Making Globalism a Race to the Top (Rather Than to the Bottom)

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The twenty-first century global corporation exerts extraordinary power over the nation-states with which it deals. Nations are, by definition, confined to certain geographical boundaries. Only a few are able to influence events beyond their borders. But global corporations are footloose. They can move their capital, brand names, and expertise anywhere on the globe. This gives them enormous bargaining power to demand all sorts of concessions from nation states—low taxes, low wages, minimum regulation, even generous subsidies. It is now commonplace for global corporations to conduct bidding wars for direct investment that play one country, state, or locale against others in an interjurisdictional race to the bottom. In this race, countries with higher taxes and more public services—as well as higher wages and higher labor standards—are put at a competitive disadvantage, all other things being equal.

The result is a downward spiral in the quality of government. Starved of revenue by concessions offered to corporations, national governments reduce the revenues they send to state or provincial governments, which then have no choice but to cut their own contribution to local governments. As tax bases shrink, the ability of governments to deliver high-quality services steadily erodes. Even more troubling, cutbacks in essential services can become self-reinforcing as local elites lose their stake in the public sector. Rather than accept lower-quality services, wealthy families begin to purchase their services in the private market. They choose private schools rather than public ones, private health clubs rather than public recreational facilities, private security guards rather than police. Soon, the middle class also turns to privatized services. Poor communities are hardest hit by this erosion because they lack the capacity to circumvent sub-par government services.

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This downward spiral is occurring all over the United States and in many other nations, but it is rarely discussed because its consequences are so widely dispersed that citizens cannot see the connections between it and the escalating demands of global capital. Too often, all the public knows is that government no longer seems to work.

A GLOBAL CARNIVAL OF TAX SHELTERS

International diplomacy used to be exclusively about the high politics of war and peace. This is what it still appears to be about on the nightly news. But the business of diplomacy today is often more about attracting investment and avoiding capital flight. Many of the most important meetings take place between heads of state and world bankers and fund managers. Like carnival barkers trying to herd passers-by into their tents, presidents, prime ministers, governors, and mayors try to lure (and keep) global investors by promising "good business climates"—code for weak tax and regulatory standards and an abundance of low-wage labor.

When DaimlerChrysler, now a multinational corporation headquartered in Stuttgart, Germany, recently decided to replace its big Jeep assembly plant in Toledo, Ohio, it notified the city and the state that it might locate the plant elsewhere unless it received sufficient incentive to stay put. The city of Toledo and the state of Ohio dutifully came up with $300 million to keep the replacement plant in the same location. Daimler-Chrysler's bottom line was thereby improved by $300 million, a bonanza surely appreciated by its shareholders. But the transfer meant that the governments of Toledo and of Ohio were left with $300 million less to provide services to their citizens. Altogether, such corporate giveaways now cost cities and states an estimated $50 billion a year.

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Concessions like these are only part of a more general shift of the tax burden away from corporations and rich investors and onto the working class. In the United States, corporate taxes have dropped precipitously as a percent of the gross national product, from more than 4 percent in 1965 to 2.5 percent in 1995 and to slightly more than 1.5 percent today. Federal personal taxes on investment income now average only 9.6 percent, and the top capital gains rate is just 15 percent. Meanwhile, federal personal taxes paid by the typical worker on wages and other earnings—including income taxes and Social Security and Medicare taxes—now average 23.4 percent, according to an analysis by the Institute on Taxation and Economic Policy.

Simultaneously, worldwide tax havens have grown in number, as has the amount of wealth they shelter. Data from the Internal Revenue Service reveal that offshore profits skyrocketed from $88 billion in 1999 to $149 billion in 2002, with most of that increase socked away in places like Bermuda and the Cayman Islands. The recently contrived tax amnesty for U.S. companies to bring their profits home at a onetime tax rate of 5.25 percent (instead of the standard corporate rate of 35 percent) is causing many companies to consider repatriation, obviously at a huge cost to average taxpayers.

The Hollowing of Environmental and Labor Standards

Governments are now under increasing pressure to reduce their social, environmental, and worker regulations—a pressure abetted by the World Trade Organization (WTO) and the North American Free Trade Act (NAFTA), both of which enable global capital to challenge rules once assumed to be well within the sovereignty of nation-states. As in the case of tax policy, however, this race to the bottom is not inevitable. It is merely the preferred policy outcome of global corporations. Here, too, globalization under their desired rules is both the mechanism and the excuse for the race to the bottom.

In the fall of 2004, in a case initiated by the government of Antigua and Barbuda at the behest of internet gambling businesses headquartered there, WTO judges ruled that gambling restrictions in Utah and many other U.S. states violated the United States' duty not to discriminate against other nations that provided "recreational services." In another case, in December of 2004, California Governor Arnold Schwarzenegger's administration put the brakes on a proposed tax incentive to encourage road builders to grind up discarded tires and blend them with asphalt. Schwarzenegger vetoed the bill, fearing that the provision would contravene NAFTA by putting Canadian and Mexican recyclers at a competitive disadvantage. His fear was well founded. A Canadian company called Methanex has sued the United States over California's ban on the use of a gasoline additive utilized by the company which, according to California, contaminates groundwater.

The WTO and NAFTA are efficient vehicles for global corporations to eviscerate regulations they would rather evade, but the pressure on governments to downgrade regulations would exist even in the absence of these arrangements. Just like cutting taxes on global capital, minimizing regulatory "burdens" is a means of creating a "good business climate." This logic applies equally to the wages and benefits of relatively unskilled workers, which presumably must be held down in order to attract and keep global investment. The same argument offers a ready justification for allowing in "guest workers" from poorer nations, who will labor for a fraction of the cost of regular citizens.

Thus, the United States finds itself in increasingly intense competition with every other nation to attract and hold capital. But this strategy of racing downward to meet the competition gives the United States no means to maintain high living standards for its citizens. If nothing is done to reverse the strategy, the public sector will eventually shrink to the point where it can do almost nothing besides defend the nation. Most services now provided by the government will be turned over to the private sector, available to individuals depending on their ability to pay. The wages and benefits of ordinary workers will continue to drop. Economic security will vanish as individual incomes will increasingly depend on continuous spot auction bids for each individual's services. At some point, as capital and labor move ever more freely across the nation's borders, the spectrum of exceedingly rich to exceedingly poor in the United States and other nations will reflect the widest range of wealth and poverty in the world. U.S. society will be sharply sorted and pulled apart.

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What is the alternative to this somber vision? Not protectionism. That would make the United States even poorer by cutting U.S. citizens off from goods and services that can be produced more cheaply elsewhere around the world. It would also be unfair to the citizens of developing countries that depend on us to buy their exports (agricultural trade barriers and subsidies in advanced nations already do more to keep poor nations poor than almost anything else we do or fail to do).

But there is an alternative strategy by which citizens can embrace globalization and at the same time maintain a high, broadly distributed standard of living. For more than a century, our democracy has seen a tug of war between elites who preferred that government enforce only property rights and citizens who fought to balance purely commercial rights with regulations and social investments intended to provide a society of more balanced growth and opportunity. Today, as the economy has globalized, that ongoing struggle necessarily escalates to the community of nations.

The rules that have been created to define how commerce flows across national boundaries have been designed by and for global corporations. These rules carefully defend intellectual property rights, for example, but scarcely address labor or social rights. The point to remember, however, is that these rules are written by democratically-elected national governments and can be changed.

One way to begin would be reversing the game by which corporations play off nation-states in a competition to reduce taxes. The United States could collaborate through "capital treaties" with Europe and Japan in order to prevent zero-sum payoffs to corporations and investors, as the European Union already does internally. The federal government would prevent states and other locales from striking their own separate deals with global capital (perhaps by means of a federal tax on companies that reap the benefits of such deals, equaling 100 percent of their take). The United States would further agree with other advanced nations to refrain from competitive rounds of tax cuts in order to attract capital and would enter into a tax treaty for preventing offshore tax havens. (Former President Bill Clinton and the Europeans were on the verge of a tax-reporting deal to put such havens out of business, but the Bush administration scotched it.)

The United States also needs international agreements on behalf of tighter, rather than looser, social and economic regulation. Again, the European Union already does this. As the differential treatment of Microsoft's anti-competitive product bundling illustrates, Brussels is far tougher in its antitrust regulation than the current regime in Washington, and even a company as big as Microsoft does not have the luxury of writing off the European market. Europe also maintains much better social regulation to protect workers. In Europe, the cushion of a strong welfare state coupled with public investment seems to be the political price the electorate demands in exchange for tolerating the vagaries of the open economy, where jobs are always at risk.

The negotiations between Third World countries and large pharmaceutical companies over the pricing and distribution of lifesaving drugs and vaccines, in which drug companies backed down and Africa obtained cheaper AIDS drugs, suggest that power does not flow in just one direction. We have also seen the beginning of international collaboration to make sure that corporate books are accurate and transparent. And even though Washington has refused to participate, the Kyoto Protocol suggests that transnational environmental regulation is possible, too.

If the advanced nations came together to recreate an international version of the mixed and regulated brand of capitalism that we have fought for in many of our individual societies, trade agreements would reflect the importance of social and environmental regulations, and the WTO would be in the hands of officials who respected them (rather than those who understand their job primarily as representing the interests of global corporations). Goods, services, and capital would still flow plentifully across international boundaries, but social rights would have equal place with property rights.

A RACE TO THE TOP

In short, the best way to prevent a race to the bottom among advanced nations is to call off the race. In this "Great Common Market," as we might call it, global companies would no longer be able to play one jurisdiction against another because access to virtually all the advanced economies of the world would require that they play by common rules that balance property rights against social rights. As a result, tax revenues collected from corporations and wealthy investors would increase substantially. This would form the basis for the second part of the strategy in the United States: such revenues could be invested in the productive capacities of U.S. citizens.

With adequate revenues for social investment, we could create first-class public schools with small classes and well paid, highly skilled teachers, even in the poorest communities. Working families could give their preschoolers high-quality early-childhood education. We could invest in our great public universities and research institutions in order to maintain their leadership in the world. Workers who lose their jobs because of global competition could have a system of wage insurance and retraining opportunities, with income assistance during retraining. The infrastructure that connects our people and improves our productivity—highways, ports, public transportation, energy grids—could be kept up to date. And every U.S. citizen could have access to at least a minimum quality of health care, which would be the right thing to do and also would enable more people to lead full and productive lives.

In this way, the essential strategy for attracting and keeping global capital would be to become more productive rather than to lower our wages and standards and cut taxes on capital. Global investors would still get a sufficiently high rate of return to be fully satisfied, thanks to high and rising productivity.

This two-pronged approach—seeking collaboration among advanced nations to avoid races to the bottom while investing the resulting revenues in the productivity of our citizens—is, of course, the exact opposite of the prevailing orthodoxy. Ultimately, that prevailing orthodoxy will wreck U.S. society. The global race to the bottom is a zero-sum game: it does nothing to improve the efficiency of the global economy. It simply redistributes funds away from crucial investments in public services to global financial elites. But although alternatives are painfully absent from public debate, the current model is not the only possible form of globalism. We need a globalism that promotes a race to the top. This kind of globalism is sound policy—and, with some leadership, it could be good politics as well.