

ANALYSIS: Global economy nothing to fear

By COLIN READ, *Everybody's Business*

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— Remember when we bickered with our siblings about who should get a bigger piece of apple pie, and our mothers said to us, "If you don't stop fighting, nobody can have any?"

This recurring theme in human interactions occurs whenever our own personal sense of equity or fairness clashes with common sense, often causing us to cut off our nose to spite our face. I see this phenomenon again in our response to global competition.

Nature tolerates no such silliness. For instance, we cannot deny that water finds its own level. We don't ask if Mother Nature is fair. It is what it is.

Humans are willing to accept the inevitability of forces much larger than us, but we often fail to accept the inevitability of forces of our own making.

Sometimes, battles of titans are inevitable, for a while. Writing during the Depression, the economist John Kenneth Galbraith wrote that unions could challenge large monolithic manufacturers for a share of their profits derived from monopoly power. His notion of monopolized labor to countervail manufacturing monopoly power was the best argument for the labor movement at that time in our history.

Such large and predatory manufacturers are an artifact of the past. While Standard Oil and Carnegie Steel so ruthlessly dominated their competition more than a hundred years ago, no manufacturer remains a big fish in global markets. Globalization is the great leveler now, with global forces directing resources to the least-cost producers with the inevitability of the tides. We must embrace it, so long as all play fairly. To shut ourselves off from global competition, or to make others compete with one arm tied behind their back too, is to guarantee our own obsolescence.

For instance, we insist emerging nations adopt our environmental standards, our labor standards, or our intellectual-property standards. After all, these standards made us great in another era. Our rhetoric on global equity is failing us because our competitors, rightly or wrongly, sense we are merely trying to hamstring them to make up for our lack of competitiveness.

Emerging nations point to eras in our own history when we were an emerging nation and we did not have good environmental, labor or intellectual property standards. In their minds, we've let our horse out, and now we want to close the door on their barn before their horse has a chance to run. If we are offering them advice for their own benefit, that is one thing. If we are using high moral tone so we can slow competitive threats, well, they will see through any insincere gestures.

So, if we can no longer prevail on our sense of equity in dividing the global economic pie, we best get on with enhancing our efficiency. Just as we cannot reverse the tides, we must accept that countries like China and India will, for this moment, attract our jobs, take away our manufacturing and even pollute our environment.

We must confront this competition not by denying it but by becoming more efficient ourselves. We must take the high road.

Of course, I am just as troubled by threats of global competition, too, just as I am bothered when a storm whips up Lake Champlain. And my frustration is just as unproductive. Instead of reversing inevitable trends, I think we should accept our challenge head on. My strategy is based on the assumption that the more we tell other nations what to do in this global environment, the less they will listen.

What if we let these emerging countries join our league of economies, and we competed directly with them? What if we could become the low-cost producer of goods and services by acknowledging that the only thing that will count in the long run is efficiency? The resulting increase in global efficiency would be good for our middle class and the middle class everywhere. And it would hasten the spread of our middle-class values.

We now see some companies doing just that. Exxel, this country's largest sleeping-bag manufacturer, once outsourced to Mexico just as did many of its competitors. Exxel then realized that they could make sleeping bags right here in the U.S. if only they could find very productive workers and build a plant in a state that wanted to create jobs rather than create roadblocks for enterprise.

Yes, they do have to pay good wages and offer affordable health care to attract workers. But while their labor costs are perhaps three times the costs they were paying in Mexico, their workers are three times more productive here, their quality is higher and shipping costs are lower.

In other words, they took it to the global economy and they won by emphasizing efficiency. And while they calculate only a 3 percent advantage in creating sleeping bags and jobs here, such a small contribution to their margin is a big deal these days.

So why did I start this parable with a story of fighting over pie? I did so because we will never get far if we simply wrestle in the mud over what is fair. The problem with mud wrestling is that the hogs actually like it. If that is how we spend our energy, the global economy will simply walk us by.

Instead, we must face the fact that we are all players in a new game played on a new global turf. And the sooner we strive for efficiency, the sooner our institutions will be competitive and our consumer and skilled workers will benefit from free trade.

And as this strategy progresses, we will foster an emerging middle class among our global competitors. When that happens, we will discover something truly wonderful. They will adopt the same values we cherish, and they too will prize the environment, working conditions and intellectual property.

Quality of life will mean more to them, though, because they will discover these ideals for themselves. Economic opportunity is the best, and perhaps the only, path to social progress because without economic security, people worry too much about their next meal and not enough about their well being.

We must remember what our mothers told us when we argued over slices of the pie. The only difference now is the pie is economic, not apple.

Colin Read runs Economic Insights, a local economics consulting firm, and teaches economics and finance at SUNY Plattsburgh. His fourth book, "The Fear Factor," has just been published in the U.S. by MacMillan Palgrave. He can be reached at economicinsights@gmail.com.

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