

Globalization: Powerful Economy - Powerless Politics?

Lecture held by

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In our age of globalization, does politics really lose its power while the power of corporations continues to increase? At present, this assertion has become such a commonplace that nobody questions its truthfulness. As is often the case with popular statements made by politicians, it is worthwhile to have a closer look at things.

Immediately, further questions do appear, such as the following ones. Should we really worry about the loss of power asserted? How should we imagine a type of politics making full use of globalization's advantages while being at the same time compatible with the principle of individualistic freedom?

As regards the suggestions for answering these questions I would like to give you tonight, I shall start with politics occurring within the limits of nation states, tackling subsequently the political challenges to be faced on global level.

One correct observation appears to corroborate the posited loss of power suffered by politics: The welfare state's traditional institutions are exposed to increasing pressure, while taxation systems are subject to increased international competition aimed at acquiring investments, performers and contributors. One may deplore these facts.

However, not every loss or diminution of political power has to be rated negatively in a liberal perspective - the contrary may be true.

Evidence shows that the latitude in political decision-making is mainly subject to restrictions where, in Western welfare states, there have been highly detrimental developments. Departing from the welfare state's basic safeguarding against great risks in order to arrive at an all-inclusive welfare package - this meant getting on the wrong track, which applies also to taxation systems getting increasingly complicated and unfavourable to performance in most countries. The country hosting this conference, Switzerland, has at least partly been able to avoid these developments in the area of taxation.

Without any doubt, the steadily increasing international competition has a positive effect insofar as it ensures a speedier detection of problems, the solution of which - though in principle they were well-known to all concerned - had been put off time and again. The old-age pension systems should henceforward be based as far as possible on a capital funding principle instead of burdening their financing costs on future generations. Sick insurance plans must allow more freedom of selection, competition and personal responsibility. Government budgets must again be balanced.

But all these measures should be adopted even without the incentive of globalization, just to spare our descendents' being burdened with absolutely unsupportable taxation.

In Germany there is a saying: "Es soll vorkommen, dass die Nachkommen mit dem Einkommen nicht auskommen" (approximate meaning: it may happen that descendants cannot make do with the available income). This pun could turn into a sad reality. Faulty political decisions, and not globalization, have caused the quandary affecting Germany and other Western industrialized countries. This is also true of domestic economic policies. Recent years witnessed a reduction of subsidies and protectionist measures occasioned by diverse factors. This actually entailed a diminution of the options available to national governments. But here again, only the impossibility to adopt those measures is involved, which contradict all reasonable regulatory concepts. The process of abolishing subsidies and trade barriers may by no means be slowed down, as requested by various profiteers. - On the contrary, we should do everything in our power to speed it. That does not only conform to a truly liberalistic economic policy, thus augmenting our affluence over the long term, but is also a matter of equitableness.

As regards countries just starting to move toward greater affluence, their prospects of success are sizeably improved by granting them free access to markets, relieving them simultaneously from confrontation with highly subsidized competitors domiciled in affluent countries.

Another example for the supposed loss of political power consists in the competition of taxation systems witnessed today in Europe, but not only there. If Estonia, Slovakia and other new EU member states have radically reformed their taxation systems, they certainly are entitled to do so, but they are also setting thereby an example for other countries. In many respects, Slovakia's taxation reform may serve as a lesson for us, too. I do not specifically focus in this respect on the low tax rates, but above all on the clear-cut and simple taxation rules. When passing its new laws on income tax and corporate taxation, Slovakia did neither show signs of weakness, nor cave in to globalization's pressures. On the contrary, that country evidenced that incisive political changes are feasible while respecting at the same time the basic regulatory concepts of "Ordnungspolitik". Slovakia introduced abstract and simple rules allowing both individual persons and corporations to plan matters safely, thus furthering competition as well as personal responsibility.

And what is the verdict of many finance ministers of EU countries in this respect, including those of Germany and France? They demonize the reformist measures, pretending that the countries involved wish to attract investments by unfair methods. Themselves, these critics are defending, however, a system of countless exceptions and special regulations which tries to satisfy in some way the requirements of all pressure groups, damaging thereby finally the whole community by paralyzing economic development.

Regarding the much discussed question of taxation competition, there is another important point to which I shall revert once again at the end of this address. Politics, too, requires competition. Using the words of Friedrich August von Hayek: competition is the best method of detection and discovery. This applies to political institutions, to taxation systems as well as to social security and insurance. Globalization has the big advantage of making it easier for us to learn both from the successes and the mistakes of other parties.

Whenever other people are involved, there is no inhibition to blame them for unfair practices. In actual fact, the EU and its member states are still involved in many measures keeping business firms and whole branches of business out of our markets. Besides being unfair, this is tantamount to a desperate attempt to keep alive unproductive, though powerful, economic segments, which usually are capable of vocally lobbying for their interest. The interests of certain groups domiciled in the rich industrialized nations are put above the interests of people in other parts of the world, robbing them of opportunities to improve their situation by their own endeavours.

All preceding examples cited by me and often used as evidence for loss of power suffered by politics have one thing in common: they concern political philosophies incompatible with the principles of a liberalistic policy. Both regarding social policy as well as subsidies and trade barriers, such a political doctrine aims at governmental redistribution of wealth or interference with the market forces. Those criticizing loss of power in politics are deploring above all the state's shrinking latitude for interventionism and redistribution. From a truly liberal point of view, there is nothing to criticize in this respect, although such a stance is quite popular with the public at large.

As regards problems of any type, many people continue to believe that governments have at their disposal the appropriate instruments in order to solve them. This becomes immediately evident once big and well-known business enterprises are threatened by bankruptcy, or when whole branches of business become crisis-ridden. When this happens, clamouring for a political intervention without delay is the rule.

Usually, politicians react by according absolute 'top priority' to the solution of such a problem. But this has much more to do with the hunt for votes and obtaining the public's consent than with reasonable politics. During the recent decades, many people succumbed to the disastrous tendency of believing in the all-round competence of governments to solve a very wide gamut of problems - extending from old age pension schemes to job security.

Inevitably, this trust in the problem-solving capability of politics had to be disappointed. Globalization only accelerated this process, but did not trigger it on its own. This sheds light on suitable measures to counteract the supposed loss of power: parliaments and governments have to focus more on their main task, consisting in creating uncomplicated and reliable framework conditions allowing citizens and business enterprises to act and produce at their own responsibility. At the same time, the parliaments should strive again after getting back more power from administrations and entities run by functionaries.

The solution of these problems also depends on becoming more independent of the various lobbies and pressure groups. It is obvious that this will be far from easy to achieve. However, according to my opinion, this is the sole path safeguarding the viability of our developed democracies in the face of worldwide competition. Moreover, it is the only way for political decision-makers to maintain their responsibility vis-à-vis the whole people. In contrast thereto, many countries are chiefly satisfying the interests of pressure groups, including the insistent demands made by corporations.

We now have to tackle the second part of the question we are dealing with tonight.

Is the "Economy", i.e. the corporations, getting more and more powerful? At first glance, there seem to be many circumstances and factors favouring the answer YES. Partly, they are known to us from the complaints about loss of power in politics. But certain lines of business still continue either to receive huge subsidies or to be protected from the competition by customs duties or other trade restrictions - we need only have a look at Europe's shipyards, the steel industry in the U.S. and agriculture almost everywhere. These are just three examples picked out of many others. Even investments are backed up by huge subsidies in so-called structurally weak regions.

We should not harbour any illusions with respect to economic preferences shown by business enterprises. Private enterprise is the backbone of the free market economy and additionally - though this is often not realized - one of the bases of a free social system. However, this does by no means guarantee that corporations always adhere to the pure doctrine of sound regulatory concepts of an "Ordnungspolitik". If there are promising prospects to improve their competitive edge by exercising political pressure, they will attempt to act accordingly. This is above all true of companies operating in an increasingly worsening competitive environment, requesting therefore to be protected against unpleasant competition or to be supported by subsidies. Incentives to do so have been provided by politics. Time and again I have witnessed the speaker at an event organized by a trade association enthusiastically praising the benefits of competition, but approaching afterwards his competitor in order to agree with him on measures to restrict competition.

Such a behaviour entails negative consequences for those parties, who cannot easily draw attention to their concerns, such as medium-sized businesses or foreign competitors.

By contrast, the framework conditions jointly valid for all businesses do hardly improve. The inflexible German labour law uniformly impairs investments in all branches of business. These drawbacks provide on the other hand incentives to offset at least part of the burden by political measures.

Talking about the increasing power of corporations, one often cites Third-World examples, for instance Nigeria: In this country, various petroleum corporations are exercising much influence on the government, thereby aggravating the ecological and social problems confronting this nation provided with huge natural resources. But even in this case, the main problem resides in a corrupt and greedy class of politicians. - Please do not misunderstand me. I truly believe that business enterprises, too, are vested with an ethical responsibility. But it is the political framework conditions governing and inspiring their activities which are of paramount importance. It is precisely in this area that the power and responsibility of politics resides. And it quickly becomes clear, which is the unique means to stem excessive power wielded by certain enterprises or other influential entities: identical rules for all which do not constitute an excessive burden, abolition of special privileges granted to single branches of business irrespective of defensive arguments in their respect. - This corresponds exactly to "impartial politics", as mentioned by Adam Smith.

Admiring greatly both Adam Smith and Ludwig Erhard, the former finance minister of New Zealand, Roger Douglas, once said that radical reforms can only be implemented provided that all special regulations are simultaneously abolished quickly. That may be

more difficult to achieve in the democracies of Continental Europe, organized in a different way than those of the Anglo-Saxon world.

The exemplary success achieved by New Zealand shows, however, that governments and parliaments of nation states are not at all powerless. Precisely this country did overcome a paralysis lasting many years in order to become today one of the world's most dynamic economies. Governments can contribute much to further the welfare of a country and of its people by concentrating on their essential tasks, tackling them in a decisive manner. On the other hand, those states adhering to wrong economic concepts will lag more and more behind. The sluggish economic growth in Germany is a striking example in this respect.

As already mentioned at the outset, tonight's topic has a further aspect, which is at least of equal importance. In certain areas, globalization actually requires framework conditions valid on worldwide level. We require free trade to be regulated on a global scale. A suitable means to achieve this can only be provided by the WTO. Bilateral or regional chambers of commerce can in no way act as substitutes, precisely because they afford member countries liberalized trading, but only with the side effect of distorting competition in respect of all other countries. Multilateral solutions also afford more protection for smaller and weaker partners, whose interests are far more difficult to enforce against more powerful partners within the scope of regional networks. Finally, regional negotiations are deflecting political attention from the comprehensive liberalization endeavours made possible within the WTO system.

In the course of WTO-related negotiations, the industrialized countries have already missed many chances to improve the international framework of regulations. But they are not the sole culprits responsible for the slow progress within the scope of the Doha negotiations. Numerous trade barriers exist between the developing countries themselves. However, the industrialized countries bear a special responsibility of granting free access to markets to all countries. The so-called July package of WTO's General Council offers new opportunities for further negotiations.

The EU has at long last taken some steps in the area of farming subsidies. But here, as in case of other items on the negotiating agenda, the devil is in the nuts and bolts. At this moment in time, the customs duties levied by OECD countries average 15% on agricultural produce exported by developing countries.

By contrast, no progress has so far been achieved regarding market access granted to non-farming products, although this is of special importance for countries on the threshold of industrialization. In many countries, the economic development toward increased prosperity was actually initiated by the textile industry.

Where industrialization is the only way to improve the economic situation of the masses, the continuous raising of the EU's trade barriers, whose level increases parallel to the product's degree of processing, must be considered as a highly reprehensible measure.

However, hardly everything sold under the label "Global Framework Conditions" or even "Global Regulatory Framework Set" ("Ordnungspolitik") makes sense. This applies particularly to the nonsensical, but hardly feasible, project of the Tobin Tax as well as to

international social and environmental standards. The latter enjoy a surprisingly high consent.

In this respect, the fact is often banished from the mind that the pleasant term "social standards" very often camouflages tough competitive interests - both of countries as well as of multinational corporations. Today, such standards diminish life expectancy and increase poverty. While protecting and soothing affluent citizens of industrialized welfare states, these standards rob at the same time millions of people of their chances to get out of abject poverty.

If certain corporations individually commit themselves to adhere to specific standards, this can make sense. But all attempts of setting up new trade barriers based on these standards are strictly to be rejected. The designation "Trade Imperialism", coined for this policy by a former finance minister of India, is fully justified.

Keeping track of discussions regarding the future of global institutions, one can hardly avoid suspecting that many errors already committed by the nation states are likely to be repeated once again. Since they do no longer function smoothly on national level, interventionism and redistribution of wealth should again be made palatable and functional on global level.

Although its complexity is impossible to grasp already now, the system of international organizations should be vested additionally, in the opinion of certain advocates, with more powers and larger budgets; sometimes even the idea of a World Government seems to emerge during the debates.

This is the wrong way, leading nowhere.

It is precisely because conditions in many parts of the world are far from conforming to ideal standards of a free society and free markets that we need competition in the area of political institutions, too. Competition provides evidence of successful alternatives to an economy run by the state or based on privileges. Competition also exercises the necessary pressure to induce changes. This does not only involve economic policy, but shows also the way to create open societies respecting human rights.

It is within the grasp and power of individual governments to face this competition, while setting up at the same time reliable worldwide framework conditions allowing it to function.