

# The European role in ruling globalisation

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Globalisation is a very complex phenomenon and is difficult to analyse in its different aspects. Hence, I will limit myself to a discussion of its main characteristics and of the positive and negative effects that can spring out from this process, trying to derive some conclusion regarding the path to be followed and sketching the European contribution to an effective ruling of globalisation.

## The nature of the process

The starting point of the globalisation process has been a change in the mode of production (the so-called third industrial revolution) mainly following the new discoveries in the field of information technology. The main effect of this revolution has been to delink the productive process from a given location. Now, mature technologies are easily available everywhere and output is best located where other costs – for instance, labour costs – are lower.

The spreading of production in new parts of the world has been also favoured by the liberalisation of capital movements, which has permitted capital to move towards countries where expected rates of return are higher.

The third requirement for completing this process has been trade liberalisation in the framework of Gatt that has given access to the markets of the rich countries to a (limited) number of products coming from newly industrialising countries.

Last but not least, the process was supported by the existence of a common currency – the dollar – that was not a real world currency, but only a currency that could be used world-wide since it was backed by a country – the United States – endowed with a hegemonic power, politically and economically.

## The positive effect of globalisation

The technological revolution and the opening of the world market have brought about positive effects promoting economic growth in new areas, mainly in south-east Asia and Latin America. The mechanism that was put into motion was quite simple: technology in mature sectors is now easily available, while the new industrialising countries can use skilled labour forces more cheaply than in rich countries.

As a consequence, their output is more competitive and can be sold abroad acquiring a larger share in the international market. This kind of export-led growth provides the new resources that are necessary to fund new investments with an ensuing expansionary impact on productive capacity. Hence a virtuous circle is started with a steady increase in income levels that supports a higher level of domestic demand. An increase in employment follows with an ensuing improvement in social conditions.

## The problems of globalisation

The positive effects of globalisation are not evenly spread world-wide. Some part of the world is excluded, including a whole continent, namely Africa. And social conditions in the so-called fourth world have been further worsened by globalisation. Among the problems raised by the progressive emerging of a world market the most relevant ones concern equity, debt and financial flows, and environmental protection.

## Equity

Despite an apparent increase in global growth and steadily increasing per capita income, the gap within and between rich and poor countries is widening.

In 1960 the richest fifth of the world's population received 70 per cent of global income compared to 2.3 per cent for the poorest 20 per cent, with a ratio of rich to poor equal to 30:1. Now the same ratio is 59:1.

In Brazil the richest 20 per cent earn 28 times as much as the poorest 20 per cent.

In the United States during the last decade the average real income of the top 1 per cent increased by 78 per cent while the poorest 20 per cent of the population saw their income decrease by 10.4 per cent.

This worsening in income distribution has negative effects not only on equity grounds – inter alia lessening the popular consensus about the



process of globalisation – but also on the functioning of the world market by promoting the consumption of luxury goods relative to that of primary goods.

Furthermore, a free market satisfies *demands* not *needs*. If poor people are affected by malaria, the market does not provide the scientific efforts needed to face this evil since there is no demand able to pay the costs of research in this field, whereas a large amount of money is available for fighting Aids since this disease is now widespread in rich countries.

### Debt and financial flows

The foreign debt of developing countries amounts to nearly three thousand billion dollars and is still growing. The result is a debt of over \$400 for every man, woman and child in countries where the average income is less than one dollar a day.

Most of the increase in debt during the 1990s was due to paying interest on existing loans and not to support productive investment nor to tackle poverty. In this decade the total payments of all developing countries totalled \$1,607 billion, while total receipts were lower amounting to \$1,530 billion. The net transfer of capital was from the poor countries to the rich and not vice versa.

Due to the liberalisation of capital movements, the volume of world-wide foreign exchange transactions has exploded: in 1980 the daily average of foreign exchange trading totalled \$80 billion; today it is estimated that more than \$1,500 billion changes hands daily on global currency markets. And these capital movements have practically nothing to do with producing real goods and services: at the end of the 1990s the annual global trade in goods and services was \$6.5 billion,

equal to only 4.3 days of trading on foreign exchange markets. It is clearly understandable why a big crisis exploded in July 1997 in Thailand where capital inflows amounted to more than 10% of GDP and most of that hot money went into short-term debt.

In Thailand much of the speculative capital went into real estate. When foreign investors realised that this money was tied up in unsold office buildings and apartments, they hurried to withdraw their funds. The panic spread quickly, from Thailand and Malaysia to Indonesia, the Philippines and South Korea. But this crisis had nothing to do with a cyclical downturn in real economy and this experience has clearly shown the limits of capital liberalisation without an effective government of the world economy.

### Environmental protection

There is a widespread view that an increase in trade flows and the ensuing growth of income will automatically solve the problem of environmental protection. Certainly, it is true that if a country becomes richer, a larger amount of resources becomes available to protect the environment. But it does not follow that necessarily these resources will be devoted to this goal if an effective environmental policy is not in place.

Environmental protection represents a typical case of market failure due to the existence of externalities: if these external effects – the costs of pollution – are not internalised in the budget of the economic unit generating them through effective policy measures – for instance, imposing a tax equal to the damage caused by pollution – the prices on the market will not represent the real resource costs of output and consequently prices will fail in

providing the right signals to the market.

This happens either at the local level – since newly-industrialising countries are not inclined to use resources to protect the environment – or at the global level since international organisations like IMF or WTO are not committed to environment protection as an important goal in the design of their policies.

Hence, larger trade flows and industrial production normally worsen – and not improve – environmental conditions. International conferences are important to raise the consciousness of the damage caused by the growing deterioration of environmental conditions but they are unable to provide for effective solutions if new rules for governing the world are not rapidly established.

### The government of globalisation

The environment is a clear example that, if we want to preserve the existing natural resources for the future generations – this is the real meaning of the expression sustainable development – we must change the present government of the world.

There is always a government of the world, but at present we have not a democratic and effective government but the hegemony of the only existing superpower, the United States, acting directly on the world scene or through the international organisations that it is able to control. And we must remember that the implementation of the Kyoto Protocol – largely insufficient to cope with the challenges of the greenhouse effect, but in any case a first step in the right direction – whose goal is the curbing of CO<sub>2</sub>, has been blocked by the US,





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while the EU, that in principle supports the compliance with the commitments of the Protocol, is unable to carry on a policy targeted to improving environmental conditions due to the worsening of the external competitiveness of the European firms that will ensue from an unilateral implementation of the Protocol itself

To provide an effective ruling of the globalisation process it is necessary to move towards a multipolar government of the world, and the first step in this direction can be made only by Europe if it is able to complete the integration process up to a federal outcome. Today this issue is on the political agenda since Europe has been able to achieve a further enlargement including initially central and eastern European countries as member states and is also opening the doors to the south of the world with new links with Mediterranean countries.

If Europe takes its place in the international arena, it can also

promote a more effective commitment to positive action on the international scene by big regional powers like Russia, China, India and Latin America, if it too is able to reach regional unity.

This change in the government of the world is realistic: in the monetary field where Europe has effectively achieved its unity with the onset of monetary union and the launching of the euro, there is now a possibility open to third countries to choose between the dollar and the euro. But Europe is unable to play a similar role in the field of foreign policy and security and defence affairs since there is no effective European government in this area, charged with the task of promoting peace and internal and external security for all Europeans and for the citizens of the countries close to Europe.

But also in the economic field Europe is obliged to promote further steps forward in order to achieve an effective government of the European economy combining equity with

efficiency, ensuring the development of the European social model and showing that is possible to overcome "market fundamentalism", as it has been recently defined by the Nobel Prize winner Joseph Stiglitz, and to promote world-wide a model of sustainable development, combining economic growth with effective environmental protection.

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