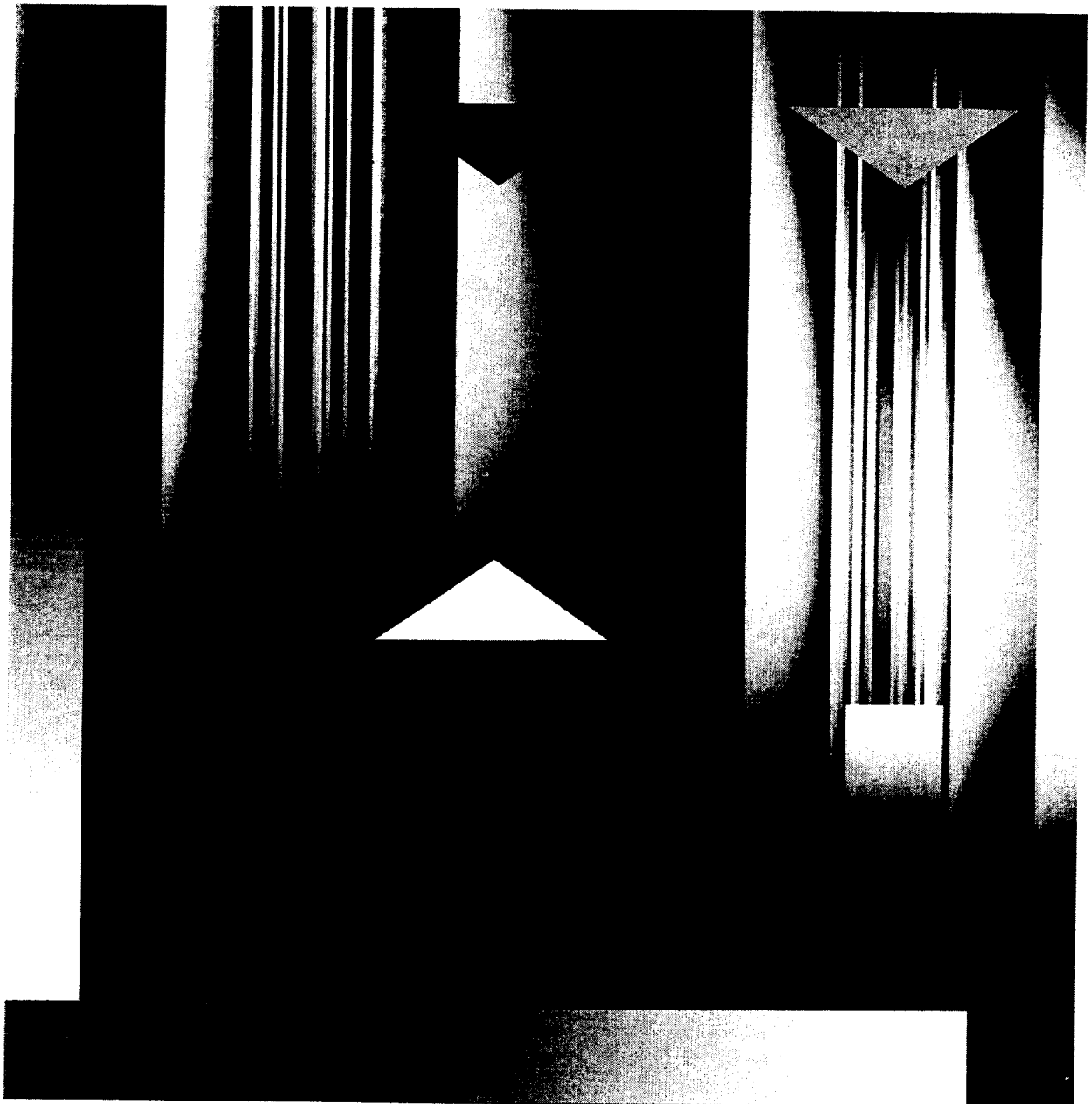




UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE GLOBAL AGE: FROM A SCEPTICAL SOUTH TO A FEARFUL NORTH

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SEVENTH RAÚL PREBISCH LECTURE
GIVEN AT UNCTAD IX IN MIDRAND (SOUTH AFRICA) ON 29TH APRIL 1996

The **Raúl Prebisch Lectures** were instituted in 1982 by Gamani Corea, the then Secretary-General of UNCTAD, to honour Raúl Prebisch, UNCTAD's first Secretary-General. The **first** lecture was given by the late **Dr. Prebisch himself**. The **second** one was by the late **Shrimati Indira Gandhi**, Prime Minister of India, on the occasion of UNCTAD VI (Belgrade, 1983), the **third** by **Dr. Saburo Okita** of Japan on the occasion of UNCTAD VII (Geneva, 1987), the **fourth** by **Academician Abel G. Aganbegyan**, one of the principal economic advisers of the Government of the then Union of Soviet Socialist Republics (USSR), on the occasion of the twenty-fifth anniversary of UNCTAD (Geneva, 1989). The **fifth** lecture was jointly given by **Dr. Bernard T. Chidzero**, Senior Minister of Finance, Economic Planning and Development of Zimbabwe, **Mr. Michel Rocard**, former Prime Minister of France, and **Mr. Enrique Iglesias**, President of the Inter-American Development Bank, on the occasion of UNCTAD VIII (Cartagena de Indias, 1992). The **sixth** lecture, held on the occasion of the thirtieth anniversary of UNCTAD in Geneva in 1994, was delivered by **Professor John H. Dunning**, Professor of International Business at the State University of New Jersey.

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PREFACE

It is for me an honour and a very special pleasure to write this short introduction to the Raúl Prebisch Lecture delivered in Midrand, South Africa on 29 April, 1996, under the title "The Global Age: From a Sceptical South to a Fearful North". The high quality of the lecture itself, as well as the brilliance and wit of the debate that followed, fully matched the high expectations that I had placed in the choice of the speaker.

The central goal of UNCTAD IX, which provided the context for the Prebisch Lecture, was to promote the true Renaissance of an organization faithful to its origins, committed to its ethical inspiration and capable of renovation through openness of vision and a permanent search for consensus-building on issues relevant to development. Professor Jagdish Bhagwati begins his lecture with a mention of this very atmosphere of intellectual creativeness and freshness that characterized Raúl Prebisch's leadership and he evokes his own participation as a young economist in the early days of that era.

Although I and others will have different perceptions and evaluations from Professor Bhagwati's in relation to the analysis and research conducted by the organization in the post-Prebisch period, I find personal satisfaction in the fact that we are on the same wave-length in the way we judge the current trends in the world trading system. Shortly after the conclusion of the Uruguay Round, I wrote an article for a book published in Chile about the negotiations and I entitled that analysis of the role played by developing countries in the Round: "A Chronicle of a Non-Reciprocated Love". My argument, like Professor Bhagwati's, was that a reversal of roles had taken place with and after the Uruguay Round and now it was the developing countries which were showing a more determined attachment to the multilateral character of the world trading system.

Likewise, Professor Bhagwati lays particular stress on the reversal of attitudes on the part of developing and developed countries to integration into a globalizing world economy. In the early post-war decades, developing countries were sceptical towards *potential* globalization in the world economy and most of them pursued inward-oriented, import-substitution development strategies. They feared that their integration into the world economy would only intensify their asymmetric dependence on the metropolitan economic centres. Developed countries, on the other hand, were entering at that time into a liberal international economic order, progressively bringing down trade barriers among themselves through successive GATT Rounds of multilateral trade negotiations, liberalizing investment flows and moving towards convertible currencies.

Today, as Professor Bhagwati emphasized in his lecture, the situation has been reversed. Developing countries have changed their development philosophies and strategies and now look to economic integration into the global economy and the international trading system as a vehicle for accelerating their development. On the other hand, developed countries now fear the consequences of economic globalization on employment, on the wages of unskilled workers and on the protection of the environment. These fears are focused on the integration of the developing countries, which is perceived by many developed countries as leading eventually to the impoverishment of their own workers, and to a lowering of social and environmental standards worldwide - a "race to the bottom". Hence the growing demand in many of these countries that social policy issues, such as labour standards and environmental protection, should be linked with trade.

The economic globalization of markets has, no doubt, vastly increased the exposure of industries to international competition and considerably reduced the margin of comparative advantages of firms and industries across countries. This phenomenon has led to an increase in "footloose" industries, as well as a lessening of economic security. But this does not mean we should necessarily subscribe to the "race to the bottom" theory. On both theoretical and empirical grounds, its economic foundation are, at best, very feeble.

The case for pursuing universal free trade, as advocated by Professor Bhagwati, who has been an ardent promoter of trade for over two decades, is a strong one. Globalization has opened up new opportunities for worldwide economic prosperity through vastly increased scope for broadening the international division of labour and for factor mobility. But, at the same time, these opportunities are beset by risks of marginalization, economic insecurity and instability as countries and peoples everywhere face an increasingly competitive world. A large number of structurally weak developing countries and hundreds of millions of people -- poor, unemployed and low wage earners -- fear the threat of marginalization and exclusion. In industrially advanced countries, the process of globalization has increased the risk of widening the gap between people with skills and mobility and those without them. The goal of universal free trade thus needs to be pursued together with the goal of equitable and sustainable world economic development. This poses new challenges for development strategies and policies and, more importantly, for international economic cooperation.

Important as they are, domestic efforts to seize new opportunities and meet the new challenges need an international economic system capable of promoting equitable and sustainable growth worldwide. This means that international economic cooperation should focus, in particular, on three areas: firstly, evolving international trading and financial systems that ensure stability in global markets, promote the progressive liberalization of trade and investment, enhance the mobility of other production factors and provide all countries with access to markets in goods and services, investment and technology; secondly, the enhancement of the competitive supply capabilities

of structurally weak economies; thirdly, the adoption of positive incentives and other measures for promoting environmentally and socially sustainable development. In all these areas UNCTAD can make a useful contribution through its analytical work and technical cooperation. Equally, it provides a forum for policy formulation, the exchange of experience and consensus-building.

Rubens Ricupero
Secretary-General of UNCTAD

Welcoming address by H.E. Mr. Tito T. Mboweni South African Minister of Labour

I declare open the Seventh Raúl Prebisch Lecture on the occasion of the ninth session of the United Nations Conference on Trade and Development.

It is indeed a great honour and pleasure for me personally to welcome you all to the seventh in the series of Lectures.

The Raúl Prebisch series of lectures was initiated by Dr. Gamani Corea, the third Secretary-General of UNCTAD, in honour of the late Dr. Raúl Prebisch. Dr. Prebisch himself delivered the first of these lectures in Geneva in July 1982 on the theme of "*The Crisis of Capitalism and the Periphery*". That event was important since, among other things, it gave an insight into the thinking of Dr. Prebisch at the beginning of the 1980s and showed how his creative intelligence had continued to develop his original contribution so as to adapt it to the major changes that had taken place in the world economy.

The second of these lectures was delivered by the late Prime Minister of India, Shrimati Indira Gandhi, on the occasion of UNCTAD VI in Belgrade in June 1983 on the theme "*Peace and Development*". The third lecture was delivered by Dr. Saburo Okita of Japan on the occasion of UNCTAD VII in Geneva in July 1987 on the theme "*The Emerging Prospects for Development and the World Economy*". The fourth lecture was delivered by Academician Abel Aganbegyan of the then USSR in Geneva in July 1989 on the theme "*Restructuring the USSR and International Economic Relations*". The fifth lecture was delivered by Dr. Bernard Chidzero, together with Dr. Enrique Iglesias and Mr. Michel Rocard on the occasion of UNCTAD VIII at Cartagena de Indias in 1992 on the theme "*Economic Development: Towards a New Partnership*". The sixth lecture was delivered by Professor John Dunning on the occasion of the thirtieth anniversary of UNCTAD in Geneva in April 1994 on the theme "*Globalization, Economic Restructuring and Development*".

On the occasion of this august gathering, we have the privilege of having with us Professor Jagdish Bhagwati who has kindly agreed to deliver the seventh in the series of these Lectures. His theme is "*The Global Age: From a Sceptical South to a Fearful North*".

Professor Bhagwati is Arthur Lehman Professor of Economics and Political Science at Columbia University. Professor Bhagwati was born in 1934 and raised in India. He attended Cambridge University where he graduated in 1956 with a First in the Economics Tripos. He then studied at the Massachusetts Institute of Technology and Oxford and returned to India in 1961 as Professor of Economics. In 1980 he joined Columbia University as the Ford International Professor of Economics. From 1991 to 1993 he served as Economic Policy Adviser to the Director-General of GATT, now the World Trade Organization. Professor Bhagwati has published more than 200 articles and 40 volumes. He has also made a notable contribution to development theory and policy, public finance, immigration and to the new theory of political economy. He founded the Journal of International Economics in 1971 and the Journal of Economics and Politics in 1989.

I now have the honour and privilege to invite Professor Bhagwati to deliver his lecture.

THE GLOBAL AGE: FROM A SCEPTICAL SOUTH TO A FEARFUL NORTH

I. Introduction: Prebisch and UNCTAD

I am both honoured and pleased by the invitation to give the Raúl Prebisch Lecture today.

The honour comes from recalling an exceptional man. Prebisch was an eminent scholar and a prominent actor on the policy stage, a pre-eminent figure who carried his great stature with charm, grace and wit. The honour is the greater because of where I give the Lecture. The emergence of the new South Africa under President Mandela, wedded to the rule of law and a commitment to producing racial and ethnic harmony in a world pulling in more dissonant and destructive directions, has been a ray of hope for all of mankind.

But it is not geography alone that lends added honour to my Lecture. History does as well. Put within the UNCTAD IX programme, it inevitably recalls the glory of UNCTAD under the able leadership of Raúl Prebisch at the creation. At the same time, UNCTAD IX is also of historic significance as this institution now confronts its destiny under the leadership of yet another major Latin American personality, Mr. Rubens Ricupero, underlining that continent's great gifts to the rest of us.

But my honour goes also with pleasure. The pleasure is immediate and personal. For, as it happens, my very first policy experience on the international stage was at UNCTAD over three decades ago, when Raúl Prebisch was the first Secretary-General, and I was invited, a young Professor of International Trade in Delhi, at the tender age of 29 to serve on an Expert Group preparing a Report on trade liberalization by and among developing countries.

I recall this early event in my, and in UNCTAD's, life also because it has many aspects that bear on Raúl Prebisch and on UNCTAD itself. The Expert Group, or what we would today call an Eminent Persons' Group in our age of vanity (if not silliness: I remember being on an Eminent Persons' Group at UNIDO several years ago when Gunnar Myrdal, a member, looked around and said: I see no one eminent here!), was chosen by UNCTAD, not nominated by governments, so it had the independence to chase ideas unconstrained by governmental directives. It also had on it, not as subsidiary staff but as co-equal members, established scholars with real expertise in the subject, so that the problem could be examined in depth and with a sense of vision that transcends immediate political constraints: contrast this with the practice today when, much too often, we have Expert Groups and Commissions whose members are almost exclusively politicians out of office or bureaucrats in office and whose own undoubted abilities go unaided by interaction with co-equal members who have the necessary knowledge based on reflection and scholarship. Also, the scholars were by no means concerted in their

opinions: they represented diverse views. In short, Raúl Prebisch, and UNCTAD under him, were characterized by intellectual curiosity, and by willingness to examine, cross-examine and reject even Prebisch's own views. The institution was ahead of the curve: seizing leadership on issues and pronouncing on them with the best intellectual resources then available.

In fact, let me recall that issues such as the international migration of skilled manpower and its economic implications for the rights and obligations of migrants and of the countries of origin and destination, the questions raised by intellectual property protection in a world with growing importance of technology, and trade issues such as tariff escalation and value added protection (now known as effective protection) were first recognized and discussed within UNCTAD and became matters for further analytical contribution in the academe. A personal reminiscence again illustrates the point I am making: it concerns the fact that UNCTAD raised the question of services in world trade long before it got onto the GATT. When some years ago, I was invited to give the annual Geneva Lecture of the International Insurance Association, I chose the topic of GATT and Trade in Services. Dr. Giaraini, Secretary of the Association, told me later that when he had told the Chairman of his Council, a leader in Britain's insurance industry and member of the House of Lords about my subject, he had asked: "Hmmm; GATT; What is it? Some kind of UNCTAD?"

This is hard to appreciate as the memory of this institution and of Prebisch has faded in the OECD countries, and it has become commonplace in some influential quarters to think of UNCTAD as if it was instead UNWASHED and UNKEMPT. The irony is that, just as this unfortunate view has gained ground, the academic evaluation of the role of more respected agencies such as the World Bank as the fountainhead of new ideas has become sceptical. Thus, a much-cited recent study, co-authored by the macroeconomist Michael Gavin, now the principal economist with the Inter-American Development Bank, and one of today's most distinguished young developmental economists Dani Rodrik (who, I might add, started out his career at UNCTAD), has argued that the social rate of return in terms of innovative ideas on the World Bank's massive expenditures to date on research has been negligible.¹

Nonetheless, there is no smoke without fire. UNCTAD did indeed allow the early openness and stress on expertise to lapse progressively. It also increasingly made the mistake of assuming that intellectually weak argumentation by radical economists on the

¹ See Michael Gavin and Dani Rodrik, "The World Bank in Historical Perspective", *American Economic Review*, May 1995. These authors do say, however, that the World Bank has done a good job of disseminating (as against creating) good ideas, an area where UNCTAD took the back seat over time. In accounting for the latter, the willingness of the World Bank to draw on mainstream economists and their increasing neglect over the years by UNCTAD (as stated below in the text) must be considered the chief culprit. [Of course, I am describing only the central thrust of each institution's merits and demerits in regard to using and disseminating good ideas. There are important exceptions, especially in regard to UNCTAD's recent work, particularly on the so-called "trade and" issues such as the interface of trade and the environment.]

fringe, just because it was outside the mainstream, was therefore also the appropriate way to think about the developing countries: a *non sequitur* which would be fatal to its health. Instead, UNCTAD should have exploited the enormous diversity of views within the mainstream itself, drawing on a range of reputed economists as Prebisch did, to advance the intellectual debate in ways that could have complemented, by counterpoint, the orthodoxies prevailing in other agencies with agendas defined by their own composition and interests.

The era that lies ahead under Mr. Ricupero's leadership is poised now to return UNCTAD to that ambitious role, and the creative mode that characterized the Prebisch era as many of us "friends of UNCTAD" fondly recall it. But the definition of that role cannot be that UNCTAD would reflect a particularistic and unique "developing country viewpoint" as often in the past. Paradoxically, that approach, if it ever made any sense earlier, certainly makes no sense today -- for two contrasting but complementary reasons.

The developing countries are now too *diverse* in their economic and political circumstances and context to make generally possible a unified viewpoint as "theirs" (i.e. that of the "South"). This changed reality surely played a principal role in the rapid demise in the 1970s of the Global Negotiations that were predicated on the premise of North-South confrontation.²

At the same time, the earlier notion that the developing countries are divided from the developed countries (the "North") in terms of their economics, justifying Special & Differential Treatment at the GATT *et al.*, has yielded to the view that economics is *universal* and that ideas and policies such as trade protection, extensive regulation by a bureaucratized state, generic restraints on inward foreign investment, and the stifling of markets generally are bad for everyone, whether developing or developed.

In fact, the universalism extends to politics as well, and not just to economics today. Thus, the notion that democracy is fine for the developed countries but that development requires authoritarian structures of governance is no longer considered plausible.³ Since we meet in South Africa, which is a meritorious example of a functioning democracy today, as India has been in the post-war decades, let me dwell on this important issue a trifle longer.

² So did the recognition that "commodity power", based on an extension of the OPEC's success to several other commodities, was an illusion even though it had been embraced as a new phenomenon redefining the relationship between developing and developed countries by shrewd politicians such as Henry Kissinger and by policy wonks such as Fred Bergsten prior to the Nairobi UNCTAD. For a fuller analysis, see Chapter 2 by me in Bhagwati and John Ruggie (eds.), *Power, Passions and Purpose: Prospects for North-South Negotiations*, MIT Press: Cambridge, Mass., 1984.

³ I have considered this question in depth in my 1994 Rajiv Gandhi Memorial Lecture, "Democracy and Development: New Thinking on an Old Question", published in a slightly abbreviated version in the *Journal of Democracy*, October 1995 and in the full version in the *Indian Economic Review*, Vol.XXX(1), 1995.

I suspect that the defunct claims in support of authoritarianism for the developing countries were a result of the prevalent style of economic thinking when the post-war period of planning began. It was argued, following the influential model of the English economist Roy Harrod and the American economist Evsey Domar, that the rate of growth depends on what you invest and what you get out of it by way of increased income. It thus depends on the savings (and investment) rate as also on the investment (i.e. "marginal capital") to output ratio. If one treated the marginal capital-output ratio as more or less a technological parameter, as the gifted development economists of the time such as Paul Rosenstein-Rodan and Jan Tinbergen did, then all policy action was concentrated on raising the average savings rate to increase investment and hence the growth rate. Moreover, if public sector saving was considered to be the principal agent for raising the savings ratio, as it was at the time, then it was evident that the authoritarian states would be at an advantage over democracies: the former could create the necessary surplus through heroic fiscal efforts that the latter, dependent on popular support, could not. Interestingly, both the Marxist and the Harrod-Domar models produced the same presumption.

But, of course, the reality turned out to be otherwise. The variations in growth performance across countries have tended to reflect, not just differences in rates of investment, but also dramatic differences in the marginal capital-output ratio. The latter, in turn, reflects the policy framework and its effects on the efficient use of resources.⁴ Again, I would argue that the policy framework relevant here includes incentives and democratic processes that both enable and motivate effective participation by the citizenry in the growing economy. And recent arguments further suggest that the combination of economic markets and political democracy is unbeatable as a prescription for sustained, long-run growth.

So, confronted by this new universalism, the intellectual niche that UNCTAD can occupy with success must be embedded within it, instead of being built on the exceptionalism of the developing countries. Within this broad universalism, UNCTAD can nonetheless advance perspectives, informed by scholarly research, that reflect better the *interests* of the developing countries (on questions and answers to common problems)

⁴ We should not forget that the policy framework affects the rate of investment as well. In fact, this played a central role, in my view, in accounting for East Asia's phenomenal growth in the post-war period, as argued in my Keynote Speech to a Cornell University Conference on East Asia, "*The 'Miracle' that Did Happen: East Asian Growth in Comparative Perspective*", May 2, 1996; mimeo., Economics Department, Columbia University.

that other institutions are unlikely to offer if past experience and present realities are a guide.⁵

Such a redefined role is necessary, and must be supported, because an overriding and central effect of the Global Age, which I plan to focus on today, has been that, alongside the huge opportunities for economic prosperity that it presents, it also creates fears. But, ironically, these fears of integration into the global economy that afflicted the developing countries in Prebisch's time, just as the developed countries busily were embracing globalism, have now in Ricupero's age been surmounted by the developing countries but have instead come to afflict the developed countries. These fears, and the often harmful demands they generate to amend the rules of world trade and investment, constitute a threat to the wellbeing of the developing countries just as they have embraced the Global Age.

UNCTAD can make its unique contribution to "trade and development", its original terms of reference and its rationale at the creation, in several ways such as the tasks that Mr. Ricupero has been outlining recently, for example, the provision of technical assistance in trade matters to developing countries that lack the capabilities to operate in the increasingly complex trading regime today.⁶ But it can do so also by examining these fears of the developed countries, seeking to lay them to rest where they are exaggerated and unwarranted (as seems often to be the case), while also probing the rationale and the wisdom of the measures (such as the proposed Social Clause in the WTO) that these fears have prompted, exposing them to unbiased, scholarly and apolitical scrutiny.

UNCTAD's history and mission as an institution focused on the developing countries' problems should ensure that its perspectives will *complement* those of the OECD whose history and mission focus its research and agenda so as to reflect more closely the political concerns and the economic interests of the developed countries

⁵ One example might illustrate, lest you might think that I am putting up a straw man. When the question of intellectual property protection (IPP) was being extensively debated at the GATT, the overwhelming view in the scholarly community was that the IPP being demanded in Geneva was being pushed by lobbies in the developed countries to the point where it was far too high. But, to my knowledge, this predominant scholarly view was not forcefully adopted and disseminated by the leading international agencies, whether the OECD or the World Bank. It is doubtful that Prebisch's UNCTAD would have remained so indifferent, abandoning both good economics and the interests of the developing countries, if it had been confronting the IPP question instead. Indeed, the GATT must be complimented for having permitted its staff to pursue precisely the sceptical research, even if in a very small way, that others were unable or unwilling to provide.

⁶ The requirements here are enormous, especially as legal fine print has invaded everything concerning trade to a degree where even large and highly-skilled developing countries such as India are handicapped by their lack of trade-legal expertise in looking out for their interests.

that constitute its membership.⁷ Both should serve to inform and assist in friendly cooperation the WTO as it prepares, under Mr. Ruggiero's leadership, to extend and strengthen the world trading regime to meet the challenges of the Global Age as we enter the 21st century.⁸

So, I turn to the theme of this Lecture: the Global Age and its consequences. I will begin with my central observation and the organizing principle of my analysis: the irony of the role reversal that has occurred between the developing and the developed economies on fears of integration into the global economy. I will highlight the fact that these fears of the developed countries are heavily, and destructively, focused on integration with the developing countries just as the fears of the developing countries in the postwar decades were focused symmetrically on the imagined dangers of integrating with the developed countries.

I will then argue that these fears are, at best, exaggerated and, at worst, ill-informed. In addition, I will suggest that the current, fear-fed demands in the major developed countries for changes in the rules and regimes that govern the world economy are much too often ill-designed. It is time for the leaders of the developed world to defuse these fears and, where the fears have some basis, to act less like politicians lazily compromising with lobbies to accept whatever demands they make and then forcing the international adoption of their proposed harmful changes in the world economy, and instead to act more like statesmen who recognize these pressures but deflect them into more creative proposals that strengthen, rather than weaken, the architecture of the world economic regime.

⁷ This view contrasts, I suspect, with that of some OECD governments, chiefly the United States, which would rather emasculate the research capabilities of UNCTAD (and, for that matter, of the WTO) and concentrate them exclusively in the two Bretton Woods institutions, the IMF and the World Bank. The research leadership of these two institutions, one might observe without caricature, has been jealously guarded by the leading developed countries.

⁸ Indeed, the redefinition of the UNCTAD role also implies a close working relationship between it and the WTO, putting behind the two institutions the indifference, even hostility at times, that marred their relationship in the early days when GATT was considered to be the playground of the wealthier nations and UNCTAD the champion of the poorer ones. [The witticism went that the UNCTAD secretariat was deliberately sited so as to obscure the GATT's view of the lake from its earlier location, in an ultimate act of defiance!]

As the WTO, with the developing countries active players within its own new universalism, now seeks to enlarge its minuscule institutional research capability to support its creative efforts on behalf of the multilateral trading system (in which efforts we can only support it), it can also reach out for research cooperation with agencies such as UNCTAD on issues of common concern. Again, under the leadership of Mr. Ricupero and Mr. Ruggiero, signs of such cooperation can already be found.

II. The Global Age: The Ironic Role Reversal

The dominant feature of the world economy is its increasing globalization and the growing fear of its consequences in the developed countries. This fear, a consequence of *actual* globalization or integration into the world economy on several dimensions, is in sharp contrast to the warm embrace of the Global Age by the policy-makers in a large number of the developing countries.

It also represents a marked reversal of attitudes in the two sets of countries from the time of Prebisch. At that time, in the early postwar decades, the developing countries were sceptical, even afraid, of *potential* globalization, shying away from such international integration, while the developed countries were into the Liberal International Economic Order, tearing down trade barriers in successive GATT Rounds, liberalizing direct investment flows (despite the occasional protests such as that of Mr. Servan-Schreiber of France on *The American Challenge*), and forging ahead on securing currency convertibility.

The developing countries' attitude of fear of global integration is best evoked by a celebrated Latin American formulation of the time: "integration into the world economy leads to disintegration of the national economy". In place of the agreeable conclusion of conventional economics that international trade, investment *et al.* were a mutual-gain, *benign-impact* phenomenon, constituting an opportunity rather than a peril, the developing country intellectuals and policy-makers, for the most part, subscribed to a zero-sum view of the integration process which involved what Prebisch called in his early writings the Centre and the Periphery. Thus, they either had a *malign-impact* view of globalization: as in the influential "dependencia" thesis of Latin America's most renowned sociologist, the present President Cardoso of Brazil. Or they even believed in *malign-intent* paradigms where trade and aid were regarded, for instance, as instruments of neocolonialism which would continue colonial control in new ways.⁹

Today, those attitudes have yielded to the benign-impact views as developing countries, one after another, have changed economic-philosophical beliefs and their policies to seek fuller integration into the global economy. Three examples should suffice to illustrate. President Cardoso, the dependencia theorist of yesteryear, is today's mastermind of Brazil's economic reforms that take her ever more into the global economy. President Salinas led Mexico into NAFTA, turning on its head former President Porfirio Diaz's famous dictum: Poor Mexico: how far from God and how near the United States! Looking across the Rio Grande, Salinas saw a colossus which he viewed as Mexico's opportunity, not as a threat. Finally, even India, mired in inward-

⁹ The analytical categories, benign-impact, benign-intent, malign-impact and malign-intent, as ways of categorizing the different schools of thought on the effects of integrating into the global system were developed by me in my introductory essay in Bhagwati (ed.), *The New International Economic Order*, MIT Press: Cambridge, Mass., 1977.

oriented policies for over a quarter century, has begun a deliberate and systemic change of gears to move its economy into the Global Age.¹⁰

But, as globalization has proceeded apace on virtually every dimension of international interaction, whether trade or direct investment or capital flows or migration, the developed countries have witnessed growing alarm from their citizens over its implications for a variety of issues: real wages of workers, economic security, political autonomy and democracy, the ability to maintain high labour standards and so on. Permit me to elaborate.

That globalization has accelerated is hard to dispute. Thus, in both world trade and investment, there are greater transactions and flows, often even when adjusted for increased national incomes, suggesting that the economic activities of nations are increasingly in the global arena. But even this index misleads, at least for the implications of globalization of trade and investment: these averages tell you little about the “margin” and about what global competition offers in terms of both opportunity and “vulnerability” to producers.

Let me begin by detailing the changing realities on *trade* flows, as some of the principal fears of the developed countries today, and their unfortunate demands, follow precisely from this phenomenon. Now, trade in both goods and services has continued to grow faster relative to national incomes throughout the postwar period, even despite the OPEC-induced macro crisis in the 1970s and the deflation during the early 1980s. The successive Rounds of reciprocal tariff and NTB reductions under GATT auspices have been a major contributory factor that the Uruguay Round will strengthen as it brings freer markets to new sectors while opening the doors wider in the old sectors.

But more can be said. In some respects, as historians have noted, the rise in the share of trade to GNP has mostly restored world trade to its prewar situation. Thus, for the United States, the share of merchandise trade in national income was 6.1 per cent in 1913 and 7.0 per cent in 1990: the difference is not compelling. But the shares were 3.6 per cent in 1950 and 3.8 per cent in 1960, so the perceptions today have been defined undoubtedly by the postwar rise, not by the fact that this rise is more or less back to “normal” levels interrupted by the period between the Great Depression and the end of the Second World War.¹¹

¹⁰ The reasons why the developing countries have moved to reforms are the subject of extensive analysis by economists today. Among these reasons, the value of example in the form of success (of other nations following different policies) and of failure (of one's own policies) is certainly an important factor. In addition, we must reckon with the effect of pro-reform aid conditionality although the impact of one's policy failures will play a role in turn since such failures are what drive countries into the Bretton Woods institutions that enforce such conditionality.

¹¹ See Douglas Irwin, “The United States in a Global Economy? A Century's Perspective”, *American Economic Review*, May 1996.

More pertinently, this share hides the important reality that the share of trade within the (hugely tradeable) merchandise and primary goods sectors has grown perceptibly, compared to both the prewar and the immediate postwar levels. In fact, by the 1980s, there was a vast increase in the exposure of tradeable industries to international competition: a situation that was more true of primary industries in the prewar period now characterizes most manufactures today. It is not true that these shares continue to increase explosively; in fact, the recent research of the economists Magnus Blomström and Robert Lipsey suggests that they may have stabilized in the last decade. But the reality of substantial exposure to international competition, the fact that few industries today can pretend that they are proof from international competition, and consciousness thereof in defining issues and demands for governmental action are major factors that we ignore at our peril.

Indeed, the increased integration of the world's financial markets and the increased transnationalization of production by multinationals -- both phenomena of globalization that have run a parallel as also a supportive course -- have combined with the convergence in technological ability and knowhow among the OECD countries as documented by many economists such as William Baumol, to make competition among firms across nations fairly fierce. Firms in different countries can access similar technologies, borrow at similar interest rates, and produce where it pays a little more to do so, in a manner which was still difficult a decade ago. The margins of competitive advantage have therefore become thinner: a small shift in costs somewhere can now be deadly to your competitiveness.¹² In the old days, we used to call such industries "footloose": the ability to hold on to them was fragile as the "buffer" or margin of competitive advantage in them was not substantial. But few considered such industries to be the norm. Today, because of the factors I have mentioned, they are. I have called this the phenomenon of *kaleidoscopic comparative advantage*, a concept that gives meaning to the notion that globalization of the world economy has led to fierce competition: slight shifts in costs can now lead to shifting comparative advantage, which is therefore increasingly volatile.

This argument has the advantage of contributing to the explanation, in a unified way, of three important phenomena that are in evidence today as the source of the fears of the Global Age in the developed countries:

1. The vulnerability of one's competitiveness and viability in international competition that has so arisen, reflecting the newly volatile, kaleidoscopic comparative advantage in the Global Age, means that firms are increasingly tempted to look over their foreign rivals' shoulders to see if differences in their domestic policies and their domestic institutions are giving them that fatal extra edge in competition which then amounts to "unfair trade". The proliferation of "fair trade" demands in the developed countries to harmonize domestic institutions and policies

¹² Economists call this a "knife edge" phenomenon, as in the case of Ricardian comparative advantage, where a small shift in comparative advantage can lead to substantial shift in production.

as prerequisites for free trade among trading nations reflects, among other lesser reasons, this growing perception of kaleidoscopic comparative advantage.¹³

2. The globalization-led kaleidoscopic comparative advantage also reinforces, in albeit a small way, the substantial sense of *economic insecurity* ensuing overwhelmingly from the rapid growth of information technology and now overtaking the citizens of the developed countries: for it must add to the labour turnover that makes for layoffs and, more important, to the increased rate of permanent dismissals that now afflicts even the white collar workers.¹⁴

3. In the same fashion, it probably contributes in some small way to the *decline in real wages* of the unskilled. For increased labour turnover must mean that, on average, workers stay less in a job, so that they acquire less on-the-job-training and employers also give them less of it as they expect the workers to move on, thus flattening their lifetime earnings curve: just as a rolling stone gathers no moss, a moving worker gains few skills and earns less increments in wages.¹⁵

Of course, this rise of fierce competition and the attendant sense of economic vulnerability relate to the *globalization* itself and are not focused on integration with the *developing countries* as the source of the difficulties in the developed countries. But this is not true if I were to complete the sketch of the developed countries' fears of the Global Age by noting that they have been accentuated by the fact that international capital and labour flows vis-à-vis the developing countries in particular are also seen as increasingly compounding the problems posed by the expanded trade shares. Let me just sketch the principal themes.

Foreign direct investment (FDI) has expanded greatly, with North-North FDI becoming during the 1980s as important as North-South FDI, a phenomenon noticeable

¹³ These other reasons include moral ones, as represented by human rights NGOs, which seek to stamp out domestic differences in conformity to universal human rights notions. I have discussed the different philosophical, economic, structural and political factors underlying variously the many demands for harmonization that are breaking out today in Chapter 1 of the two-volume study of fair trade and harmonization demands in Jagdish Bhagwati and Robert Hudec (ed.), *Fair Trade and Harmonization: Prerequisites for Free Trade?*, MIT Press: Cambridge, Mass., 1996, under the auspices of the American Society of International Law.

¹⁴ This phenomenon of increase in the rate of permanent dismissals has now been demonstrated in the US context to be afflicting more the older and educated workers. Cf. Henry Farber, "The Changing Face of Job Loss in the United States, 1981-1993", Princeton University, mimeo., March 21, 1996. Also see Robert G. Valletta, "Has Job Security in the U.S. Declined?", *Federal Reserve Bank of San Francisco Newsletter*, Number 96-07, February 16, 1996, especially Figure 1.

¹⁵ I have developed this theory in several recent articles, including in my contribution with Vivek Dehejia in Bhagwati and Marvin Kosters (ed.), *Trade & Wages: Leveling Down?*, American Enterprise Institute, Washington D.C., 1992. Note that this theory relates to globalization, not to the allegedly deleterious effect of trade with poor countries which is the conventional Factor Price Equalization argument.

in the case of Japan especially as her FDI partially replaced her exports to the EU and to the US, initially in response to protectionist threats in specific sectors such as automobiles and then later in response to the rising Yen. While the Servan Schreiber variety of anguish at FDI inflows did surface in the United States when Japanese investments began to rise in the late 1980s, the main agitation has arisen from the labour unions who have always seen the developing countries as their principal foes in the game of economic competition. Long opposed to “losing jobs” to the developing countries because multinationals move production abroad, unions in the United States have focused their attacks increasingly on the FDI going from the North to the South as a major problem posed by the Global Age.

A matching fear for jobs and wages has arisen from the increased flows of refugees and illegal immigrants from the developing to the developed countries. In a world increasingly of “borders beyond control”¹⁶, if I might exaggerate for effect, most developed countries are now unable to fully regulate their immigration inflows: illegal immigration (heavily biased in composition towards the unskilled and hence the more resented for its feared economic impact on the real wages of the natives) has been for some time an issue in the United States and other countries.¹⁷ The liberal traditions of the developed countries, where basic humanity prompts citizens to shield and judges to exonerate those who violate the immigration laws (including prohibitions on employing illegal aliens) and where governments cannot (rightly) bring themselves to shoot at people crossing the border illegally by land, by sea, by air, increasingly confront the agitations of those who fear the economic consequences of such an influx.

What is remarkable about these fears of the developed countries is that they mirror so well the fears of the developing countries almost a half century ago. At that time, recall that the countries on the Periphery feared the Centre. Global integration with

¹⁶ This is the title of my forthcoming book, with the subtitle: *The Economics, Ethics and Politics of Immigration*.

¹⁷ So has the explosion of refugees, some of them leading in turn to an overload on asylum claims in the developed countries even as the fear has arisen that illegal immigration seeks to misuse the asylum route to immigration. The refugee crisis today, as it must be called for it is no less, has been splendidly handled by Madame Ogata as the UNHCR chief, an appointment for which Japan can properly take credit.

Indeed, in view of the economic, ethical and political implications of the expanding legal, illegal and refugee flows that have now emerged on the world scene, and the absence of any international institution that oversees the entire phenomenon in totality the way the Bretton Woods and related institutions look after aid (IBRD), liquidity (IMF), and trade (WTO and UNCTAD), I have proposed for some time now the establishment of a World Migration Organization (WMO) whose function would be to provide assessments of different countries' total policies on immigration and nudge them, through analysis and exposure, in the direction of evolving a consensus on some basic views of the rights and obligations, both economic and political, of countries and migrants. See, in particular, Bhagwati, “A Champion for Migrating Peoples”, *The Christian Science Monitor*, February 28, 1992, with the byline: “A World Migration Organization could influence current negative developments, which are largely ad hoc and reflect diverse national responses to emerging immigration crises”.

countries with unequal power, in that instance the developed countries of *greater* strength, would lead to predation, rather than mutual gain: skilled nationals would leave, multinationals would earn more than they would contribute, free trade would bring about perpetuation of backwardness and destroy nascent industrialization, income distribution would grow worse, loss of autonomy and a situation of *dependencia* would follow. Today, the critics of the Global Age equally maintain that continued integration with countries of unequal power, in this instance the developing countries of *lesser* strength, would cause predation: unskilled migrants would arrive, multinationals would leave to create jobs elsewhere, free trade with countries with lower labour and environmental standards would lead to deindustrialization and loss of one's own standards, income distribution would worsen, loss of autonomy to external forces beyond one's control and to institutions such as the WTO where the Third World has an equal vote, God forbid, would threaten one's sovereignty. Indeed, the world has come full circle!

III. Phantoms more than Reality: Real Wages and Jobs

But just as the developing countries have surmounted their fears and learnt that the global integration with the developed countries promises more than it threatens, the developed countries need to do the same today in regard to their own global integration with the developing countries. In fact, let me remind you that I plan to argue that these fears are not merely exaggerated but also do not justify some of the proposed measures to deal with them at the international level. Since time is the scarcest resource today, let me argue this by concentrating on the single but large question of fallen wages and risen unemployment.¹⁸

1. The facts

Consider, for instance, the argument that the decline in the real wages of the unskilled in the United States and the rise alternatively in their unemployment in Europe in the 1970s and 1980s, continuing into the 1990s, is a consequence of trading with the South with its abundance of unskilled labour. By enhancing the possibility of such trade through trade liberalization, the contention goes, the North has put its own unskilled at risk. The demand for protection that follows is then not the old and defunct "pauper-labour" argument which asserted falsely that trade between the South and the North could not be beneficial. Rather, it is the theoretically more defensible, income-distributional argument that trade with countries with paupers will produce paupers in one's midst, that trade with the poor countries will produce more poor at home.

¹⁸ Unfortunately, I do not have the time today to analyse other claims such as the loss of autonomy, the growing sense of alienation etc. which are also on the Northern scene and which I equally regard as largely exaggerated and fearful.

Now, it is indeed true that the real wages of the unskilled have fallen in the United States during the previous two decades. While the recent work on revising the consumer price index (CPI) substantially revises the real wage upwards, it is valid to agree with the broad thrust of Robert Lawrence's early estimate that, in 1973, the "real hourly earnings of non-supervisory workers measured in 1982 dollars ...were \$8.55. By 1992 they had actually *declined* to \$7.43 -- a level that had been achieved in the late 1960s. Had earnings increased at their earlier pace, they would have risen by 40 percent to over \$12."¹⁹ The experience in Europe has generally been similar in spirit, with the more "inflexible" labour markets implying that the adverse impact has been on jobs rather than on real wages.

But the key question is whether the cause of this phenomenon is trade with the South, as unions and many politicians feel, or rapid modern information-based technical change that is increasingly replacing unskilled labour with computers that need skilled rather than unskilled labour. As always, there is debate among economists about the evidence: but the consensus today among the trade experts is that the evidence for linking trade with the South to the observed distress among the unskilled to date is hard to find. In fact, if real wages were to fall for unskilled labour due to trade with the South, a necessary condition is that the goods prices of the unskilled-labour-intensive goods would have to have fallen; and subsequent examination of the US (and recently of German and Japanese) data on prices of goods shows that the opposite happened to be true in the critical period of the 1980s.²⁰

While therefore the consensus currently is that technical change, not trade with the South, has immiserized the Northern proletariat, the fear still persists that such trade is a threat to the unskilled. In Europe, there has thus been talk of the difficulty of competing with "Asiatic ants".

Along with this is the fear that multinationals will move out to take advantage of the cheaper labour in the poor countries, as trade becomes freer, thus adding to the pressure that trade alone, with each nation's capital at home, brings on the real wages of the unskilled. Of course, this too is unsubstantiated fear: but it has even greater political salience since the loss of jobs to trade is less easily focused on specific competing countries and their characteristics than when a factory shuts down and opens in a foreign country instead. As it happens, I suspect that, at least in the United States, the flow of capital also is in the wrong direction from the viewpoint of those who are gripped by such fear. For, during the 1980s, the United States received more FDI than it sent out

¹⁹ See the many empirical writings of Robert Lawrence on the subject.

²⁰ This has been widely conceded now by those who were sceptical, including Ed Leamer of UCLA. The only dissident is Jeffrey Sachs whose claim to have overturned this finding is based on dubious procedures which, even then, produce results which, while cited by the unsuspecting media, are statistically worthless. For an evaluation of this question, see my contribution to the forthcoming volume (spring 1997), edited by Susan Collins, for the Brookings Institution, a think tank in Washington D.C.

elsewhere, both absolutely and relative to the 1950s and 1960s. Besides, if foreign savings are considered instead, the 1980s saw an influx, corresponding to the current-account deficit that has bedevilled US-Japan trade relations for sure.

But, regardless of the true realities which make it difficult to assign a significant, if indeed any, role in the present predicament of the Northern unskilled workers to trade and investment in this Global Age with the developing countries, the general feeling persists in many influential quarters that trade with the developing countries is a problem and the resulting demands on policy change have more political salience than one would care to have but would be foolish to ignore.

2. The demands: isolationism and intrusionism

These demands take two contrasting forms. *First*, there is the traditional protectionist response. Here, there are those who would raise trade barriers against the developing countries: a battle cry of the erstwhile Presidential candidate Pat Buchanan in the United States, who wanted an across-the-board 20 per cent tariff on imports from China and an unravelling of NAFTA. Then, there are the “moderates” who would only stop liberalizing trade further with the developing countries: here, we must count (Sir James Goldsmith among them, I believe) the proponents in the North of free trade areas among “like-wage” countries as against free trade generally as the latter would include lower-wage countries.

These protectionist pressures are not that hard for the leaders of the developed countries to resist: the advantages offered by free trade, and the ideological triumph (at least for now) of the open-markets alchemy for efficiency and growth in a highly competitive world economy, make it virtually impossible for responsible leadership to embrace such *isolationist* ideas and attendant protectionist pseudo-solutions. But, unfortunately, that is not true of the alternative response, no less desirable, that we observe on the part of some of the leading governments in the North.

This *second* alternative is best understood by an analogy. Faced by the prospect of a typhoon, you may move out of its range, shifting from sunny but typhoon-prone Florida to dreary but safe localities: this is the isolationist, withdrawing, protectionist response to the fears (in the developed countries) of the developing countries in the Global Age. But, if you have read your Malinowski or Radcliffe Brown, you may also pray to the weather gods and get the typhoons to go elsewhere. This interventionist or *intrusionist* option is one that can be contemplated, as a response to the threats imagined from elsewhere, only by the economically and politically powerful countries: they can aspire to force the developing countries, by using a variety of punishments and inducements, to adopt domestic institutional and policy changes so that the competitive threat is moderated.

This is how we must interpret the chorus of demands that have spread in the US and in Europe for inclusion of Environmental and Labour Standards in the WTO, requiring that either they be moved up in the developing countries or else the developed countries

should be allowed to countervail the “implied subsidy” represented by these lower standards. Proposals for such legislation have already been introduced from time to time in the US Congress, as in Congressman Gephardt’s “blue” and “green” bill which would have authorized the US administration to impose “eco-dumping” duties against lower environmental (i.e. *green*) standards abroad and “social dumping” duties against lower labour (i.e. *blue-collar workers*) standards abroad.

Several factors, including moral ones, undoubtedly contribute to the emergence of one or more of these “fair trade” demands. But a principal one among them surely is the desire to raise, in one way or another, the costs of production of your rivals abroad: and what is more easy to do than to say that they are deriving advantage by having lower environmental and labour standards and therefore free trade with them amounts to “unfair trade”? This complaint, and attendant agitation for penalizing these foreign firms with import taxes if their countries do not raise their standards towards one’s own, then has the advantage that *either* you will be able to get your rivals’ costs up and reduce the pressure of their competition by forcing them to raise their environmental and labour standards *or*, if they do not do so, you will get protection against them as trade barriers are raised against the continuing unfairness of competition. This agitation therefore offers a foolproof method of meeting your foreign rivals’ competition: it therefore accounts also for its popularity.

But let me argue in plain language that these demands, prompted in large part (but by no means exclusively) by the fact of international competition and reflecting the view that lack of identical standards amounts to “unfair trade”, are properly being resisted by the developing countries and are inappropriately being accommodated by some of the governments in the developed countries, as in the recent pressures emanating from the US and France in particular in favour of a Social Clause at the WTO.

IV. Intrusionism: Environmental and Labour Standards

These demands are unwisely recreating the North-South divide which we had put behind under what I described earlier as the universal recognition of economic markets and democratic politics, and of the mutual advantage from integration into the world economy, as the principles on which to found a sound economy and a good society. To understand the folly of these developed countries, and the dangers they pose to the developing countries and to the world trading regime, let me now address in succession the parallel but still contrasting issues of eco-dumping (in sub-sections 1-3) and of the Social Clause (in sub-section 4) at the WTO.

1. The legitimacy of diversity and the folly of eco-dumping demands

If we are dealing with “global” environmental problems, when there are transborder externalities, as with the global warming and ozone-layer problems, it is now recognized that we need global solutions which avoid free rider problems and punishments for defection. The disagreements among countries that universally accept the need for such solutions arise only from differences in their views of what is a “fair” allocation of the

burden of pollution avoidance, especially as there is an understandable tendency on the part of the worst offenders, some of the developed countries, to shift the burden of adjustment disproportionately to the developing countries.²¹

The eco-dumping allegation, on the other hand, extends plainly to what economists call “domestic” environmental problems: as when effluents are discharged in a lake or a river that is entirely within a nation’s own borders and there are no transborder spillovers into other jurisdictions.

Now, in this latter set of domestic-pollution cases, economists would generally expect to find diversity rather than uniformity of environmental standards in the same industry in different countries (i.e. in what I will call Cross-country Intra-industry, CCII, differences in standards, typically in the shape of pollution tax rates). This diversity of CCII standards will follow from differences in tradeoffs between aggregate pollution and income at different levels of income, as when richer Americans prefer to save dolphins from purse-seine nets whereas poorer Mexicans prefer to put people first and want to raise the productivity of fishing and hence accelerate the attenuation of Mexican poverty by using such nets. Again, countries will have natural differences in the priorities attached to which kind of pollution to attack, arising from differences of historical and other circumstance: Mexicans will want to worry more about clean water, as dysentery is a greater problem, than Americans who will want to attach greater priority to spending pollution dollars on clean air. Differences in technological knowhow and in endowments can also lead to CCII diversity in pollution tax rates.

The notion therefore that the diversity of CCII pollution standards/taxes is illegitimate and constitutes “unfair trade” or “unfair competition”, to be eliminated or countervailed by eco-dumping duties, is itself illegitimate. It is incorrect, indeed illogical, to assert that competing with foreign firms that do not bear equal pollution-tax burdens is unfair. I would add three more observations:

- We should recognize that if we lose competitive advantage because we put a larger negative value on a certain kind of pollution whereas others do not is simply the flip side of the differential valuations. To object to that implication of the differential valuation is to object to the differential valuation itself, and hence to our own larger negative valuation. To see this clearly, think only of a closed economy without trade. If we were to tax pollution by an industry in such an economy, its implication would be precisely that this industry would shrink; it would lose competitive advantage vis-à-vis other industries in our own country. To object to that shrinking is to object to the negative valuation being put on the pollution. There is therefore nothing “unfair” from this perspective, if our industry shrinks because we impose higher standards (i.e. pollution taxes) on our industry while others, who value that pollution less, choose lower standards (i.e. pollution taxes).

²¹ I should add that there is by now a clear recognition of this problem by all countries and a willingness by the developed countries to design burden distribution in a more just fashion.

- Besides, it is worth noting that the attribution of competitive disadvantage to differential pollution tax burdens in the fashion of CCII comparisons for individual industries confuses absolute with comparative advantage. Thus, for instance, in a two-industry world, if both industries abroad have lower pollution tax rates than at home, both will not contract at home. Rather, the industry with the *comparatively* higher tax rate will. The noise that each industry makes on basis of CCII comparisons, aggregated to total noise by all industries, is then likely to exaggerate seriously the effect of different environmental valuations and CCII differences on the competitiveness of industries in higher-standards nations.
- But the legitimacy of the diversity may be suspect if the governments that are making the decisions on pollution tax rates are unrepresentative. Clearly, one cannot attribute such legitimacy to the Soviet-bloc governments which, in fact, polluted wantonly and whose citizens had no voice. But fortunately, democracy has broken out almost everywhere: just a few countries, either the stragglers from the communist era (China, Democratic People's Republic of Korea and Cuba) or the non-ideological one-leader or one-party States (Iraq and Syrian Arab Republic), now lie wholly outside of the democratic pale. Besides, between NGOs and television, the ability to be summarily indifferent to voices that articulate ecological concerns has fallen drastically. Clearly, democracies differ in their structures and their quality; but there is no reason to think that the developed countries uniformly have advantage over the developing countries in this regard.

2. An unjustified fear of the "race to the bottom"

But one more worry needs to be laid to rest if the demands for upward harmonization of standards or eco-dumping duties *in lieu* thereof are to be effectively dismissed. This is the worry that free trade with countries with lower standards will force down one's own higher standards. The most potent of these worries arises from the fear that "capital and jobs" will move to countries with lower standards, triggering a *race to the bottom* (or more accurately a race towards the bottom), where countries lower their standards in an inter-jurisdictional contest, below what some or all would like, in order to attract capital and jobs. So, the solution would lie then in coordinating the standards-setting among the nations engaged in freer trade and investment. In turn, this *may* (but is most unlikely to) require harmonization among countries to the higher standards (though, even then, not necessarily at the levels already in place) or perhaps there might be improvement in welfare from simply setting minimum floors to the standards.

Unlike the just-rejected argument that dismisses diversity of standards as illegitimate and therefore unfair *per se*, this is undoubtedly a theoretically valid argument. The key question for policy, however, is whether the empirical evidence shows, as required by the argument, that: (i) capital is in fact responsive to the differences in environmental standards, and (ii) different countries/jurisdictions actually play the game then of competitive lowering of standards to attract capital. Without both these phenomena

holding in a significant fashion in reality, the “race to the bottom” would be a theoretical curiosity.

As it happens, systematic evidence is available for the former proposition alone, but the finding is that the proposition is not supported by the studies to date: there is very weak evidence, at best, in favour of inter-jurisdictional mobility in response to CCII differences in environmental standards. There are in fact many ways to explain this lack of responsiveness: (i) the differences in standards may not be significant and are outweighed by other factors that affect locational decisions; (ii) exploiting differences in standards may not be a good strategy relative to not exploiting them; and (iii) lower standards may paradoxically even repel, instead of attracting, FDI.²²

While we do not have similar evidence on the latter proposition, it is hardly likely that, as a systematic tendency, countries would be actually lowering environmental standards in order to attract capital. As it happens, countries, and even state governments in federal countries (e.g. President Bill Clinton, when Governor of Arkansas), typically play the game of attracting capital to their jurisdictions: but this game is almost universally played, not by inviting firms to pollute freely but instead through tax breaks and holidays, land grants at throw-away prices etc., resulting most likely in a “race to the bottom” on business tax rates which wind up below their optimal levels! It is therefore not surprising that there is little systematic evidence of governments lowering environmental standards in order to attract scarce capital. Contrary to the fears of the environmental groups, the race to the bottom on environmental standards therefore seems to be an unlikely phenomenon in the real world.

I would therefore conclude that both the “unfair trade” and the “race to the bottom” arguments for harmonizing CCII standards or else legalizing eco-dumping duties at the WTO are lacking in rationale: the former is theoretically illogical and the latter is empirically unsupported. In addition, such WTO-legalization of eco-dumping will facilitate protectionism without doubt. Anti-dumping processes have become the favoured tool of protectionists today. Is there any doubt that their extension to eco-dumping (and equally to social-dumping), where the “implied subsidy” through lower standards must be inevitably “constructed” by national agencies such as the Environmental Protection Agency in the same jurisdiction as the complainant industry, will lead to the same results, even more surely?

The “fixing” of the WTO for environmental issues therefore should not proceed along the lines of legitimating eco-dumping. However, the political salience of such demands remains a major problem. One may well then ask: are there any “second-best” approaches, short of the eco-dumping and CCII harmonization proposals, that may address some of the political concerns at least economic cost?

²² The evidence and the basic explanations are advanced illuminatingly by Arik Levinson in Chapter 11 and summarized and systematized in Chapter 4 by Bhagwati and Srinivasan in Bhagwati and Hudec (ed.), op.cit.

3. A proposal to extend domestic standards in high-standards countries to their firms in low-standards countries, unilaterally or preferably through an OECD code

The political salience of the harmful demands for eco-dumping duties and CCII harmonization is greatest when *plants are closed* by one's own multinationals and shifted to other countries. The actual shifting of location, and the associated loss of jobs in that plant, magnify greatly the fear of the "race to the bottom" and of the "impossibility" of competing against low-standards countries. Similarly, when investment by one's own firms is seen to go to specific countries which happen to have lower standards, the resentment gets to be focused readily against those countries and their standards. However, when jobs are lost simply because of *trade* competition, it is much harder to locate one's resentment and fear on one specific foreign country and its policies as a source of unfair competition. Hence, a second-best proposal could well be to address this particular fear, however unfounded, of out-migration of plants and investment by one's firms abroad to low-standard countries.

The proposal that I would like to make, most appropriately in Johannesburg, is to adapt the so-called Sullivan Principles approach to the problem at hand. Under Sullivan, US firms in South Africa were urged to adopt US practices, not the South African apartheid ways, in their operations. If this principle that the US firms in Mexico be subject to US environmental policies (choosing the desired ones from the many that obtain across different states in this federal country) were adopted by US legislation, that would automatically remove whatever incentive there was to move because of environmental burden differences.

This proposal that one's firms abroad behave as if they were at home -- do in Rome as you do in New York, not as Romans do -- can be either legislated unilaterally by any high-standard country or by a multilateral binding treaty among different high-standard countries. Again, it may be reduced to an exhortation, just as Sullivan Principles were, by single countries in isolation or by several as through a non-binding but ethos-defining and policy-encouraging OECD code.

The disadvantage of this proposal, of course, is that it does violate the diversity-is-legitimate rule (whose desirability was argued by me). Investment flows, like investment of one's own funds and production and trade therefrom, should reflect this diversity. It reduces, therefore, the efficiency gains from a freer flow of cross-country investments today. But if environmental tax burden differences are not all that different, or do not figure prominently in firms' locational decisions, as the empirical literature (that I just cited) seems to stress, the efficiency costs of this proposal could also be minimal while the gains in allaying fears and therefore moderating the demand for bad proposals could be very large indeed.

Yet another objection may focus on intra-OECD differences in high standards. Since there are differences among the OECD countries in CCII environmental tax burdens in specific industries for specific pollution, this proposal would lead to "horizontal inequity" among the OECD firms in third countries. If the British burden is higher than the

French, British firms would face a bigger burden in Mexico than the French firms. But then such differences already exist among individuals and firms abroad since tax practices among the OECD countries on taxation of individuals and firms abroad are not harmonized in many respects.

Other problems may arise: (i) monitoring of one's firms in a foreign country may be difficult; and (ii) the countries with lower standards may object on grounds of "national sovereignty". Neither argument seems compelling. It is unlikely that a developing country would object to foreign firms doing better by its citizens in regard to environmental standards (that it itself cannot afford to impose, given its own priorities, on its own firms). Equally, it would then assist in monitoring the foreign firms.

If I may be cynical, this eminently reasonable proposal, which I made at the time of NAFTA in an article in the *New York Times*, was not received with enthusiasm by the corporate sector, and hence by either the US administration or the Congress, because the wellguarded little secret of the multinationals is that their demands on their governments and hence on what they want included in the WTO, as with TRIMs and now the more ambitious Multilateral Agreement on Investment, concern the removal of impediments to their expansion, not the imposition of restrictions on their freedom to manoeuvre.

4. The question of labour standards and the social clause

The question of labour standards, and making them into prerequisites for market access by introducing a Social Clause in the WTO, has both parallels and contrasts to the environmental questions that I just discussed.

The contrast is that labour standards have nothing equivalent to *transborder* environmental externalities. One's labour standards are purely *domestic* in scope: in that regard, the demands for "social dumping" for lower labour standards that parallel the demands for eco-dumping have the same rationale and hence must be rejected for the same reasons.

But a different aspect to the whole question results from the fact that labour standards, unlike most environmental standards, are seen in moral terms.²³ Thus, for example, central to much thinking today on the question of the Social Clause is the notion that competitive advantage can sometimes be morally "illegitimate". In particular, it is argued that if labour standards elsewhere are different and unacceptable morally, then the resulting competition is morally illegitimate and "unfair".

²³ Some environmentalists do think, however, in moral or at least philosophical, terms and see nature as having its own autonomy and not being exploitable in the service of man. This viewpoint means, of course, that cost-benefit analysis and the concept of tradeoffs are both ruled out; and, in economic jargon, the valuation put on environmental objectives becomes infinite.

Now, when this argument is made about a practice such as slavery (defined strictly as the practice of owning and transacting in human beings, as for centuries before the Abolitionists triumphed) and its other forms such as bonded labour including the abhorrent practices of mortgaging one's children to *de facto* servitude to employers and of abusively exploiting prisoners in the labour camps in the *gulag*, there will be nearly universal agreement that if such slavery produces competitive advantage, that advantage is illegitimate and ought to be rejected as posing unfair competition to one's workers in competing industries.

The moral argument may, however, be not merely to consider such slavery-based competition as unfair to our industries and *workers*. It may also be that *we* as a nation do not wish to profit from such trade: we will not sup with the devil even though we miss a free meal. Or it may be a consequentialist moral argument that we wish to punish *others* who permit such slavery and, by denying them trade in such slavery-produced goods, we seek to induce them to change such slavery.²⁴

The insertion of a Social Clause for Labour Standards into the WTO can then be seen as a way of legitimating a compelling and universally accepted moral exception to the otherwise sensible GATT rule that prohibits the suspension of a Contracting Party's trading rights concerning a product simply on the ground that another Contracting Party objects to the process by which that product is produced.

The real problem with the argument, however, is that universally condemned practices such as slavery are rare indeed. True, the ILO has many Conventions that many (but far from all) nations have signed. But many have signed simply because in effect these Conventions are not binding. Equally, and for the opposite reason that (since it is a nation that takes its international obligations seriously) the signing of the Conventions may produce conflicts with its own legislation, the United States has signed no more than a tiny fraction of these Conventions.

The reality is that diversity of labour practices and standards is widespread in practice and for the most part reflects, not necessarily venality and wickedness, but rather diversity of cultural values, economic conditions and analytical beliefs and theories concerning the economic (and therefore moral) consequences of specific labour standards. The notion that labour standards can be universalized, like human rights such as liberty and *habeas corpus*, simply by calling them "labour rights", ignores the fact that this easy equation between culture-specific labour standards and universal human rights will have a difficult time surviving deeper scrutiny.

I might illustrate the fundamental difficulties we face by taking the United States (since it is a principal proponent of the Social Clause) and demonstrating immediately that the US logic on the question can lead to a legitimate demand for a widespread and

²⁴ I have considered the alternative moral arguments in Chapter 1 of Volume 1 of Bhagwati and Hudec (ed.), *Fair Trade and Harmonization*, MIT Press, 1996, *op.cit.*

sustained suspension of its own trading rights if a Social Clause reflecting labour standards in a comprehensive way were established.

Thus, for instance, worker participation in decision-making on the plant, a measure of true economic democracy for both unionized and non-unionized labour that is surely *more* pertinent than the mere unionization of labour, is far more widespread in Europe than in North America: would we then condemn North America to denial of trading rights by the Europeans? Migrant labour is again ill-treated to the level of brutality and slavery in US agriculture due to grossly inadequate and corrupt enforcement, if investigative shows on US television are a guide; does this mean that other nations should prohibit the import of US agricultural products? Sweatshops exploiting female immigrants in textiles with long hours and below-minimum wages are endemic in the textile industry, as documented amply by several civil-liberties groups and now appreciated widely because of the discovery of an establishment in California that employed virtual slaves and the subsequent admission by Labour Secretary Reich that monitoring and enforcement were appallingly weak and would remain so because of lack of funds: should the right of the US to export textiles then be suspended by other countries as much as the United States seeks a Social Clause to suspend the imports of textiles made by child labour?

Even the right to organize trade unions may be considered to be inadequate in the US if we go by "results", as the US favours in judging Japan: only about 12 per cent of the US labour force in the private sector today is unionized. Indeed, it is no secret, except to those who prefer to think that labour standards are inadequate only in developing countries, that unions are actively discouraged in several ways in the United States. Thus, it does not need deep knowledge to see that the restraints in place on secondary boycotts and the freedom to have replacement workers can cripple a union's ability to strike, rendering impotent the union and making its existence a formality rather than a matter of real substance. Indeed, in essential industries, even strikes are restricted. Moreover, the definition of such industries also reflects economic structure and political realities, making each country's definition only culture-specific and hence open to objection by others. Should other countries have then suspended US flights because President Reagan had broken the Air Traffic Controllers' strike?

Lest you think that the question of child labour is an easy one, let me remind you that even this raises complex questions. The use of child labour, as such, is surely not the issue. Few children grow up even in the US without working as babysitters or delivering newspapers; many are even paid by parents for housework in the home. The pertinent social question, familiar to anyone with even a nodding acquaintance with Chadwick, Engels and Dickens and the appalling conditions afflicting children at work in England's factories in the early Industrial Revolution, is rather whether children at work are protected from hazardous and oppressive working conditions.

Whether child labour should be altogether prohibited in a poor country is a matter on which views legitimately differ. Many feel that children's work is unavoidable in the face of poverty and that the alternative to it is starvation which is a greater calamity, and

that eliminating child labour would then be like voting to eliminate abortion without worrying about the needs of the children that are then born.

Then again, insisting on the “positive-rights”-related right to unionize to demand higher wages, for instance, as against the “negative-rights”-related right of freedom to associate for political activity, for example, may also be morally obtuse. In practice, such a right could imply higher wages for the “insiders” who have jobs, at the expense of the unemployed “outsiders”. Besides, the unions in developing countries with large populations and much poverty are likely to be in the urban-industrial activities, with the industrial proletariat among the better-off sections of the population, whereas the real poverty is among the non-unionized landless labour. Raising the wages of the former will generally hurt, in the opinion of many developing-country economists, the prospects of rapid accumulation and growth which alone can pull more of the landless labour eventually into gainful employment. If so, the imposition of the culture-specific developed-country-union views on poor countries about the rights of unions to push for higher wages will resolve current-equity and intergenerational-equity problems in ways that are then *morally* unacceptable to these countries. Indeed, in such cases, such an imposition may itself be legitimately regarded with indignation as morally obtuse, if not wicked.

(a) *The Social Clause: A bad idea*: One is then led to conclude that the idea of the Social Clause in the WTO is rooted generally in an ill-considered rejection of the general legitimacy of diversity of labour standards and practices across countries. The alleged claim for the universality of labour standards is (except for a few rare cases such as slavery and its close variants such as labour in bondage and in the *gulag*) generally unpersuasive.

The developing countries cannot then be blamed for worrying that the recent escalation of support for such a Clause in the WTO in the United States and France, among the leading OECD countries, derives instead from the desire of labour unions to protect their jobs by protecting the industries that face competition from the poor countries. They fear that moral arguments are produced to justify restrictions on such trade since they are so effective in the public domain. In short, “blue protectionism” is breaking out, masking behind a moral face.

Indeed, this conclusion is reinforced by the fact that none of the major OECD countries pushing for such a Social Clause expect to be the defendants, instead of the plaintiffs, in Social-Clause-generated trade-access cases. On the one hand, the standards to be included in the Social Clause to date are invariably presented as those that the developing countries are guilty of violating, even when some transgressions thereof are to be found in the developed countries themselves. Thus, according to a report in *The Financial Times*, a standard example used by the labour movement to garner support for better safety standards is a disastrous fire in a toy factory in Thailand where many died tragically because exits were shut and unuseable. Yet, when I read this report, I recalled an example just like this (but far more disconcerting when you noted that the fatalities occurred in the richest country in the world) about a chicken plant in North Carolina

where also the exits were closed for the same reason. Yet, the focus of the international agitation has been on the poor, not the rich, country.

At the same time, I must say that the argument that the Social Clause should contain "core" standards sounds fine until you realize that this is also tantamount to a choice of standards for attention and sanctions at the WTO that is also clearly biased against the poor countries in the sense that none of the problems where many of the developed countries themselves would be more likely to be found in significant violation -- such as worker participation in management, union rights, rights of migrants and immigrants -- are meant to be included in the Social Clause. Symmetry of obligations simply does not exist in the Social Clause, as contemplated currently, in terms of the coverage of the standards.

This theme may be pursued further. The choice of the WTO as the repository of a Social Clause, stacked against the developing countries, is also a way of additionally proofing oneself against the possibility of being a defendant. This is because the standing to bring cases at the WTO lies with the member governments, not with NGOs as in the public interest litigation such as in India or in the case of human rights if a nation has signed (as the United States has not done) the Optional Protocol on the International Covenant of Civil and Political Rights (the basic international compact on human rights). India and Egypt, for instance, may be expected to be bamboozled by threats and inducements, political and economic, by major powers into not pursuing Social-Clause-led cases against them; but the NGOs would not so easily back away from such a scrap. If indeed the demands are being truly inspired by a moral viewpoint that genuinely seeks symmetric, universal rights and their enforcement, the selection of the WTO as the institution of choice for sanctions is hardly credible.

Indeed, both the choice of standards to be included in the Social Clause and the choice of the institution where the Social Clause will be situated, cannot but leave serious analysts in the developing countries convinced that the movement is a prime example of what I called "intrusionism", inspired by the desire to moderate competition from the developing countries by raising their costs of production. This view is further reinforced when the unions allied to these demands are often seen to be those in industries directly threatened by such competition, or when the morality underlying the demands for a Social Clause is couched in terms of a universalist language that asserts transborder moral concerns by groups that equally support immigration controls that deny the universalism they assert.²⁵

²⁵ Recently, Alan Krueger has argued that, in the US, it is not true that politicians who raise objections in the Congress, as in the sponsorship of proposed legislation against the imports of products made by child labour abroad, have abundant unskilled labour in their constituencies, suggesting that protectionism is not behind the politics of the agitation against child labour. This is, however, unconvincing. Are these opinions and objections independent of general protectionist encouragement of such sentiments, based on crude propaganda that equates bonded child labour, for example, with child labour *per se*, among other distortions? Besides, Krueger does find that unions matter in the analysis; and the union sentiments cannot be divorced from the fear of competition

(b) *If not Social Clause, what else?* If this analysis is correct, then the idea of a Social Clause in the WTO is not appealing; and the developing countries' opposition to its enactment is totally reasonable. We would not be justified then in condemning their objections and unwillingness to go along with such demands as depravity and "rejectionism".

But if a Social Clause does not make good sense, is everything lost for those in both developed and developing countries who genuinely wish to advance their views of what are "good" labour standards in a decent society? Evidently not.

It is surely open to them to use other instrumentalities such as non-governmental organization (NGO)-led educational activities to secure a consensus in favour of their positions. In fact, if your ideas are good, they should spread without coercion. The Spanish Inquisition should not be necessary to spread Christianity; indeed, the Pope has no troops. Mahatma Gandhi's splendid idea of non-violent agitation spread, and was picked up by Martin Luther King and finds strong resonance in the practice and precepts of President Mandela, not because he worked on the Indian Government to threaten retribution against others otherwise; it happened to be just morally compelling.

I would add that one also has the possibility of recourse to private boycotts, available under national and international law; they are an occasionally-effective instrument.²⁶ They constitute a well-recognized method of protest and consensus-creation in favour of one's moral positions. Indeed, given both the rise of CNN and the explosion of NGOs, the ability to mobilize public opinion in support of morally inspired positions truly supportive of human rights with a deep universalist appeal through exposure, persuasion and private boycotts has increased manifold. So has the emerging consensus on the use of labelling to provide consumers with the information

from foreign rivals especially when we take into account the prominent role of textile unions in creating the pressure generally as also within the AFL-CIO for this policy. We must also consider the longstanding general activism by the AFL-CIO on behalf of anti-competitive measures such as restriction on outward flow of investments, suggesting the preoccupation by the labour movement with competition from abroad and the problem of devising measures to deal with it. Cf. Alan Krueger, "Observations on International Labor Standards and Trade", Princeton University and NBER, mimeo., May 1996.

²⁶ Though, here also, I must add that many NGOs and citizens in the developing countries are rightly concerned by the asymmetric power that can be exerted by private boycotts in countries that are economically more substantial and politically more powerful, thus lending greater weight to the moral concerns of the citizens of the strong as against those of the weak nations. So, the time may well have come to examine whether organized private boycotts should be permitted without restraint when exerted against weaker, foreign nations, rather than against their own governments.

that enables them to discriminate more effectively against products using processes they disapprove of.²⁷

Where, however, a nation has unmarketable culture-specific moral views²⁸ on the production and import of certain products and is under domestic political pressure to go it alone with official suspension of such imports, it is worth stressing that there is nothing in the current international regime to prevent it from doing so. It can simply suspend the trade of another country and “pay” for it by making trade concessions or it can put up with matching retaliation by the other country in the form of its own withdrawal of market access to the punishing country. The latter is, in effect, what the EU did over their politically necessary suspension of hormone-fed beef trade and the subsequent retaliation by Ambassador Carla Hills of the United States.

V. The Global Age: Transcending Fears to Construct a New Architecture

The new international architecture that we must build to secure the gains from the Global Age must not then be based on faulty foundations inspired by exaggerated fears. It must also not be one that begins by creating a North-South divide when we have just managed to put such dissensions behind us in a common vision reflecting the universalism of both economics and politics that I drew your attention to. What vision should we then embrace? Or perhaps, if I may recall Raúl Prebisch at the end as I did at the beginning, where would he, simultaneously a visionary and a builder, have led us at this historic juncture?

1. Evidently, we need to reject the folly of including a Social Clause and eco-dumping varieties of trade-and-environmental agendas into the world trading regime: the WTO would be handicapped, and the developing countries harmed, by such measures for sure.
2. Instead, recognition of the important role of NGOs as agents that can use suasion effectively, a careful and fairminded design of labelling approaches which are applied symmetrically to both developing and developed countries (so that Rugmark is matched

²⁷ The issue of labelling is not as easy as it seems. Who decides on the label? What language should be used: e.g. would you use a label, POISON, or the present anaemic one about the Surgeon-Genera’s warning, in selling cigarettes? Would you simply use the words: Made with Child Labour, which necessarily evoke the image of child exploitation, or would you use a different description that is more differentiated and discriminating? Here, the recent research by the UNCTAD secretariat has been almost alone among the developmental international agencies in exploring systematically, with the aid of excellent experts, the deeper questions raised by ecolabelling and other forms of labelling, underlining the point I was making about the unique role that UNCTAD alone can play in examining issues with developing country interests in plain view.

²⁸ Are the American love for dolphins, the Indian respect for cows, the English affection for dogs universalizable by moral suasion? They are rarely grounded in basic beliefs in animal rights but seem to reflect notions such as “cuteness” (dolphins look so human, look at their pretty snouts) or “loyalty” (a dog is man’s best friend) which are surely culture-specific.

by extension of effective labelling to harmful products which developed countries ban in their own markets but allow their multinationals to export to the developing countries)²⁹, and a shift of international analysis and encouragement of improved environmental and labour practices in all countries to appropriate institutions such as UNEP and the ILO, are among the proper ways to bring these great tasks to attention and fruition today.

3. Moreover, instead of moving the world into a foolish straitjacket of “deep integration” -- a shallow concept when it comes to the Social Clause, Environmental Tax Burden harmonization *et al.* -- by forcing it on the WTO and on the developing countries, to whose disadvantage it must work, it is better to finish the task of creating a world of free trade, an essential component of the Global Age that still remains a job undone.

4. This task is all the more important as the trading system has now been afflicted by a huge and increasing proliferation of Free Trade Areas which are better called by their true name: Preferential Trading Arrangements (PTAs). These PTAs now criss-cross the world economy, creating a “spaghetti bowl” phenomenon of trade tariffs and NTBs that depend on where products come from: numerous rates apply in EU and US alone, depending on source, with “rules of origin”: becoming a maze messing up the international division of labour in the Global Age.

These PTAs are politically driven: no politician is happy unless he has put his signature on at least one of them. It gives them a place in the sun. We economists now have a CNN theory of PTAs: if you can get President Clinton to attend as you can if you go for APEC, or if you get the EU Prime Ministers and Presidents to attend as you can at an ASEM meeting, you can get onto world television which you cannot at Geneva at the WTO where the coverage goes only to the big boys.

So, the only way to kill this growing maze of preferences is, not through ingenious changes in Article XXIV at the GATT/WTO which sanctions PTAs since it is doubtful that they will be paid much attention to in practice when virtually everyone is in the game, or by prohibiting PTAs which simply cannot be suppressed when the political demand for them is so overwhelming, but through going to worldwide free trade (which effectively kills the preferences since a preference relative to zero is zero).

5. So, the nations of the world must unite behind such a vision and such a target: worldwide free trade by, say, 2025. Mr. Renato Ruggiero and Mr. Rubens Ricupero can be natural allies in propagating such a target: for, it would galvanize both WTO and UNCTAD, both at a critical defining moment in their history, the WTO beginning to create it and the UNCTAD struggling to survive it.

²⁹ The word “effective” is important. Thus, where the population is largely illiterate, effective labelling is impossible and must be replaced by bans at source by the developed countries.

Mr. Ruggiero's task will be to bring the United States on board: cajoling it away from its current policy of embracing the Social Clause and its reluctance to allow an activist further-freeing-of-trade role for the WTO in the matter of setting its new agenda. On the other hand, remembering that the era of exceptionalism is over, Mr. Ricupero must unhesitatingly bring the developing countries on board behind such a target.

I am afraid that, ironically, Mr. Ruggiero's task is likely to be the more difficult since the US, and indeed France, are in the throes of intrusionism inspired by the phantom fears of the Global Age. By contrast, Mr. Ricupero should find his task somewhat easier as the developing countries now find in the Global Age the virtues that they could not see in the earlier years. But, it is my fond hope that the two will be able to lead, hand in hand, in shared partnership, the nations of the world into a truly Global Age with worldwide free trade. Indeed, one could not hope to find better leadership than what they offer. After all, by a remarkable coincidence, the names of both these men can be initialized to RR: a symbol of exceptional quality to us in the former colonies of Great Britain where RR stood, of course, for Rolls Royce!

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