

The Anti-Globalization Protest: Or, Why the Protestors Have it Half Right

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Synopsis:

The classification of countries as "developed" and "undeveloped" is a self-fulfilling prophecy. Have more than a few countries ever graduated from one to the other? As long as decision-makers artificially classify countries 'development' institutions like the International Monetary Fund, the World Bank, regional development banks, USAID and other bilateral donors will continue their international welfare programs. But if you remove the artificial divide of developed or undeveloped, or North and South, then countries and their citizens will be treated as equals. And over-all well-being is increased as you don't have the 'development' institutions as rent-seeking middlemen.

I Introduction

This paper presents an argument that the anti-globalization protestors are half-right. The World Bank and International Monetary Fund (IMF) indeed have to go: they take from the poor in rich countries, and give to the rich in poor countries, specifically giving subsidized funds to governments or local politically-entrenched organizations which need to become more accountable not less. Whereas, and this is where the protestors have it wrong, the World Trade Organization (WTO) serves a vital purpose in that it gets inefficient government out of the wealth-creating trading process.

II The IMF and World Bank

The IMF provides "bail-out" cash to governments when they mismanage their foreign exchange process. If a central bank subsidizes the local currency through the taking of foreign currency brought into the country for the purposes of trade and investment, the over-valued local currency

means that local producers aren't competitive in international markets and unemployment is not reduced. The result is an unsustainable state-sponsored consumerist society. When the state runs out of hard currency reserves to support the local currency, the IMF steps in and provides cookie-cutter reforms, which usually means higher taxes on the citizenry. And it also supports a bureaucracy of IMF economists and consultants in the US headquarters and overseas.

The IMF was formed in 1945 under Bretton Woods to support the gold standard, which collapsed in 1973. However, due to bureaucratic mission-creep¹, the IMF finds itself the lender of last resort to inefficient governments worldwide. The IMF would serve itself by focussing on its core mission: the reporting of balance-of-payment information between nations. This is a mission they carry out well as the International Bank of Settlements.

The World Bank, as is the IMF, a large international bureaucracy, also provides subsidized capital, creating disincentives for a developing country government to rationalize its fiscal policy and capital investments. Whereas the IMF distorts and removes accountability for local monetary policy, the World Bank distorts local fiscal policy by lending long-term funds at subsidized interest rates.

The World Bank is an 'international development' institution, and as such is an anachronism. International Development was created as an institution of the west to buy western influence against an expansionist Soviet state.

With the collapse of the Soviet state - as with the IMF and the collapse of the gold standard - the World Bank has experienced mission-creep and perpetuates the out-dated idea that there is an artificial divide between the 'developed' world and the 'developing' world. Or as is recently the vernacular, between the 'North' and 'South'. By providing below market money for 'development projects', the Bank skews local tax and spend decisions and makes local government unaccountable for infrastructure investment, be it the health, education or transportation sectors.

As long as the status-quo world economic system divides the world, inefficient development institutions will survive and real economic and social problems will not be adequately and responsibly addressed.

Governments need to be held accountable for their actions and with external monetary influences this is not possible.

III. The WTO

Before there were city-states society developed through trade. There were commercial as well as cultural exchanges. When the political process determines who is able to trade freely, societal development is hindered through government intervention, internal political processes and special interest groups. It is always the well-organized special interest group who wins-out over the unorganized and more organic common good.

Three recent examples illustrate this point. The US protects its domestic sugar industry, through import restrictions. Because of the artificially high-priced raw input sugar to the candy-making industry, historic US candy-manufacturing is moving out of the US, benefiting the politically-entrenched sugar industry. Why should Washington, D.C. industry lobbyist middlemen determine who in the US should have jobs?

US protectionism against Canadian lumber has meant higher home prices in the US. Again it is the common good which suffers when government intervenes in trade.

The best (or worst) example of the North harming the South through lack of trade is agriculture policy - Europe, Japan and the US all highly subsidize local agriculture production. These artificially high prices mean that agriculture production is not profitable in the 'developing' world. Agriculture reform is the key to economic transformation, individual liberty, and wealth-creation. Without this opportunity, the peasant class does not have an opportunity to better itself through choices, or create any economic options other than subsistence.

The World Trade Organization puts a rules-based check on these sovereign abuses of power, and indeed has made headway in its most recent round of negotiations, specifically in the area of textiles. Governments bring complaints about free trade to the WTO and the WTO brings pressure, publicized through the international and local media, against, usually corporateⁱⁱ, special interests. The WTO attempts

a transparent trade structure, benefiting the common good over the political class.

IV. Conclusion

The current international economic system does need to be challenged. By focussing on the unaccountable and detrimental IMF and World Bank, instead of the WTO, change agents can present a better argument.

ⁱ “Mission-creep” refers to the public-choice theory concept that a government organization will continue to seek and gain more power and resources and therefore go beyond its original charter. The reason for this is that the leaders of these organizations are monetarily incentivized in accordance with the quantity of resources under their management.

ⁱⁱ Corporations are too easy a target for protestors. It could be argued that in a true free market economy corporations would not exist in the size they do today, which have large public policy departments which buy influence in the public sector, resulting in state-sponsored corporate capitalism, not true free market capitalism, e.g. “anarchy with property rights”. The argument follows that corporations can be truly voluntary exchange-based wealth-creating organizations not the partially rent-seeking wealth-distributing entities they are today.