

JEFF FAUX

Crashing the Party of Davos

Globalization works for the bosses. Can we make it work for workers too?

All markets have a politics, reflecting conflict among economic interests over the rules and policies that determine—as the American political scientist Harold Lasswell once famously put it—“who gets what.” And when markets expand, so do their politics. Thus, in the nineteenth century, driven by improvements in transportation and communication technologies, commerce spilled across state borders beyond the capacity of states to regulate them. The power of large corporations went unchecked, generating bitter and violent class conflict. Fortunately, the democratic framework of the U.S. Constitution permitted popular challenges to the excessive concentration of wealth and influence. Ultimately, through the Progressive and New Deal eras, the United States developed a national politics that imposed a social contract—a New Deal that provided workers, as well as business, with

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enforceable economic rights. Over time, the contract was extended to racial minorities, women, and others who had been previously excluded from expanding economic opportunities.

Today, markets have expanded again, beyond national borders—and beyond the capacity of the world's nation-based political institutions to manage them. As a result, the global economy is sputtering. Witness the collapse of the Doha Round of trade negotiations, popular hostility to the “Washington Consensus” of development in Latin America and other underdeveloped regions, and the spread of social tensions over immigration and foreign-wage competition in both rich and poor countries. The current pattern of globalization is undercutting the social contract that national governments, in developed and in many less-developed countries, had imposed over the last century in order to stabilize their economies and protect their citizens from *laissez-faire's* brutal insecurities. Even as the world grows more tightly knit, it still lacks a common politics for managing its integration.

Just as bringing stability to the American economy in the last century required stronger national institutions, bringing social balance to the global economy in this century will require stronger global political institutions to regulate global markets. Already, many such institutions exist—such as the World Bank, World Trade Organization (WTO), and International Monetary Fund (IMF). But in make-up and in culture, they are dominated by those who own and manage large concentrations of internationally mobile capital, whose goal is to escape market regulation and break free of obligations to stakeholders other than the global corporate investor. In the politics of the global market, these institutions are dominated by a single party: Call it the Party of Davos, after the Swiss resort where several thousand global corporate CEOs, government leaders, and their assorted clientele of journalists, academics, and an occasional nongovernmental organization (NGO) or trade union head have the equivalent of their party convention every winter.

We are therefore faced with a catch-22: a global economy that is both prosperous and fair requires strong global institutions, but given the lack of a constitutional framework for democracy on that scale, strengthening existing global institutions is unlikely to generate a better distribution of global income and wealth. Indeed, under the present structure, as the world's markets become more integrated, world inequality grows.

This fundamental contradiction cannot be resolved by unruly demonstrators at the entrance to the World Bank or the IMF. Nor will it be resolved in polite public policy seminars with proposals for globalization's winners to share their gains with the losers; that is not what winners voluntarily do. Serious reform

will only come from the development of a cross-border politics that challenges the cross-border power of the Party of Davos. Pulling together a worldwide movement is a utopian goal, but doing this in a region-by-region process is not. In fact, American progressives could begin the process right here in North America by transforming the North American Free Trade Agreement (NAFTA) into an instrument for continent-wide social progress. A redesigned NAFTA, in turn, could serve as a critical building block in constructing a global economy that is more equitable, more stable, and more democratic.

The Politics of Expanding Markets

The politics of the New Deal and social democratic analogues across the world rested on a new understanding of how national economies worked. The British economist John Maynard Keynes and his American followers showed that in a modern economy the worker/consumer was as important an actor in the market drama as the investor/manager. The government therefore had an obligation to pump income into the economy during downturns to assure that workers continued to buy the products they had made. Although many of America's business elites resisted the egalitarian implications of the New Deal, the smartest of them understood that Franklin Roosevelt and Keynes had saved them from much worse, namely, Marx's prediction of inevitable class warfare. When Dwight Eisenhower's nominee for secretary of defense, Charlie Wilson, said, "What's good for General Motors is good for America," liberals snickered, but the country—and the United Auto Workers—thought he was right. By 1971, Richard Nixon could claim, with some justification, that "we are all Keynesians now."

Shortly afterward, the slow fusion of the U.S. economy with the rest of the world accelerated. Between 1969 and 1979, the share of the U.S. Gross Domestic Product (GDP) represented by foreign trade rose from 10 to almost 20 percent, and the trade balance shifted from a surplus to deficit. By 2005, trade was 26 percent of our economy, and the relentlessly rising trade deficit was at 6 percent of our GDP. Along the way, the American industrial base—from apparel to steel to high-technology products—has been dramatically eroded, wages have stagnated, and the economic security of the typical American worker has been systematically undercut. Economists will always debate the exact numbers, and globalization is not the only factor driving the erosion of American economic security, but by now few can doubt that it is a major cause.

Keynes—whose ideas inspired the IMF and what eventually became the WTO—was no protectionist. Yet he cautioned nations to limit their foreign trade, because he believed it weakened a democratic government's ability to

maintain the economic growth needed to keep social peace. For example, if a large share of consumer demand went for imports, government deficit spending to overcome a recession would stimulate production in the exporting country rather than at home. And where growth depended heavily on exports, reducing wages to become more competitive would take priority over raising incomes to stimulate domestic consumption.

He was right to worry. Whatever else one might want to argue about the last 25 years of globalization, there is little question that it has undermined the New Deal-era social contract that rests on the mutual dependence of workers and employers. As companies become global, they increasingly find their workers and customers in other nations, loosening the economic bonds of shared self-interest that previously connected them with their fellow citizens.

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Indeed, for the last two decades, CEOs of major “American” multinationals have openly acknowledged that their future no longer depends on the prosperity of their fellow nationals. In the 1980s, Carl Gerstacker, chairman of Dow Chemical, said that he yearned to put his headquarters on an island where it would be “beholden to no nation

or society . . . rather than being governed in prime by the laws of the United States.” A decade later, Alex Trotman, chairman of Ford Motor Company, observed bluntly: “Ford isn’t even an American company, strictly speaking. We’re global. We’re investing all over the world . . . Our managers are multinational. We teach them to think and act globally.”

As American industry went global, the political lines over trade and globalization began to be redrawn. In the past, workers and employers in the same industry were, for example, on the same side on the question of raising or lowering tariffs, depending on the industry’s competitiveness. After World War II, which had eliminated much of America’s industrial competition, both capital and labor became champions of free trade. But as American companies began to transform themselves into global corporations, free trade agreements have become a way for them to shift production to places where labor was cheap. The 1993 debate over NAFTA, the first major political battle of the new global economy, reflected this new division: American workers on one side, investors and executives on the other.

A similar division over NAFTA occurred in Mexico and Canada, whose working classes also anticipated the loss of bargaining power. Their fears were

justified. A decade later, in all three nations, the gap between what workers produced and what they were paid grew dramatically. In the United States, labor productivity in manufacturing rose 80 percent, while real wages rose only 6 percent. In Mexico, productivity rose 68 percent, while real wages rose 2 percent. In Canada, the numbers are 34 and 3 percent, respectively. As Jorge Castañeda, former foreign minister of Mexico, observed at the time, NAFTA was “an agreement for the rich and powerful in the United States, Mexico, and Canada, an agreement effectively excluding ordinary people in all three societies.” It is not surprising that the rich and powerful in all three nations gained most of the benefits while the “ordinary people” paid most of the costs. The relentless tide of Mexicans desperately crossing the border for work—a dozen years after NAFTA’s promoters predicted substantially reduced illegal immigration—is just one sign of the agreement’s failure to deliver on its promises.

The fallout from NAFTA echoes the current pattern of globalization generally. As capital becomes both more internationally mobile and more protected, its bargaining power over domestic labor is strengthened. Offshore outsourcing expands, and the threat to outsource becomes more credible, forcing workers to agree to work for less and local governments to weaken regulation. The result is rising global inequality of income and wealth—and the inequality in political power that follows.

The Garbled Language of Globalization

As globalization relentlessly reorders American economic and political life, the policy debate remains mired in an obsolete paradigm that clouds our understanding of what is happening. On the one hand, pundits like the *New York Times*’ Thomas Friedman tell us that the global economy has obliterated borders, making government irrelevant. On the other hand, the discussion of policy remains trapped in the language that defines globalization as competition among sovereign Westphalian nation-states, in which the conflicting interest of domestic politics stops at the water’s edge. Thus, for example, politicians and journalists speak of economic competition between “China” and “America” as national rivalries. Yet the business news channels are replete with celebratory segments on the profitable integration of U.S. and Chinese firms. Indeed, the “China threat” is actually a business partnership between local commissars who provide the cheap labor and American and other transnational capitalists who provide the technology and financing. Similarly, while analysts frame the discussion of world poverty in terms of rich and poor countries, they ignore the reality that there are poor people in rich countries and rich people in poor

countries, leading to foreign-aid programs that are merely an inefficient transfer of resources from the former to the latter.

Most confusing and damaging to the debate is the wide use of “free trade” as a synonym for globalization. Leaving aside the theoretical issues, simple liberalized trade among sovereign nations does not describe how the world’s economy is evolving. The process is rather global economic integration, which aims at imposing a universal set of rules and policies on all nations. As Renato Ruggiero, the first director-general of the WTO, observed, “We are no longer writing the rules of interaction among separate national economies. We are writing the constitution of a single global economy.”

That an integrated global economy should be regulated by universal rules is obvious. The problem is that the “constitution”—which includes the policies of the international financial agencies as well as so-called trade agreements—protects and supports just one category of citizen, the global corporate investor. The interests of other stakeholders—workers, communities, civil society, and others whose hard-fought rights were finally established in democratic national societies—have been excluded. Even among sophisticated policy intellectuals, the political implications of economic integration are ignored by stuffing them safely back into the nation-state, whose citizens are assumed to have suffered no loss of power. One of many examples is economist Jagdish Bhagwati, a prominent proponent of global laissez-faire economics, who writes that “moral suasion,” “democratic politics,” and “judicial activism” at the national level are sufficient safeguards for labor, human rights, and environmental protections. Although goods and capital are acknowledged to flow and commingle in borderless markets, the class conflicts that markets inevitably generate are not. Yet these are global political conflicts that befit a global economy. By confining them to the nation-state box, the popular cross-border politics needed to countervail the cross-border power of private wealth is suppressed.

Thus a disconnect emerges between the theoretical notion of “national interest” and its actual promotion on the international stage. The conventional wisdom implicitly assumes that while tactics and style may differ according to which party is in power, a nation’s representatives to the IMF or the WTO are assumed to be furthering the “national interest,” a phrase frequently referenced but rarely specified. One of the few foreign policy commentators to address, even in passing, the question of how to define the national interest is Harvard’s Joseph Nye, Jr. As he wrote in *The Paradox of American Power*, “In a democracy, the national interest is simply what citizens, after proper deliberation, say it is... If the American people think that our long-term shared

interests include certain values and their promotion abroad, then they become part of the national interest. Leaders and experts may point out the costs of indulging certain values, but if an informed public disagrees, experts cannot deny the legitimacy of their opinion.”

The description of U.S. foreign policy being driven by the citizenry, with leaders and experts passively “pointing out the costs,” would be suspect under any circumstance. The Iraq war, to cite one obvious example, was hardly initiated by a spontaneous grass-roots movement in America demanding Saddam Hussein’s head. But in the context of the global economy, where cosmopolitan elites have more in common with peers in other countries than they do with people who simply share their nationality, it is stunningly naïve.

A more accurate description of how the new world economy is governed comes from Anne-Marie Slaughter, dean of Princeton’s Woodrow Wilson School of International Affairs, who in her book *The New World Order* describes informal networks of global bureaucrats and business-people that bypass traditional governments. According to Slaughter, this “disaggregated” state has the speed and flexibility to “perform many of the functions of a world government—legislation, administration, and adjudication—without the form.” The most advanced part of this virtual state is the networks of people who run, manage, and regulate international finance. Political scientist Judith Teichman, a less enthusiastic analyst of cross-border networks, quotes a senior IMF official who manages its Western Hemisphere portfolio: “We are all the same—people who come and go through the [World] Bank, the [International Monetary] Fund, and Finance Ministries and Central Banks of Latin American countries. We all studied at the same universities; we all attend the same seminars, conferences... we all know each other very well. We keep in touch with each other on a daily basis. There are some differences, such as between those who studied at Harvard and those who studied at the University of Chicago, but these are minor things.”

Slaughter, for her part, believes these networks bring accountability back to the people. “We need more [global] government,” she writes, “but we don’t want the centralization of decision-making and the coercive authority so far from the people actually to be governed.” But, far from solving the globalization paradox, Slaughter’s networks are likely to transfer more power from ordinary people to the hands of international technocrats whose career paths, like those of their domestic counterparts, depend on those with financial—and therefore political—influence. The WTO, one of its officials told the *Financial Times* in a moment of candor, “is the place where governments collude in private against their domestic pressure groups.” The comment reveals both contempt for

democracy and disingenuousness about political influence. In fact, the WTO's work is suffused with the interests of domestic pressure groups with global business interests. Corporate representatives dominate its many advisory committees and working groups; its dispute settlement panels are chosen from pools of experts who regularly work for transnational corporations; and business even directly pays for the organization's expenses. In the last WTO ministerial meeting held in America—scene of the famous “Battle of Seattle” in 1999—business corporations, for instance, paid \$250,000 each for special access to the trade ministers. The Office of the U.S. Trade Representative is a well-known revolving door of lawyers and trade specialists (such as former Trade Representative Robert Zoellick, now working at Goldman Sachs) whose next move is often to those transnational corporate sector, where success comes to

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those who “think and act globally”—and do so on behalf of those who are benefiting from this global system.

The Party of Davos is no monolith. It has its factions, competing ambitions, and interests. And because the world's economies, while globalizing, are far from being completely globalized, important concentrations of economic power are still rooted in

national economies. Corporations in China and Russia, for example, are constrained by a state apparatus that is decidedly nationalist. But it is only a matter of time before these national connections erode, too; meanwhile, the concentrations of private capital that have their roots in Europe, the Americas, and large parts of Asia have a shared agenda in weakening the power of national governments to restrict the freedom of capital in both rich and poor countries. As one prominent member of the Party of Davos blurted out at a conference at the Council of Foreign Relations, “When we negotiate economic agreements with these poorer countries, we are negotiating with people from the same class. That is, people whose interests are like ours.”

There is no countervailing force at the level of global governance to balance the Party of Davos's power. The International Labor Organization (ILO), which is often erroneously thought of as the worker's equivalent of the WTO or the IMF, is really a tripartite structure in which labor, government, and business have equal voting strength. More importantly, unlike the IMF, which has money, and the WTO, which has trade sanctions, the ILO has no leverage over any nation or company. A global capitalist class, of course, implies a global working

class. In response to the Party of Davos, international cooperation among trade unionists on issues of collective bargaining and organizing in specific industries is growing. But, by and large, unions are too involved in fighting for survival in their national economies to mount a global challenge to corporate power. And what might be called (after the Brazilian city where it holds a counter-Davos summit) the “Party of Porto Alegre”—the loose network of dissenters and protestors that the media calls the “anti-globalization forces,” seen protesting at IMF meetings—is much more bark than bite. It is too diverse, disorganized, and disdainful of power to get much beyond demonstrations that make the nightly news but little else.

Next Steps for NAFTA

How then to reshape the politics—and power relationships—of the global economy? A social contract did not come to an expanded American economy until American workers became conscious of their common interests. Similarly, one will come to the global economy only when working families see that in a global labor market, they have more in common with working families in other countries than they do with those on the other side of the bargaining table.

Yet in a world of 6.5 billion people in almost 200 separate countries—representing wide differences in culture, living standards, and political consciousness—the prospect of seeing, to use an old phrase, “workers of the world unite” enough to humanize the relentlessly interconnecting markets seems hopelessly utopian. But if we begin to think of establishing a global social contract as a step-by-step process, in which political solidarity is built first among neighboring societies, region by region, rather than some grand, all-embracing design, there may yet be light at the end of this dark global tunnel.

Unlike global elites, who have easy access to global culture but little connection to their hometowns, ordinary citizens in countries in the same region tend to have more in common with one another than they do with people half a world away. Culture and language are closer, and trading relations are usually the strongest and most sustainable. True, wars historically have been fought mostly among neighbors, but the European Union (EU) demonstrates that at least among the more advanced societies, the future need not necessarily be prisoner of such a past. Moreover, regional integration would seem to be a much more promising path toward the inevitable trial-and-error involved in building competent and accountable institutions to manage cross-border economic integration. American states were, and to some extent still are, “laboratories of democracy” for the national government. In the same way, the process of creating regional institutions that match expanding regional markets might

well produce “laboratories” for the construction of a social contract that might eventually stretch to the range of the global economy.

For all its slowness and the pain of its “two steps forward, one step backward” process, the effort to build a “Social Europe” to match the expanded European market offers the best real-world example of the development of a politics around a cross-border social contract among historically splintered neighbors. The future shape of Europe is contested political terrain, and the conflicts between workers and bosses, regulators and deregulators, and Europeanists and nationalists reflect the inevitably messy way in which democracy is addressing this historic experiment. The fragile democracies of the Mercosur countries in the southern cone of South America are beginning a similar project of economic integration that, if it continues, will inevitably involve some political integration as well. A germ of the same idea also lies in the economic collaboration among Southeast Asian nations.

This brings us back to the question of North America. Although NAFTA failed to deliver on its promises, it succeeded in integrating the three economies to the point of no return. Too many economic channels have been redirected north-south to reverse the course of economic integration. Every day, along with commingling labor markets, intracontinental connections in finance, marketing, and production are being hardwired for a seamless North American economy. We may not like NAFTA, but there is no reversing its course.

But that does not mean that it’s sacrosanct. Even those who designed NAFTA to accommodate their own interests understand that it is an inadequate instrument with which to govern this new political economy. Revising NAFTA is already a topic of conversation among North American business and political elites: The U.S. Council on Foreign Relations, the Mexican Council on Foreign Affairs, and the Canadian Council of Chief Executives have set up an ongoing “Task Force” to map out the next steps. Their 2005 report called for a commonly administered military security perimeter, common energy policies, and a modest investment fund for Mexico. And Mack McLarty, former Clinton chief of staff and now partner with Henry Kissinger in a consulting firm, has called for planning an oil-for-infrastructure deal with Mexico to be ready for the next U.S. president. But, while these and similar proposals contain some sensible ideas, the framework is the familiar one—an expanded market to feed global corporate ambitions—and gets us no closer to solving the catch-22 of unaccountable governance.

Instead, we need to transform NAFTA into a set of rules that recognizes the common economic future that now connects all of the people of the three nations. It would need to include, at a minimum, a “bill of rights” for citizens

of North America, enforceable in all countries, that would reestablish rights for people at least as strong as the extraordinary privileges NAFTA gives to corporate investors. They would include guarantees of freedom of association and collective bargaining across borders, as well as an independent judiciary and public transparency in government dealings with the private sector. A new NAFTA would have to be a continental grand bargain in which Canada and the United States commit substantial long-term aid to Mexico in order to nurture higher and sustainable economic growth, while Mexico commits to policies (independent trade unions, minimum wages, equitable taxes, assistance to its depressed farm sector) that assure wages in all three nations rise with their productivity. To that end, it would require a North American customs union in which foreign trade would be managed in the service of the needs of all three countries for greater industrial self-sufficiency, resource conservation, and increased investment in health and education. Such a new vision for NAFTA would more strongly unite the three nations in a single competitive bloc that provides all of the citizens of North America, not just its corporate interests, an investment in its success.

North America is of course, not Europe. It is easy to make the case that the political and economic conditions that motivated and nurtured the EU are quite unique. But at its conception, it was also easy to argue that the EU would be still born. Indeed, in at least some dimensions, a unified North American economy is a more credible idea. There are only three languages (counting Quebecois French) to deal with. All are relatively new countries. For at least two centuries people have been moving, marrying, and interconnecting culturally. The one time the United States and Canada fought was in the War of 1812, while the Mexican-American War ended in 1848.

When the twenty-first century began, polls showed Americans, Canadians, and Mexicans possessed highly favorable opinions of one another. Asked in a 2000 World Values Survey poll if they would be willing to form a new single country if it meant having a higher quality of life, majorities in each country said yes. In the aftermath of September 11, Canadians and Mexicans expressed massive solidarity with Americans (although the invasion of Iraq, which they overwhelmingly opposed, has rekindled some latent anti-Americanism). Many on the U.S. side, when they still supported the war, resented that Mexico and Canada refused to send troops. Still, the sense that—like it or not—the three societies share a common future comes through in a report of polls taken between 2003 and 2005, which shows support for North American economic integration in all three nations, even though people in each thought that NAFTA had been a “loser” for their country.

Moreover, gathering economic forces might actually force an acceleration toward integration. At some point, the unsustainable rise in the U.S. trade deficit will have to be reversed, threatening the economies of Canada and Mexico, whose growth since NAFTA has depended on the U.S. market. In order to avoid the political consequences (e.g., more illegal immigration from Mexico, less cooperation on national security from Canada), the United States may well be forced to establish a North American trading bloc anyway that protects its neighbors' access to a U.S. economy that will be forced to reduce its overall imports.

One thing is certain. The global economy will continue to undermine both democracy and economic security until we develop the institutions to support a social contract across borders. To do that, what better place to start than in our own continental backyard? ▀