Chapitre 13/Chapter 13

La mondialisation en tant que processus d'arbitrage/Globalization as an Arbitrage Process

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Business firms do business abroad in part because they want to tap promising markets or exploit important natural ressource opportunities beyond national borders. But they also go abroad to take advantage of international price, regulatory, political, and other differences. These latter reasons fall under the heading of "arbitrage."

Financial Arbitrage.
In its narrow sense arbitrage means moving funds between markets- -financial or commodity--to profit from inter-regional price differences. This is a form of speculation, and in mainstream economic analysis it is constructive speculation as it equalizes prices by moving money and goods from areas of relative surplus to those that are short. The notion that this process is constructive took a heavy blow with the Asian financial crisis of 1997, when money that had poured in in a wave of speculative optimism, helping to produce a bubble, made a devastating panic exit when that bubble burst. In this case, financial arbitrage was seriously destabilizing, severely damaging a string of Asian countries, with the help of IMF contractionary policies that worsened the situation.

But this great mobility of money inflicts other forms of damage. The deregulation of exchange rates, and of money and capital movements between countries, which became widespread in the 1980s, made exchange rates more unstable, encouraged foreign exchange speculation, and made countries--now less able to protect themselves by regulatory action--more vulnerable to speculative money flows. The ability of the new "free markets" to overwhelm counter-action by monetary authorities is shown by the change in ratio of official foreign exchange reserves to daily foreign exchange trading volume, which fell from 16 days in 1977 to one day by 1995. [1] A vast proportion of that trading volume has nothing to do with the international movement of goods; it involves purely financial transactions. And developing countries and the lesser developed countries in particular have had to adjust their exchange and interest rate policies to accommodate the demands of these more active and powerful financial markets.

This new freedom and power of money has made for more frequent crises, and there has been a strong positive correlation between the deregulation of financial markets and the incidence of both banking and balance of payments crises. [2] There has also been a steady increase in the share of global resources absorbed by the financial sector. Most important, the more volatile financial capital flows under deregulation have been associated with increases in real interest rates, as monetary authorities have had to raise interest rate levels to placate financial investors and protect themselves against destabilizing outflows. Real rates doubled between the 1960s and 1995 and they have remained high by historical standards. This rate rise has helped shift investment from real investment to the purchase of already existing assets via mergers and acquisitions. This in turn has been associated with a sharp decline in the rate of productivity growth—labor productivity grew by 4.6 percent a year in the OECD countries from 1960-73, and by 1.7 percent a year from 1973-1997. [3] It is of course possible that productivity growth would have been even slower from 1973 without deregulation, but it is very clear that at a minimum deregulation did not prevent a sharp decline.

Labor Market Arbitrage
These are important processes and effects, but there is a broader meaning of arbitrage that carries us beyond these financial movements responding to price differences. Firms may arbitrage between countries based on differences in wages and working conditions, or on the basis of differences in government policies toward business and the environment. As regards wages and working conditions, it is obvious that these differences are a very important basis of both foreign direct investment and the contracting out of production to local firms in Third World countries.

Arbitrage is based on mobility. But whereas financial arbitrage rests simply on the mobility of money, arbitrage between labor markets is based on the DIFFERENTIAL mobility of capital and labor. Capital can move relatively easily, by buying up already existing facilities abroad, or by the more arduous process of building new plant and equipment; and it can contract out its production to local firms abroad already in business or willing to build facilities themselves. New communications technologies have greatly reduced the costs of both moving capital and, especially, of keeping close control over distant facilities and sub-contractors.

Labor cannot move easily, and although the new communications technologies make it easier to talk with foreign workers and their organizations, bringing them into coordinated policy and actions remains fraught with difficulties. As regards the movement of labor from the low wage countries, there are immigration quotas, substantial costs of movement abroad, and language and other cultural barriers, although there is some modest movement because many employers in the high wage countries welcome them. Obviously, the workers in the high wage countries can't move and follow their
jobs; the entire purpose of an arbitrage move to low wage countries is to shed the higher-priced labor. However, another purpose of arbitrage is to improve the bargaining position of capital in the high wage countries. So the THREAT to move is more effective where the possibility of arbitrage is real. And there is evidence that that threat is regularly used and is effective. [4]

This form of arbitrage, and this facet of globalization, is of fundamental importance as it is reshaping labor markets, globalizing them, and thereby extending the "reserve army of labor" beyond national boundaries to the world economy. This means that in
an important sense, globalization is allowing capitalism to establish a purer form of itself than existed in the first three- quarters of the twentieth century, when unions grew in importance, constraining capital's discretion within countries, and when there
was a "socialist" world, socialist movements and a perceived socialist threat that caused capital to make concessions and even allow the emergence of welfare states. With the death of the Soviet Union and the diminution of any credible socialist threat anywhere, and with the growing ability to arbitrage between labor markets globally, capital is riding high, with the forces of constraint weak and capital's opportunities great.

Regulatory Arbitrage
There has also been a long understood process employed by banks and other financial institutions called "regulatory arbitrage." This refers to the process of locating regulatory authorities who are weak and will not do much regulating, and then carrying out transactions and doing other legal business with them rather than in some country that has serious regulatory standards. This facilitates all kinds of tricks such as tax evasion, money laundering, and carrying out other questionable transactions. Competition assures that some states will provide this kind of service, and much revenue has flowed to the Cayman Islands and other offshore havens who offer it. It tends to weaken regulation everywhere, as the countries with meritorious regulatory systems see that their own standards can be readily avoided by arbitrage, and competition and demoralization weaken them directly or by diminished enforcement efforts. The major countries don't do

much to compel the Cayman Islands and others to stop providing their evasion services because important financial institutions and other powerful people want these services and oppose their termination.

But regulatory arbitrage extends more widely--importantly, to environmental issues. Many Third World countries are desperate for revenue sources, and their governments are often not very independent of the Great Powers or environmentally conscious, and they can often be persuaded or bribed to allow transnationals to exploit their timber, minerals, and oil without significant environmental constraints. These governments are also often happy to provide dumping grounds for First World waste products (and in fact, within a country like the United States itself, poor areas compete energetically for the privilege of providing waste disposal space, or the location of a new prison). In his famous World Bank memo, then World Bank economist Larry Summers proposed the regular dumping of wastes in the Third World based on sound economics-- these folks don't live very long anyway, and their productivity isn't very high, so let them eat radioactive wastes! However, the First World didn't need Larry Summers to persuade them to engage in such sound arbitrage projects.

Government Arbitrage

Underlying regulatory arbitrage is "government arbitrage." Capital has always dominated governments and government policy, but before the contemporary era of rapid globalization, reformist parties that would do something for the majority while protecting and serving the interests of capital could actually carry out reforms. Arbitrage has made this more difficult, in conjunction with the strengthening of supra-national institutions like the IMF, World Bank and WTO, that help to deny any reformist service to the majority.

It has been a notorious fact in recent decades that "social democratic" parties have invariably betrayed their promises to their mass constituencies immediately upon assuming office, and some of them had moved openly to the right even before the elections. Their rightward shift is in large measure a function of the weakening of organized labor, the strengthening of capital, and the further centralization of the private corporate media. But these are themselves affected by arbitrage, as in the case of labor's worsened bargaining position, and financial arbitrage and the threat of capital migration to friendlier investment climes are potent disciplinary devices making it costly for any political party to engage in "anti-business"--that is, pro-majority or populist--policies. As Walter Wriston, longtime chairman of Citibank put it,

> When a system of national currencies run by central banks is transformed into a global electronic marketplace driven by private currency traders, power changes hands.... It's more than 200,000 computer screens in hundreds of trading room...[that] vote, if you will, on their view of [some policy] action by buying or selling. This market is a harsh disciplinarian. When Francois Mitterand...became president of France in 1981, he was a committed socialist [sic: Wriston exaggerates]. And almost immediately...money began to flow out of the country. Foreign exchange reserves were depleted in 30 days, and within six months, Mitterand had to reverse course and become pro-capitalist.[5]

Wriston has no problem with the transfer of power from elected governments to currency traders, and in fact lauds it as making governments more "responsible."

In short, arbitrage in its broadest sense has helped strengthen capital and weaken labor, and it has contributed to the further erosion of the substance of nominal political democracies. This is the reason why the resistance to unconstrained corporate globalization has moved into the streets; that is where democracy may still be seen as it ceases to function in the political arena.

Prospects? Not Bright

What about future prospects? It is usually felt obligatory to be positive and hopeful in order not to demoralize and render apathetic the forces of opposition and dissent to corporate globalization. But honesty compels me to say that the scene does not make for optimism, even though we must fight on as a moral imperative. A review of the arbitrage process, working at many levels, usefully points up the extent to which capital's weapons are numerous and its ability to protect itself are formidable. A Tobin tax, for example, would hardly get at the root of the matter, but even it is extremely unlikely ever to be put in place because of the force of "governmment arbitrage." Capital will always manage to locate, and/or install, governments that will refuse to go along with such a tax.

Capital is still riding high, and following 9/11 it has entered a more military-oriented phase in which it will, I fear, direct its weapons at any dissenters who assume threatening dimensions, who will thereby become "terrorists." The fact that we are not yet in that class is perhaps a measure of our weakness.

Notes:

1. David Felix, "Globalizing Financial Capital Mobility: The Empire's New Clothes?," CEPAL Review, 1998.
2. David Felix, "The Economic Case Against Free Capital Mobility," Washington University, St. Louis, Working Paper #216, May 2000, pp. 27-29.
3. Ibid., pp. 18-26.
4. Kate Bronfenbrenner, "Uneasy Terrain: The Impact of Capital Mobility on Workers, Wages and Union Organizing," report submitted to the U.S. Trade Deficit Review Commission, January 1997.
5. Walter Wriston, "Clintonomics: The Information Revolution and the New Global Market Economy," speech delivered at Independent Policy Forum, January 25, 1993.