

North America: Anti-globalisation – US circles the wagons

While a way out of the current financial malaise remains distant, fears that the US will turn inward and rail against globalisation loom large

In recent decades, globalisation has broadly been considered desirable. It widens economic networks, expands markets and creates economies of scale. This all pushes down prices and allows countries to tap into sources of productive investment from all over the world.

But, as the current financial turmoil makes clear, globalisation also transmits risks and volatility just as effectively as it does benefits.

In a global financial system harnessing the speed and accessibility of modern communications, the danger of poor investment decisions is greatly magnified, says Laura Berry, executive director of the Interfaith Centre on Corporate Responsibility and a former Citigroup money manager. "We've moved from arithmetic to calculus," she says of the growing complexity of modern financial instruments and global markets.

In this absence of clear governance and mechanisms for action at the global level, the US – and for that matter, nearly every other nation embroiled in the crisis at first tried to mount a national response to what was an international crisis. It took until October 11 – four weeks after the collapse of banking giant Lehman Brothers – for G7 finance ministers to agree to do whatever it took to unfreeze credit markets.

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NAFTA? Perhaps not

But despite the measures taken internationally and domestically, economists warn this crisis could foreshadow a world where nations cannot and will not continue to promote free trade. Professor Geoffrey Garrett, chief executive of the United States Studies Centre at the University of Sydney, argues that even after the crisis the US will be "unwilling and unable to promote freer trade and international investment". Although the rolling back of existing free trade agreements is "implausible", he warns the US will no longer play a leading role in meeting global economic challenges.

An American backlash against globalisation has been building over the past 10 years, says Garrett. A decade ago, he says, "globalisation's opponents were limited to Americans without a tertiary [university] education". Today the surviving American supporters of free trade are a "globetrotting elite with postgraduate degrees", he says.

In the ranks of middle America, where even most university graduates solidly fall, workers today face eroding home values and job security, stagnant wages, rapidly escalating healthcare costs and shaky – at best – pension prospects. It is no surprise, therefore, that nearly two-thirds believe free trade has been bad for the country, Garrett says.

Barry Bosworth, a former presidential economic adviser and the Robert V Roosa chair at the Brookings Institution, a non-profit public policy organisation based in Washington DC, says that despite the fact that the US bears responsibility for exposing financial institutions in other countries to the current "mess", Americans will blame foreigners for the inevitable job losses that will occur as recession develops.

Economic politics

Presidential candidate Barack Obama has managed to tap into widespread support for protectionism among America's middle-class workers. He has, for example, already threatened to withdraw the US from the North American Free Trade Agreement.

A relatively strong US economy and the seemingly invincible housing bubble had seemed to kill off the anti-globalisation activism that peaked with protests at the World Trade Organisation talks in Seattle in 1999. But the winner of this month's presidential election will have to appease growing popular demands for less liberal economic policies.

While globalisation has been "an impressive wealth-creating, poverty-reducing machine", it manifests "huge pangs of anxiety for average working Americans" and both "enables and threatens our national well-being", says David Smick, author of *The World is Curved: Hidden Dangers to the Global Economy*. The new president must confront this paradox, he says.

No politician appears able to do this yet. Smick observes: "Our financial house is on fire, yet our leaders are squabbling over arranging the furniture in the front parlour." None has yet managed to define or articulate what the US economic role will be in the world once it emerges from the coming recession, he says.

So what can business do? Companies should continue to invest in infrastructure, particularly research and development, to address long-term employment concerns, says John Alexander, Breazeale professor of investments at Clemson University. Outsourcing, even in a more conservative business climate, will continue at companies with established relationships overseas, particularly if the price of US goods does not fall drastically compared to those from abroad, he says.

For now, American workers will blame Wall Street and the banks for the economy's woes, Alexander says. But companies such as carmakers GM and Ford – rumoured to have been discussing a merger – will face increased pressures on job protection, healthcare benefits and pension fund commitments. If companies fail to honour these commitments then their workers and communities in which they operate may start to blame the slowdown on them, warns Alexander – particularly if management is viewed as not having adequately prepared for lean times.

Even in very bad times, well-run companies can still be successful, says Alexander. He points to BB&T, a regional bank in the south-east US. "Wachovia's gone under, but BB&T has a very healthy balance sheet because they weren't as speculative," he says. If I were a Wachovia employee, I would be mad at management for not having a plan to weather these times."

It seems teetering on the edge globally and nationally is something the US and the rest of the world may have to grow used to for a while yet.

Banks spot globalisation danger

US financial services firms have already warned of the problems of globalisation's benefits not being evenly shared.

In a report published just as the credit crunch began in June 2007, the Financial Services Forum admitted that:

- Since around 2000, a large majority of American workers have seen poor income growth.
- In the two decades from the late 1970s to the late 1990s, real and relative earnings of less-skilled Americans was poor compared to the economy wide average.

But it added:

- Living standards in the US are \$1tn higher per year than they would have been without decades of globalisation, or \$10,000 per US household per year.

Source: Succeeding in the Global Economy – A New Policy Agenda for the American Worker, The Financial Services Forum, June 2007

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