. Such an approach could backfire, however. That is because per capita income also affects the two other components of global environmental impact. The higher per capita GDP, the lower the birth rate tends to be. By limiting economic growth one might also halt progress in reducing population growth. In other words, one might lose in the third component what one gains in the second.

A fair distribution of growth should spread the volume of environmentally friendly growth evenly. It is like a wage bargaining round in which only flat-rate amounts per employee are negotiated in order to put low incomes in a better position and to reduce wage differentiation over the long term.

Limits of fairly distributed growth

If the target is to keep CO_2 emissions constant the global GDP to be distributed could rise only to the extent that decoupling succeeds. If one starts out from values from recent years the efficiency factor (CO_2/GDP) rises by around 2 to 3 per cent. In the case of world population growth of around 1.2 per cent a good 1 per cent remains for a rise in income or output, which given a world GDP of around 64 trillion USD makes 640 billion USD.

Distributed equally, everyone on earth would be apportioned around 100 USD. That allows per capita income growth of 3.3 per cent in India, 1.6 per cent in China, but only 0.36 per cent in the EU (slightly less in richer Germany, at 0.31 per cent) and 0.24 per cent in the United States.



Source: Authors' calculations.

Figure 41: Environmentally friendly per capita growth in the case of equal distribution per person

EXPLANATORY NOTE: The figure shows what growth rates in different countries would correspond to an additional income of 100 USD per inhabitant.

In this context such a restriction on growth would only keep CO_2 emissions constant. The volume of CO_2 in the atmosphere would continue to rise. In order to keep the volume constant emissions must be reduced to nature's (forests, oceans) absorption capacity.

As a result, many climate-policy programmes provide for a reduction of global CO_2 emissions of 20 to 30 per cent by 2020 (base year 1990; agreement was reached on the 20 per cent mark, at least for European countries, at the Council of Europe in 2007, before the crisis: Council of the European Union 2007: points 29–35). Unless decoupling is accelerated this would mean even more substantial cuts in growth.

Decoupling growth and environmental impact

Real GDP and especially welfare can grow without burdening the environment excessively. For example, if households spend more on music downloads, demand and the sales of service providers rise, without anything physical – apart from relatively low energy costs – being involved. If productivity gains are converted into more leisure time GDP stagnates.

On the other hand, weak GDP growth can mask an increase in environmentally harmful subsistence or household production or undeclared work.

Structural change needed

The decoupling of growth and environmental impact should thus be sought not only in new technologies for renewable energy or more resource-efficient production. Instead, a structural change towards higher consumption of social services – education, child care, health care, other care – and growth in the corresponding supply can help.

If, as a result, the unpaid work of – mostly – women in the household is replaced by well-paid professionalised and qualified employment – partly by the same women – then GDP and prosperity would grow, but the environmental impact would be modest.

Although in the wake of income improvements consumption of material goods may increase, the growth would be modest because the people concerned already have food, clothing, accommodation and so on. Also in the case of investments that boost productivity in services, material accoutrements play a diminishing role. On the other hand, intangibles, such as research, brand names, computer-assisted information, training and so on, are becoming more and more important. Education and training for women will probably have a further important effect on the environment. As a rule, the birth rate declines with rising qualifications, in both rich and poor countries.

Further reading:
Gerd Ganteför (2011), Bevölkerungswachstum und Klimawandel: Warum fossile Brennstoffe für die armen Länder unverzichtbar sind [Population growth and climate change: why fossil fuels are unavoidable for poor countries], in: Internationale Politik und Gesellschaft 1/2011, pp. 114–133.

In poorer countries lower population growth is advisable because the current high rates represent one of the biggest long-term environmental burdens. For example, Ganteför has shown that population growth in Bangladesh reduces the available area per inhabitant more than flooding due to global warming. In richer countries, in turn, each additional person – given maintenance of current lifestyles – will for the foreseeable future represent a much higher burden on the global environment than each additional person in poorer countries.

What does this mean for social democracy?

- The rich industrialised countries are mainly responsible for climate change.
- The Montreal Protocol (against CFCs/hole in the ozone layer) with its combination of reduction targets and conversion aid is a good model for the fight against climate change.
- Growth and environmental impact – resource use and greenhouse gas emissions – should be decoupled, such as far as possible.

6.5. Migration

In this section

- an overview is provided of the extent and structure of global migration movements;
- the connection between global growth, income distribution and migration is analysed;
- flight and displacement are treated as a second important type of migration;
- the relationship between social justice and migration is examined;
- ideas on a policy approach to migration are presented.

Globalisation and its cheaper transport and communications, together with the easing of border controls have facilitated and improved the global mobility of people. The global distribution of information has, in addition, given people an incentive to travel.

The bulk of cross-border movements of people involve tourist or business travel. Generally speaking this involves only short stays abroad. In this section, however, we are concerned primarily with migration in the sense of a long-term change of residence.

Push factors: among other things, war and hardship

Pull factors: prosperity and security

The reasons for this can be multifarious. Reasons include onerous situations such as war, persecution, oppression, environmental catastrophes and poverty, which drive migrants out of their home country. These are known as push factors. The higher degree of security and higher standard of living in the target countries are so-called pull factors. If migration occurs for this reason, whether with or without the agreement of the country of immigration, one talks of economic migration.

A new but growing phenomenon is **transmigration**. This involves people not only leaving their homeland for a new country, but repeating the process more than once (see also Figure 44). In the process they form new transnational identities, rooted in different cultural spaces. At the upper end of this population migration are global elites of highly paid professionals, such as managers, artists, sportsmen and wealthy individuals with several homes and places of work, whose national identity is sometimes vague.

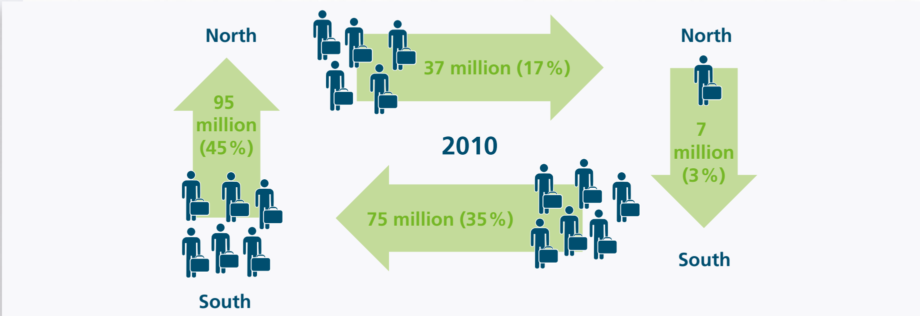
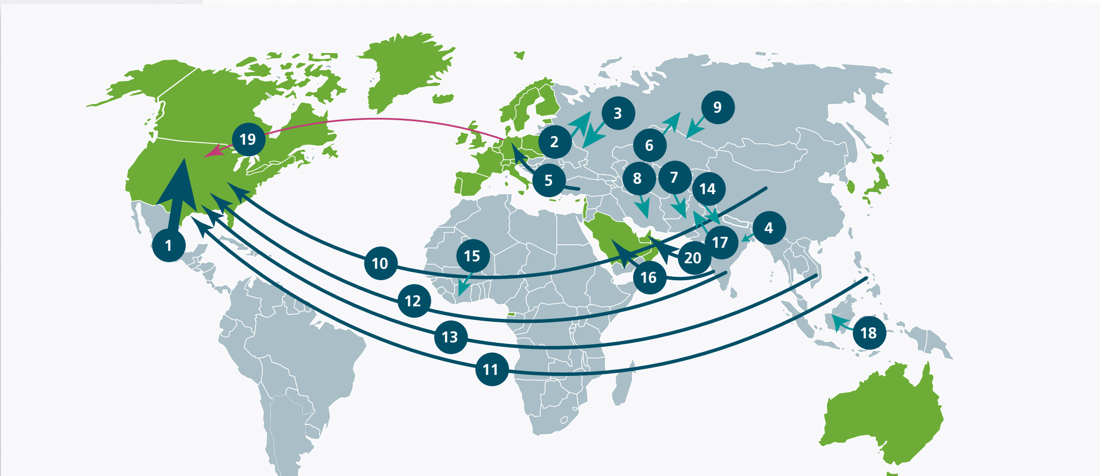


Figure 42: Global migration paths (million; %)

Source: From World Migration Report (2013: 55).



CORRIDOR	NUMBER OF PEOPLE ('000)	CORRIDOR	NUMBER OF PEOPLE ('000)
1) Mexico – USA	12.189	11) Philippines – USA	1.850
2) Ukraine – Russia	3.663	12) India – USA	1.557
3) Russia – Ukraine	3.525	13) Vietnam – USA	1.191
4) Bangladesh – India	3.191	14) Pakistan – India	1.448
5) Turkey – Germany	2.819	15) Burkina Faso – Ivory Coast	1.432
6) Kazakhstan – Russia	2.648	16) India – Saudi Arabia	1.417
7) Afghanistan – Pakistan	2.413	17) India – Pakistan	1.401
8) Afghanistan – Iran	2.021	18) Indonesia – Malaysia	1.317
9) Russia – Kazakhstan	2.097	19) Germany – USA	1.283
10) China – USA	1.957	20) India – United Arab Emirates	1.200

Figure 43: Main migration corridors worldwide (as of 2010)

Source: From World Migration Report (2013: 61).

EXPLANATORY NOTE: Die **Figure 42** shows how people migrate in and between regions. For example, according to World Bank data, in 2010 there were around 95 million people living in the global North who were born in the global South. **Figure 43** shows the world's main migration corridors. The United States is the main target country of many migrants in the context of both south–north and north–north migration. In 2010, for example, 12.2 million people who were born in Mexico were living in the United States (arrow 1).

Migration movements are composed of three groups, depending on the definition of the regions. A good third comprise migrations from south to north. A similar proportion migrate within the south and just under a quarter within the north. Migration movements from north to south are low.

Three main migrant groups

Global economy and migration

Migration is not a new phenomenon (see also Chapter 3). In the early phases of human history much larger relative proportions of the populations of countries of origin or reception countries moved across »borders« than today.

Not a new phenomenon

Take the example of the mass migration beginning around the year 375 or the colonial settlements of America, Australia and South Africa in modern times. From certain parts of Schleswig-Holstein in the late nineteenth century over 10 per cent of the population emigrated, predominantly to North America.

Already at that time there was a mixture of economic, political and cultural factors: many Europeans wanted to escape not only poverty, but also political oppression or religious discrimination through migration. In the target regions immigration was often accompanied by expulsion, oppression or extermination of the native population (for example, Native Americans). In what follows we concentrate first on economically motivated migration.

Various motivations

In economic theory migration is a consequence of different levels of productivity and growth processes. Labour forces migrate from regions (countries) with low productivity to those with high productivity. Low productivity often originates in a low capital stock per worker. That means that if a firm has only old and poor quality machines the employees will produce worse results than those using modern and more efficient machinery.

Economic view of migration

Land or means for manufacturing (factories, machines) were scarce in the countries of origin, but abundant in the reception countries. Thus workers were able to achieve higher returns there than at home, where many people had access to relatively little land or other capital goods.

In the overseas territories of the nineteenth century it was primarily land, while in western Europe and the United States in the second half of the twentieth century it was mainly capital that attracted workers (in the case of western Europe, from the European periphery and in that of the United States, from Latin America).

Growth regions need workers

Productivity potential is closely linked to a region's growth dynamics. Western Europe was a growth region primarily between 1950 and 1970, but also after 1990. The Gulf region was a growth region from 1975 (oil price rises) and the United States pretty much always, apart from a few periods of recession. Thus additional workers were sought in these regions.

High and growing global inequality (see Chapter 4) is increasing the incentive for poor people to migrate to richer countries. At the same time, migration is a factor in falling or stagnating wages in the rich countries, due to the increase in labour supply. In the poor countries, according to mainstream economic theory, wages are supposed to rise (relatively speaking).

Remittances higher than resources available for development

The remittances of people working abroad to their home countries improve living standards there. In the Philippines, a major sending country, remittances now make up around 10 per cent of national income. According to statistics, in 2012 all migrants of all countries remitted around half a trillion US dollars. The real number may be even higher. This sum is four times the official resources made available for development cooperation and at a similar level to all public and private capital flows (aid plus loans plus investments) put together (see Section 6.2).

Annual migration for all OECD countries stands at around 4 million people. After 2007, when it reached a peak of almost 4.5 million, it fell back to 3.8 million in 2012/2013. The main reception country is the United States, with around 1 million immigrants. This is followed by Germany, the United Kingdom, France, Italy, Canada, Australia and Spain, with 200,000 to 300,000 immigrants a year. The numbers vary sharply depending on economic development. In boom periods workers migrate to economies needing labour, where they tend to find employment very quickly. Countries in crisis are rather avoided.

Immigration to Germany

Thanks to its relatively stable labour market the annual number of immigrants to Germany almost doubled between 2009 and 2012, from a good 200,000 a year to almost 400,000. In Spain, by contrast, compared with 2007, when it stood at 700,000, it had fallen to around 210,000 by 2012, only 30 per cent of that previous level. In Italy, too, the number halved between 2007 and 2012. In Ireland it fell from 120,000 in 2007 to just under 24,000 in 2010, before rising again somewhat.

In the OECD countries an average of 12 to 13 per cent of the resident population were born abroad. Luxembourg (43 per cent) and Switzerland (28 per cent) are way out in front in this respect, while Germany and the United States are around average. The figures for Korea and Japan are far below the average, at 2 per cent. Apart from the OECD states immigration is significant especially in the Gulf region and the richer southeast Asian countries, such as Malaysia, Thailand and Singapore. In these countries people migrate mainly from the Philippines, India, Pakistan and Bangladesh. The figure is around 1.5 million people a year.

Migration outside the OECD

In the Gulf states the 10 million or so foreign workers who live there, largely without rights, make up a large, often overwhelming proportion of the population. In Qatar, for example, the ratio between migrants and natives is 6:1 and in the United Arab Emirates 8:1.

Growth effects of migration

Complete liberalisation of migration would dramatically increase global growth potential. It would probably have greater effects than the liberalisation of trade in goods and services and at least as much as the liberalisation of capital movement. But the distribution of growth gains would be very uneven and the already high inequality would increase further.

The main beneficiaries would be capital owners. Their returns would undergo a massive boost, while wage levels, especially in the case of unqualified workers, would plummet. That would rack up the pressure on nation-states to improve the conditions of exploitation for global capital because otherwise not only capital, but also workers would leave the country.

Flight and displacement

Besides migration for economic reasons, which often takes place with the consent of the home and reception countries, there are also migratory movements due to war, persecution, oppression or environmental catastrophe.

Source: UNHCR (2015: 5).

Figure 44: Number of displaced persons worldwide, 2000–2014 (year end)

EXPLANATORY NOTE: The figure shows how the number of displaced persons developed between 2000 and the end of 2014. One pillar shows the total number of displaced persons in a year. The green portion shows people seeking protection in other countries, the blue portion people displaced in their own country. In 2000 there were thus around 38 million in flight, around 22 million in their own country and around 16 million in other countries. The purple line shows how many people were newly displaced per year. Data available only since 2003.

The bulk of these refugee movements occur within countries. People flee from a threatened region to relatively safer parts of the country.

Refugees: mainly within their own country

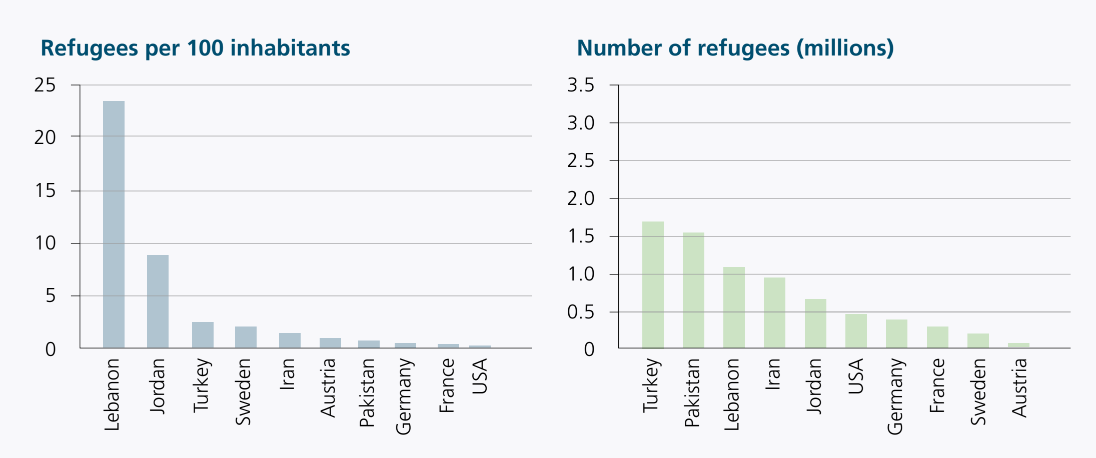
Overall, around 59.5 million people are affected. Around 38.2 million have been displaced within their own country (internally displaced persons). The number of cross-border refugees is around 19.5 million people, that of asylum seekers 1.8 million (UNHCR 2015).

Origin of refugees

Most refugees at present (2014) come from Syria, Afghanistan and Somalia. They are received mainly in neighbouring countries. In the case of Syrian refugees that means Turkey, Lebanon and Jordan. Refugees from Afghanistan seek protection mainly in Iran and Pakistan, those from Somalia in Ethiopia and Kenya.

In 2014 Lebanon had the highest number of refugees and asylum seekers per inhabitant, making up around 23 per cent of the population. Germany, with around 443,000 persons, the United States (455,000) and France (308,000) were the main reception countries. In 2015 the number in Germany increased sharply. By October 2015 over 360,000 more people sought asylum there (BAMF 2015: 4). It is important to note that in 2014 just under nine out of ten recognised refugees (86 per cent) were in economically underdeveloped countries (UNHCR 2015: 2).

Lebanon: refugees make up 23% of the population



Source: UNDESA (2013: 180 ff.), UNHCR (2015: 44), authors' calculations.

Figure 45: Refugees in selected countries (2014)

EXPLANATORY NOTE: The figure shows for selected countries the number of refugees taken in by year-end 2014, regardless of the time of entry. The numbers encompass recognised refugees, asylum seekers and people in a comparable situation.

On the left are the values in relation to a country's overall population. By the end of 2014 Lebanon had taken in around 23 refugees per 100 inhabitants. Germany, by contrast, had taken in only 0.54 refugees per 100 inhabitants.

On the right the total number of accepted refugees is presented. Most refugees were taken by the neighbouring states in Middle East war zones. At the end of 2014, for example, there were around 1.51 million refugees in Pakistan and around 443,000 in Germany.

With regard to the regional distribution of refugees the pressure of events is usually more important than active political decision-making. Most countries try to keep the number of refugees low. The differences in treatment are con-

Different asylum ratios

siderable. The rate of recognition of asylum seekers from Chechnya was 1 per cent in Bratislava in 2004. Around 75 kilometres away in Vienna the figure was 94 per cent.

»Shunting yard«

Within the EU, complex bureaucratic procedures have been developed to handle the distribution of refugees (Dublin Regulations). Critics (pro asylum) talk of a »shunting yard«.

On the other hand, many states are prepared to participate in the cost of providing services in the crisis country itself or reception in other countries, mainly neighbouring the country of origin. That happens both bilaterally and multilaterally.

Most important multilateral organisation: UNHCR

The main multilateral organisation is UNHCR. In 2013 it foresaw a budget of 5 billion US dollars, based on an assessment of its needs. That compares with the around 3 billion US dollars that were in fact made available to it. Around a third of funding comes from the United States. The world community, generally speaking, takes only limited responsibility for the suffering of refugees. That stands in stark contrast to the fact that the causes of flight are mainly global rather than local in nature.

The West has played a substantial role in causing flight

Wars and oppression are often an expression of conflicts of interest, in which the political and economic strategies of the global North have a decisive influence. The US wars in Afghanistan and Iraq (countries from which particularly many refugees come) are two examples.

Similarly, other conflicts – Syria, Sudan, Somalia, Congo – also escalated because the parties involved were backed by various external powers. In particular the weapons used in the conflicts come mainly from the North, often from Germany. Finally, catastrophes such as floods and droughts are partly a consequence of climate change. That, in turn, was caused primarily by the industrialisation of today's rich countries.

Combating the causes of flight

After the amelioration of immediate need a key strategy is to combat the causes of flight. Development cooperation is supposed to improve the economic situation in the relevant countries and thus to reduce the number of economic refugees. Diplomatic pressure and humanitarian intervention are supposed to prevent people having to flee their homes for political reasons.

Under international law new institutions and concepts have emerged in this connection in recent decades, especially since the end of the Cold War. Their aim is to punish the perpetrators (International Criminal Court) and to protect the victims (»responsibility to protect«).

Social equity and migration

People in need have to be helped

Migration poses a number of major challenges to the societies of the global North and in particular the champions of social democracy. In accordance with the fundamental values of social democracy – especially solidarity and justice – it is clear that vulnerable and poor people have to be helped.

Within the relevant states this is hardly controversial. The global community is not a nation-state, however, and the level of solidarity on offer is disputed. As we have seen, this already applies to global income distribution, issues to do with combating poverty and climate policy (see Sections 6.1 and 6.2).

With regard to migration the problems are even more complex. This gives rise to competition not only on markets for goods and services; distribution issues also arise on the labour market and in relation to access to public goods and social security systems.

However, if one compares the payment of taxes and social contributions with the benefits and services of the state or social insurance funds there is every reason to doubt that immigrants burden societies financially at all.

Germany: immigration needed

The fact is that Germany needs immigration. It can make up for the falling population and alleviate demographic change. More young workers could help to achieve the prosperity needed for an ageing society.

Minimum wage mitigates competition

At least a temporary problem is the possible competition on the labour market. A statutory minimum wage is important in this connection, restraining the race to the bottom. Nevertheless, in the case of a short-term inelastic supply of jobs – in other words, when new jobs do not emerge fast enough – competition for jobs can arise that also affects native workers. Over the long term, demand due to immigrants' incomes will create new jobs.

More homes needed

Another problem is that homes cannot be built overnight. They are a so-called inelastic good. Many towns and cities have started to address this problem, but not enough is being done. Besides these economic problems difficulties can also arise when cultural, linguistic and religious differences clash.

Problem: brain-drain

Problems arise not only in the target country, but also in the country of origin. Often the better qualified and enterprising people migrate, thereby leaving a gap in the domestic economy and society. This brain-drain can be a stumbling block for growth in the domestic economy. Apart from that, income distribution is also likely to deteriorate. Because there are fewer well qualified people the incomes of those who remain rise disproportionately.

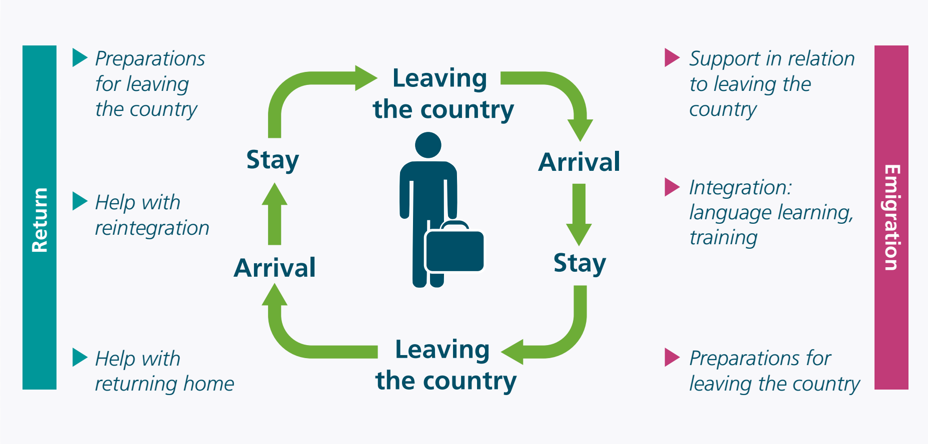
One benefit for the sending country is the financial resources often remitted home by emigrants. Although they are of course not equally distributed, they do afford the country additional opportunities to import goods. How positively that works out depends on the kind and use of the imported goods, especially on whether they are investment or consumption goods.

Remittances can also lead to a (relative) appreciation of the currency, however. That means that the currency becomes more expensive in relation to other currencies and thus export goods become dearer to (potential) foreign buyers. This diminishes the competitiveness of the domestic economy.

Efforts to shape a global migration policy have to take into account the whole circuit of immigration and emigration. A smart approach has to be taken to all processes in both the countries of origin and the reception countries.

Measures in the country of origin and in the reception country

Then there are preparatory measures in the country of origin. In this context language courses and cultural preparations are important. In the reception country, integration courses and, again, language courses should be offered. The recognition of qualifications and financial services (cheap transfers, foreign currency bank accounts) should be improved. On top of that, important for newcomers are minimum wages, access to state social security systems, dual citizenship and the portability of acquired entitlements (for example, pensions). Finally, financial assistance before or in relation to returning home can be important.



Source: Angenendt (2014: 6).

Figure 46: Development policy options for influencing (circular) migration

Food for thought

In his article »Good migration, bad migration«, which appeared in *Berliner Republik* (6/2014), Professor Paul Collier juxtaposes various views on migration:

»The fact that in the countries of the bottom billion mass poverty continues to reign is a shame for the twenty-first century. … Each individual act of emigration is a triumph of the human spirit, the courage and the ingenuity needed to overcome the bureaucratic barriers erected by the worried rich. From this emotional perspective, any immigration policy other than that of the open door is malevolent.

However, migration can also be seen as selfish, because if workers turn their backs on those who depend on them and the active and energetic leave the weaker members of society to their fate, they are ignoring their responsibility for others who live under even more precarious circumstances.

Finally, migration can even be regarded as a kind of reverse imperialism, as the revenge of those who once were colonised. In the reception countries migrants form groups that channel off resources originally available to the poor in the home country, compete with them and undermine their values.« (Collier 2014)

How would you formulate your own views?

Further reading:
Reader 5, Integration, Immigration and Social Democracy.

What does this mean for social democracy?

- Refugees and displaced persons are entitled to protection and international solidarity.
- A smart immigration policy can benefit the economies of both the reception country and the sending country.
- Economic, political and cultural framework conditions affect a country's ability to integrate immigrants in its society.
- The efforts of poorer countries in the neighbourhood of crisis regions set an example and have to be supported.

EXCURSUS: International activities of the FES to tackle the causes of flight and migration

The Friedrich-Ebert-Stiftung is the foundation of social democracy. As a consequence, its point of departure in its international activities is the understanding that development-policy approaches must necessarily be based on rights. Satisfying basic needs and ensuring fundamental freedoms cannot be subject to the vicissitudes of voluntary aid or governments, but are derived from universal human rights and must be underpinned by social and political safeguards. Through its international network of offices the Department of International Development Cooperation (IDC), together with numerous partners in around 74 countries, contributes to this effort. In terms of flight and migration, the foci of its international activities include the following:

1. Flight from violence and conflict – strengthening crisis prevention

The democratic stabilisation of states and the avoidance of violent conflicts will, also in future, be the most effective means of reducing reasons for flight. A more important focus in this context has to be on fragile and collapsed states because they represent the densest concentration of reasons for flight and migration. These countries cannot be »repaired« overnight. A permanent commitment is a key principle of action. The IDC has been working for many years on strengthening and further developing the instruments of civil crisis prevention. The foci of work abroad include, in particular, democratic reform of the security sector and the social and political further development of the state's monopoly on violence, capacity-building with regard to civil crisis prevention, especially in regional organisations in Sub-Saharan Africa and

– also within the framework of FES membership of FriEnt (Frieden und Entwicklung – Working Group on Peace and Development) – peace development and »transitional justice«. Many tried and tested instruments are already available. The task today is to make a viable policy out of civil crisis prevention and conflict management in general as the first option in uncertain times and to make more resources available for the purpose. This is the focus of our work in Germany.

2. Flight from want and poverty – implement basic social protection

Around 80 per cent of the world's population today do not have any insurance against life's contingencies. Every year millions of people are cast into poverty because of illness, unemployment, crop failure, old age or the death of a family member. Often such existential crises impel people into flight and migration. The introduction of basic social protection for all, as proposed by the ILO, would be a first cornerstone in the effort to reduce social insecurity. The FES, within the framework of the ILO's »Social Protection Floor« (SPF), is thus committed to the introduction of social protection systems for all. The SPF strategies developed in tandem with the ILO and NGOs are currently being implemented in an FES pilot project with local partners in 13 countries in order to advance the implementation of basic protection there.

3. Rural–urban migration – tackling agrarian and land reform

Agriculture remains the most important economic sector in many developing countries and is key to ensuring food security. Around 70 per cent of poor people in the world live in rural areas and are dependent mainly or entirely on agriculture. At the same time in recent years the pressure on local producers has increased, not only because of soil degradation, but also because of land grabs and concentration, first and foremost by enormous agricultural companies. It is estimated that around 100 million people are affected by »land grabbing«. The same applies to the overfishing of local fishing grounds due to fishing agreements, for example, with the EU. Around 600,000 people in Senegal alone are affected by this. In selected project countries the FES is working with its partners on issues of land rights and an inclusive agrarian policy.

4. Flight from »bad work« – enhancing decent work worldwide

In the global South labour markets are characterised by a high proportion of informal employment. As many as 400 million people count as »working poor« and in many countries workers' and trade union rights are violated on a massive scale. Value chains controlled by transnational corporations are responsible for poverty wages, as well as the precarisation of terms of employment and even forced labour. The creation of decent work is an essential contribution to the global fight against poverty. This includes implementation of the ILO's Decent Work Agenda and the embedding and implementation of the core labour standards at local level. Corporate responsibility for social and environmental standards is closely linked to this. Social and labour standards in the textiles sector are an FES focus, for example, in South(east) Asia and in Berlin the FES is involved in the Textile Alliance of the Federal Ministry for Economic Cooperation and Development (BMZ). In Germany the issue of corporate responsibility for social and environmental standards is becoming increasingly important in political debate. Within this framework the FES is participating, for example, in working out the »National Action Plan on Economic Affairs and Human Rights« at the Foreign Ministry.

5. Flight from climate change – shaping a fair climate policy

All prognoses have to be treated with caution, but there are many indications that climate change and its accompanying environmental changes will be the main drivers of flight and migration in the coming years. Climate change is already a climatic catastrophe in many regions, drawing massive migration movements in its wake. The FES is involved worldwide within the framework of its climate project in bringing about far-reaching climate protection and its political, social and economic conditions. Rapid progress is needed in relation to both the further reduction of CO2 emissions and adaptation to changes that have already taken place. The precautionary principle is key: migration and flight are options in response to climate change only after all other forms of adaptation have failed. Finally, in the medium term an international shield for flight and migration due to climate change will have to be created. The FES is also involved in this.

6. Flight from elites in the home country – promoting democratic processes

The causes of migration and flight are often the outcome of years of bad policies implemented by corrupt and authoritarian elites. Global support for democratisation processes is and remains key to keeping the peace and promoting development. In many countries democratisation is the only conceivable way of limiting internal conflict potential, alleviating economic and social contradictions and building efficient political structures. Promoting democracy thus has to remain at the centre of international politics, especially in periods in which democracy movements are under pressure throughout the world. The FES's approach consists of linking political and social participation in order not only to promote formal equality of the rights of all citizens, but also to contribute to social justice. Within the framework of its project work the FES is already doing much, sometimes under deteriorating conditions. The Young Leaders Programme, which is being run on every continent, is a cornerstone of this.

7. Inequality as a cause of flight – bringing about tax justice

Growing inequality has become one of the main causes of conflict. Even the report Global Risks 2014 of the World Economic Forum in Davos assumes that sharp income gaps worldwide will be one of the gravest risks in the coming decade and will cause »severe damage«. Part of what we are experiencing is a »globalisation from below« due to the dramatic exacerbation of inequality within and between states. The establishment and implementation of fairer tax systems in developing countries, the avoidance of tax flight and the elimination of tax avoidance strategies are key approaches here. Developing countries must be aided in this by the international community and in particular the countries of the global North. Africa alone loses at least 50 billion euros a year due to illegal tax evasion by transnational corporations. This does not even include the losses due to legal but unfair tax avoidance strategies. Development cooperation should also focus on this (capital) flight. The FES thus supports the Independent Commission for the Reform of International Corporate Taxation (ICRICT), which advocates a fair international tax system, bringing together trade unionists, progressive NGOs and academics, including Joseph Stiglitz.

8. The world in motion – shape labour migration, open up legal routes

The main element of migration is labour migration, which is predominantly a South–South phenomenon and often occurs in violation of elementary human rights. Changing this untenable state of affairs and creating more stable social conditions, also for migrants, are the aim of important FES partners, such as the International Trade Union Confederation (ITUC), the Building and Woodworkers International (BWI) and the International Domestic Workers Federation. The FES is promoting, for example, a series of measures in cooperation with the BWI in Nicaragua, Jordan and the Philippines to negotiate global and bilateral agreements that lay down minimum standards on recruitment, remuneration and social security. In Tunisia the FES is supporting a network of European and North and West African trade unions that are striving towards common positions on migration issues, above all on workers' rights. In Central America, where migration is a significant economic factor, a multi-annual FES project is concentrating on the social protection of migrants. The ITUC's campaign on the slavery-like working conditions in Qatar in connection with the 2022 World Cup is also backed by the FES. Finally, however, opening up legal routes for migration will also become more of an issue in the coming years. Here the FES is involving the viewpoint of sending countries in the debate.

9. Combating causes of flight »made in Europe«

The human rights arrangements pertaining to trade agreements, the export strategies of poultry producers, agricultural subsidies in the United States and the EU – all of these have consequences for central markets in the developing countries.

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11 San José
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13 Caracas
14 Bogotá
15 Quito
16 Lima
17 La Paz
18 São Paulo
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74 Nairobi
75 Dares Salaam
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Asia

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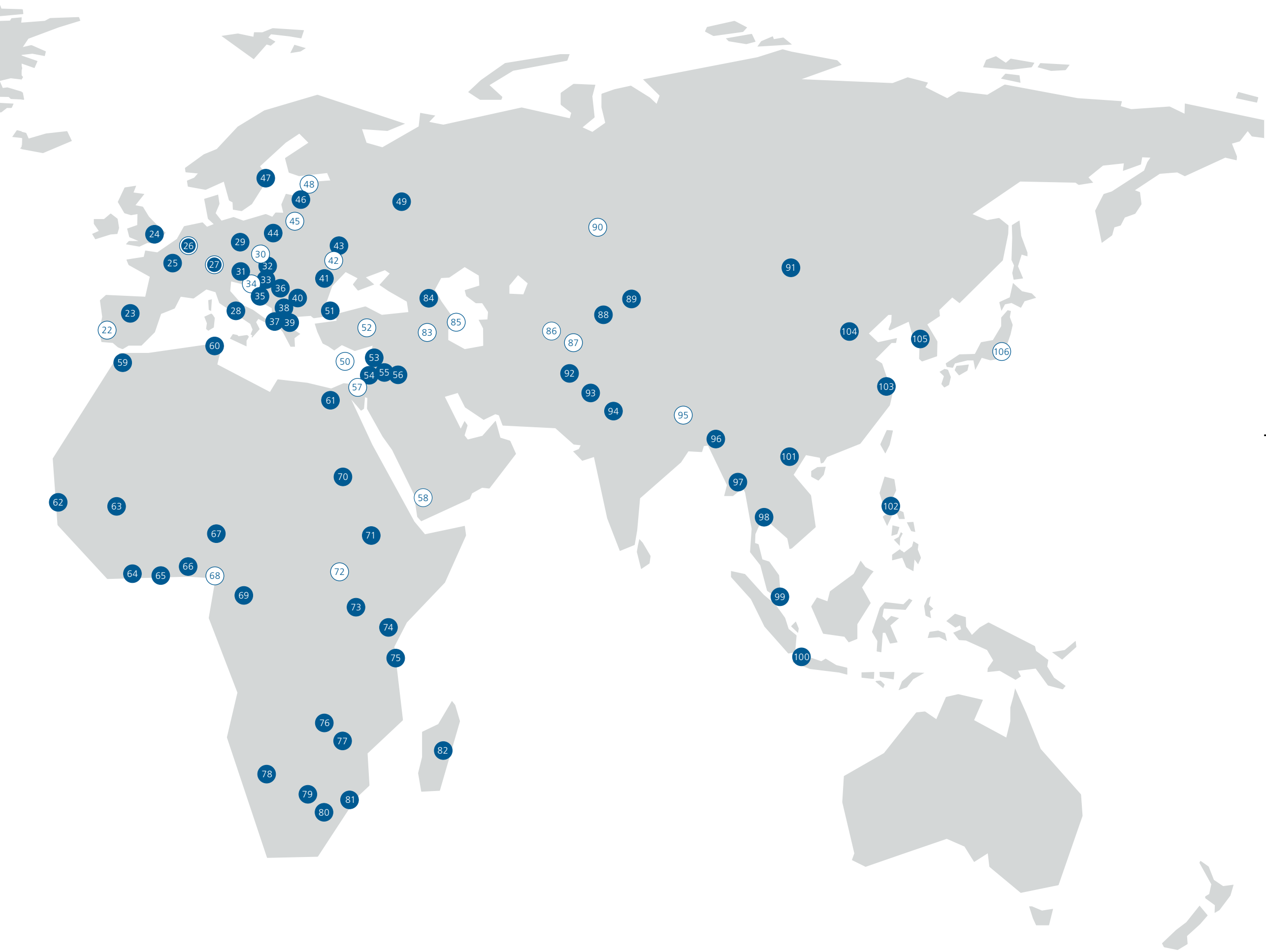

Offices with FES overseas staff members

Offices with FES local staff

Offices with a supranational/international element

As of: June 2015.

The FES is working both locally and at the international level on political and economic alternatives for fairer trade relations.

10. »Cooperation matters« – strengthen international institutions and implement sustainable development goals

More than almost any other issue, flight and migration are thus tangible international challenges and clearly at the interface between national and international politics. Without better international cooperation to build trust; without reinforcing the United Nations in order to improve its capacities; and without implementing the sustainability goals that apply universally the challenges are unlikely to be met. The FES is active in both its UN and regional locations in building up inclusive and viable international organisations and with concrete projects supports the implementation of the Sustainable Development Goals (see p. 94) – both the overall process and selected targets.

11. The inward-looking nature of international politics

To the extent that international challenges affect us more closely and Germany's tasks and visibility in international politics increase the public must be more and more involved as a (critical) partner. This applies particularly in relation to migration and flight. The task of the IDC must be to take a medium- and long-term perspective and show why it is in the interest of Germany and Europe to participate systematically and over the long haul in the approaches described here. Furthermore, the IDC can also contribute by elucidating the causes of flight and the reasons for migration and by strengthening the voice of the global South also in Germany in an informed social-policy debate.

7. OUTLOOK: ARE GLOBALISATION, THE NATION-STATE AND DEMOCRACY COMPATIBLE?

In this chapter

- competitiveness as a goal orientation of national adaptation is scrutinised;
- the extent to which the EU can be an answer to globalisation is examined;
- the prospects of globalisation are weighed;
- the quandaries into which a globalised world thrusts social democracy are considered.

Obsessed with competitiveness?

»Competitiveness« appears to be the main and rarely challenged national policy answer to the challenges of globalisation. Winner of the Nobel Memorial Prize for Economic Sciences Paul Krugman, by contrast, characterises it as a »dangerous obsession« (Krugman 1994).

What, in fact, is »competitiveness«?

Competitiveness = low wages?

Often competitiveness is tantamount to low costs, especially in the form of low wages. Furthermore, other factors that are important for the production process (inputs) should be cost-effective for firms.

Low taxes have consequences

That has consequences, however. Low costs are linked to low incomes for employees and low revenues for those who make the other inputs available.

That includes the state. Although it can relieve enterprises of some of their tax burden, this leaves the state short when it comes to providing public goods, on which enterprises are also dependent, above all education, legal certainty, public safety and good infrastructure.

Madagascar a model?

The state can only make these goods available at low cost if, for example, it employs police officers, teachers and other public sector workers on low wages and also benefits from low wages at subcontractors in public building projects. The result is a generally low price and income level. This is certainly competitive in the sense defined above, but countries such as Bangladesh or Madagascar, which have this kind of price and income level, are far from providing economic policy models for industrialised nations. They rather show that low incomes are an expression of low economic capacity.

High incomes are mainly not a problem

Reducing the incomes of employees to boost competitiveness is thus short-sighted. It contradicts the social democratic principles of justice and distribution. On the other hand, can incomes that are too high pose a problem to the economy? Only if they contribute as price components to current account deficits; in other words, if higher wages mean that domestic products are too expensive to export and more is imported than can be exported.

In a system of flexible exchange rates, however, a devaluation or revaluation of the currency would soon correct such deficits. High inflation differentials, excessive wage restraint or too rapid growth would also be offset in this way. The current account is an uncertain indicator to the extent that it is strongly influenced by capital movements, which often have nothing to do with competitiveness.

Goal: external balance

With its high export surplus Germany is a long way from external deficits. In fact, Germany is constantly violating the goal of external balance laid down by law in the »magic square«.

In Germany's Stability Act of 1967 the then Grand Coalition formulated four economic policy goals: price stability, high level of employment, external balance and adequate and constant growth. These four principles are characterised as the **»magic square«** because in practice it is difficult to balance them. The goal of external balance has fallen into oblivion in the wake of Germany's status as »export world champion«. A rethink would be advisable, however, because Germany's export surplus has played a part in generating the »euro crisis«.

But by how much should wages and other costs be permitted to grow? The limit is set primarily by productivity development. That means that if value creation per employee or per hour is high or rising then the same can apply to wages. Unit wage costs thus remain stable or even fall.

Decisive: productivity

Productivity can be measured in terms of how much quantity and quality one obtains as output per input, such as hours worked. Productivity depends on how much capital is available, but also on employees' training and technological innovation. Because the issue is value creation, however, the price at which the output can be sold also plays a role. Higher aggregate demand or a particularly attractive product indirectly boost productivity.

A country can improve its position in the global market if the goods it produces are particularly in demand and its exports go primarily to rapidly growing economies. Germany, for example, thanks on one hand to a growing world economy benefits from demand for investment goods. On the other hand, German luxury cars are in demand. This demand is due to the high inequality in the world and an increasing number of rich consumers, especially in China and the commodity exporting countries.

Unit wage costs indicate the proportion of labour costs in the price of a particular product. The issue therefore is what level of labour costs, for example, a car represents.

Adapt real wages to productivity

An intelligent economic policy will therefore try to ensure that real wages develop along with productivity. It will also try to ensure that the export structure adapt to change rapidly, whether in relation to different economic sectors or regional changes. Also important is that labour and capital be flexible.

Larger size = more power to influence

The smaller the country and thus its economy the more dependent it is on the world market. It has little influence on the direction of the global economy and the economic policy of other countries. It can expand domestic demand only to the extent that its external balance permits. Integration with other (neighbouring) countries thus provides an opportunity to access a larger internal market, whose rules – for example, with regard to social or environmental standards – it can influence.

Is the EU an appropriate answer to globalisation?

For social democracy European integration offered a way out of the difficulties of adaptation by individual states and global organisation. A European economic area is externally stronger – for example, in the negotiation of agreements – and internally offers a much bigger single market. Because European countries exhibit smaller differences between one another than in relation to the world community, common rules based on common values are easier to elaborate and implement.

EU: to date, primarily negative integration

At the European level, however, the challenges of globalisation are acute: in the European single market all protective barriers have been removed. In the euro zone even an exchange rate is lacking as a compensating and alleviating adaptation mechanism. This negative integration would not really matter if it was accompanied by a corresponding positive integration to establish a common economic and social policy, as well as market regulation with uniform standards.

Unfortunately, European integration exhibits a strong asymmetry in favour of market integration (Scharpf 1999). It often further restricts the competences of individual states (for example, in fiscal policy).

This is also due to the fact that – especially as a consequence of eastern enlargement in 2004, 2007 and 2013 – the economic and political structures of the member states differ considerably. Income level, economic structure, welfare state and industrial relations affect the chances of prosperity and determine the positions taken by member states on European issues. It is thus not surprising if progress is slow and the outcome generally corresponds to the lowest common denominator. To date the EU lacks strongly redistributive Community policies. To the extent that an economic policy consensus is discernible, it has often been neoliberal and one-sidedly supply side–oriented.

The EU still represents an opportunity

The EU could be a »harmonious nature reserve« (see Scenario 4 below), but that is still a long way off. If European social democracy was able to develop the EU in that direction it would be both a protective area for the individual societies of the member states and a powerful model for shaping globalisation.

Social democracy in a globalised world

Against the background of the previous and prospective development of the world economy and society and given the difficulties of European integration the nation-state remains the main lever for social democratic policy.

There is still room to manoeuvre

Although its scope for action is smaller than before it does enable social cohesion and democracy, as, for example, the experience of the Scandinavian countries shows. But even these countries face substantial difficulties and their success is based on particular circumstances that barely exist in Germany and other countries.

At the global level there is a fundamental democratic deficit and the convergence of average incomes between nations often goes hand in hand with more internal inequality (see also Figure 47).

	NATIONAL	GLOBAL
Social cohesion	More difficult because societies tend to become more heterogeneous and inequality to increase	Easier because of improved access to markets, capital and work
Democracy	More difficult because certain areas are excluded or predetermined by international agreements	At best indirect, because global decision-making is intergovernmental

Figure 47: Effects of globalisation on social cohesion and democracy

Fight for transfer payments in the political arena

Progress on the part of social democracy at the global level may thus conflict with progress at the national level. Increases in and fairer distribution of global prosperity due to the rise of emerging countries bring about adaptation problems and potential losses for individual countries or sections of the population. Alleviating and compensating them requires – at best temporarily – social compensation payments, which the growing economic »cake« makes perfectly feasible. Such transfers will not be provided by markets, however, but have to be organised in the political realm.

Build up supranational structures

Between countries, corresponding supranational structures are needed for this purpose, which also have to be democratic. In this context the will of the majority has to be weighed against the protection of minorities. In a genuine global democracy the people of Asia or more generally the population of poorer countries would be in the majority.

In the global economic pyramid, however, most people in the richer countries count among the global »rich«, even if at local level they count as poor and thus belong to social democracy's traditional electorate.

Reduce global inequality

At the same time, the world is characterised by dramatic wealth inequality. According to Oxfam (2015) 80 billionaires have as much wealth as the poorest 50 per cent of people in the world and within the framework of the current state of affairs we can expect to see the wealth of the richest 1 per cent outstripping that of the remaining 99 per cent. Given the current balance of power the forces of social democracy face major challenges (see Section 4.2 above).

Prospects of global development

The prospects of globalisation depend on a combination of economic trends, national economic policies and the development of global governance that is difficult to forecast.

At the beginning of 2015 there was every indication that the global economy would continue to grow, albeit slowly and at changing rates. The catch-up processes of poorer countries seemed likely to weaken somewhat.

Commodity exports were suffering from falling prices, exacerbated by the threat of deflation in some regions (euro zone, Japan). The United States, by contrast, was growing more robustly, leading to a rise in the dollar. Imbalances were diminishing somewhat, in particular because China was doing more to boost domestic growth. Also for that reason world trade was no longer growing much more strongly than world production. The euro zone continued to be dominated by an inefficient combination of restrictive fiscal and expansive monetary policy.

Further major steps to »liberalise« trade, capital movements and migration, however, were improbable. Simpler measures, such as tariff reductions, had already been largely exhausted. Measures that intervene more deeply in national economies – such as trade restrictions for the purpose of consumer and environmental protection – were likely to encounter stronger social resistance.

Subordination of national policies to globally agreed aims – for example, to ensure demand, combat capital flight or promote environmental protection – remained difficult and was likely to make only minor progress. There was some evidence that the process of economic globalisation had entered a period of relative stagnation.

Four scenarios

Four possible scenarios

A study by the Friedrich-Ebert-Stiftung in 2009 developed four scenarios on the future of the world economic order:

1. **Decaying national park – stuck in the same old rut:** the international organisations are not fundamentally reformed, but only minimally adjusted to meet current needs.
2. **March of the elephants – competing regional blocks:** given the failure of global economic policy the world economy disintegrates more markedly

into regional blocks, trying to direct their respective economies autonomously and seal themselves off more from external influences. To that end they bank on common currencies or closer monetary policy cooperation.

3. **Law of the jungle – towards the abyss:** nation-states pursue self-centred policies based on protectionism and bilateral agreements, while multilateralism loses ground. Military conflicts and environmental catastrophes increase.
4. **Harmonious nature reserve – real multilateralism:** in response to worsening crises progressive forces form powerful reform coalitions that establish a new world economic order. A global democracy limits state sovereignty and implements global policies in the interest of growth, social cohesion and sustainability.

»In a rut«?

At the time of writing (2015) there was every indication that the old routine had prevailed and was set to continue. Scenarios 3 and 4 would require another crisis that could lead either to chaos (Scenario 3) or real efforts towards global governance (Scenario 4). Such a crisis can by no means be ruled out, although it is not a racing certainty. Most economists have had little success with their prognoses and, to the extent that a crisis is expected, the most pessimistic focus on the global debt problem, which could usher in another financial crisis.

Policymaking efforts directed towards realising social democracy must continue to try to identify and implement steps leading from Scenario 1 (more of the same) to Scenario 4 (harmonious nature reserve). Reform of the EU must play a central role in all this. At the same time, working towards a global alliance of all progressive forces is imperative in order to obtain majorities favouring a social and democratic future in as many countries as possible.

Towards a new internationalism

Outlook: social democracy in the global age

In order to steer the world gradually in the direction of a new order that corresponds to the values of social democracy major efforts are needed not only in Europe, but worldwide, arising from a new awareness of global responsibilities. David Held, in his book *Global Covenant. The Social Democratic Alternative to the Washington Consensus*, presents an outline based on ethical principles, institutional goals and urgent and long-term measures, encompassing the economy, politics, law and security.

David Held: *Global Covenant. The Social Democratic Alternative*

Guiding principles

- equal moral dignity, equal freedom and equal political status
- collective decision-making in public affairs
- improving the circumstances of people in need
- prospects of development for all
- sustainable environmental policy

Institutional goals

- Rule of law
- Political equality
- Democratic politics
- Global social justice
- Social solidarity and community
- Economic efficiency
- Global environmental balance

Urgent measures

- Regulation of global markets
- Reduction of agricultural subsidies
- Strengthening the position of developing countries in international organisations
- Debt relief for the poorest countries
- Meeting the 0.7% target
- Reform of global political governance

Long-term measures

- Global labour and environmental standards
- Privileged market access for developing countries
- Agreement on global mobility
- Democratisation of international institutions
- Comprehensive provision of public goods
- International justice

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Further reading:

Current information on the activities of the Friedrich-Ebert-Stiftung in the area of globalisation can be obtained from the Department for Global Policy:

▶ *www.fes.de/GPol/*

and from the Department for Economic and Social Policy:

▶ *www.fes.de/wiso/content/globalisierung.php*

Further reading:

Information on the activities of the FES offices in Geneva and New York can be found at:

▶ *www.fes-globalization.org/new_york*

and

▶ *www.fes-globalization.org/geneva*

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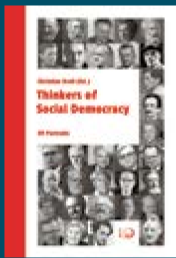

Karl Marx, August Bebel, Elisabeth Selbert, Willy Brandt or Paul Tillich – such exceptional personalities have shaped the ideas and practice of social democracy in Germany. Their life stories, thought and activities lead readers to the fundamental ideas of social democracy.

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