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The Retreat of Global Democracy

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One concomitant of globalization and technological progress, that has either gone unnoticed or been hushed up by those who did notice it, is that it has a natural corrosive effect on global democracy. As a consequence of this phenomenon, even if individual countries become democratic, the aggregate of global democracy may well be on the wane. The purpose of this essay is to advance and defend this hypothesis, comment on its consequences (global instability) and suggest antidotes (restructuring international organizations such as the WTO, IMF and the World Bank).

Democracy entails many things—the existence of a variety of political and legislative institutions, avenues for citizens to participate in the formation of economic policies that affect their lives and, in the ultimate analysis, a certain mind-set. Yet at the core of it and in its simplest form, democracy requires that (1) people should have the right to choose those who rule them and (2) the principle that the vote of each person should count as much as another persons. Even this simple principle runs into paradoxes and puzzles, as Lewis Carroll, in his original incarnation as C. L. Dogson, well knew. But the simplicity of these requirements has the advantage that we can easily check whether a society satisfies them.

Next, note that globalization, almost by definition, means that nations and people can exert a greater influence on other nations and the lives of citizens in other nations. Moreover, what is not true by definition but is a fact is that this power of one nation to influence another is by no means symmetric. The US, for instance, can cut off the trade lines of Cuba. It can do so not only by curtailing its own trade with Cuba but by threatening punitive action against those who trade with or invest in Cuba. This is not just

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a hypothetical possibility but the Helms-Burton Act in the US is testimony to how this can actually happen. Cuba, on the other hand, can do little to hurt the American economy or polity. Likewise, China can do things to Taiwan, which Taiwan can in no way reciprocate.

As the world shrinks and powerful governments develop a variety of instruments and ways to influence the lives of citizens in other nations, it is no longer enough for people to be able to choose the leaders of their own nations. Since democracy requires the ability to choose the leaders who have influence over your life, in a globalizing world, such as today's, citizens, especially those of poor, weak nations, need to be able to vote in the elections of the rich and powerful nations. Since such transnational voting does not happen (and even its hypothetical suggestion sounds absurd to us), globalization is bound to cause a diminution of global democracy. This is the 'basic proposition' of the present essay.

GLOBALIZATION AND INTERFERENCE

The big and the powerful have always considered it natural to encroach on the sovereignty of others. This is best exemplified by the story, no doubt apocryphal, that used to do the rounds in India, of the Indian diplomat in Moscow, showing a map of South Asia to Stalin. "India is a very big country," Stalin observed, and then pointing to Sri Lanka, "What is the name of this little Indian island?" "This is not an Indian island, sir," the diplomat responded, "it is a sovereign nation". "Why?", legend has it, Stalin had asked.

Fortunately, in today's world, to have influence in the affairs of another nation, it is no longer necessary to occupy the other nation's land or even to go to war with it. Moreover, even when there is war, unlike those of yesteryears, these are less battles of territory than, than acts of reprisal or punitive action to make nations conform to certain kinds of behavior. And, given the march of technology, the stronger nations are able to take this action with very little direct confrontation and loss of lives. A simple piece of statistics captures this changing nature of war. If we take the ratio of the number of dead

civilians to the size of military casualty in armed conflicts, we find that this has risen almost relentlessly, from less than 1 in the first decade of the twentieth century to more than 5 in the 1990s. At least in part this reflects how powerful nations can take action against others with minimal military casualty in their own ranks.

More important is the fact that military action, even of this arm's length kind, is now often unnecessary. Thanks to globalization there is a variety of instruments that nations can use to influence outcomes elsewhere. Foremost among these is money. Thanks to the ease of instantaneous electronic links and the improving system of global guarantees, capital has flown across national boundaries like never before. It is true that in the heydays of imperialism capital did go from one nation to another but this, almost invariably, took the form of money moving between the territories of the imperialist nation and its colonies. In other words, the presence of the army in (or direct control over) another territory was a prerequisite before money went there. That is no longer the case. With a gentle tap on a mouse one can today move funds to lands with which one may have no tangible contact. And capital has flown to distant lands at unbelievable rates. In 1969 the World Bank, for instance, lent 1.8 billion dollars. By 1999 this had grown to 32.5 billion dollars. Private- sector capital flow has grown even faster, and by 1999 World Bank lending had become a miniscule 2% of the total private-sector lending to developing nations.

A rapid withdrawal of such capital can have devastating effects on the debtor nations, as we saw in 1997 when the Asian super-performing economies succumbed to financial crisis.

Like capital, international trade (after a slow-down in the years between the two World Wars) has risen steadily. These global linkages have fuelled unprecedented growth rates of national incomes (during the 1990s China grew at around 8% per annum and India 6.5%) but they have also created new vulnerabilities. Governments and international organizations can now use the threat of disrupting these flows (or the lure of releasing greater flows of money or goods) to enforce conformity to certain kinds of behavior. And such threats have been used. International organizations have given money while insisting that the developing countries fulfil certain conditions, many of which have had nothing to do with ensuring repayment. These conditionalities have, at times, even

been contradictory, such as requiring the debtor nation to practice democracy and for it to privatize certain key sectors, unmindful of the fact that this was often against the collective wishes of the people. Some of these conditions have been blatantly in the interest of the donor nation. In 1998, during the Asian crisis, the rescue package put together with money from several industrialized nations, most prominently Japan and the US, had clauses that required Korea to lift bans on imports of certain Japanese products (which Japan had for long been trying to sell to Korea) and to open up its banking sector to foreign banks (an item that had long been on America's bilateral agenda with Korea). These were such surprising clauses that even a cautious magazine, such as the **Economist**, commented on their obviously donor-motivated *raison d'etre*. Some of these demands may well be good for the borrower, but that is not the issue here. From the point of view of assessing global democracy what is relevant is that people of the weaker nation have very little say in the imposition of these policies.

It is once again these same features of globalization that have made it possible for some nations to use sanctions to bring other nations into compliance. Even terrorist groups have tried to harness the use of modern technology to wield influence in distant terrain. In addition, nations have sought to leverage the sanctions by threatening action not just against the nation that it seeks to punish but against other nations that do not join in the punishment. The classic example of this is the Helms-Burton Act in the US, which seeks to take punitive action against companies and governments that trade and invest in Cuba. Clearly this will have a profound effect on the lives of the Cubans (and some on the nations, such as Italy and Canada that do business with Cuba). Yet they have little say in the matter, since they have no say in the choice of the US president. There is enough evidence to believe that Clinton was a reluctant signatory to this contentious act, which has been challenged by some European nations and Canada. But he realized that signing this would shore up the conservative side of his image and, at the same time, Cubans and Canadians having no say in his being President of the United States meant that he had no substantial voter constituency that would have responded negatively to his signing this act.

Given that the benefits of democracy are ample, as modern research has shown, this erosion of global democracy must have negative fall-outs. Indeed, it is arguable, that

the rise in global unrest and instabilities are a manifestation of this retreat of democracy. And the inchoate demands of the protestors in the streets of Seattle and Washington earlier this year may be founded in an intuitive but ill-articulated perception of this erosion of democracy. This can explain why these protests have attracted a disproportionate number of anarchists

DOLLARIZATION AND DEMOCRACY

The lack of global democracy is also holding back some important changes that are needed for a more efficient functioning of the world economy. One consequence of the freer flow of capital from one country to another that has received less than adequate attention is that it has led to an intertwining of different markets. Thus a fall in the Thai housing market can cause a collapse of the Thai baht in a way that could not have happened before. Likewise a fall in the Indian rupee can today cause a meltdown of the Indian stock market in a way that was inconceivable even ten years ago.

The reason for this is the large presence of overseas investors in any nation. Suppose you are a New Yorker who wants to buy shares, perhaps through some foreign institutional investor or some mutual fund, in the Mumbai stock market. For that your dollars will first have to be converted to rupees and then used to buy the shares. Your aim, like that of virtually all overseas investors is not to hold rupees but to make some money and, eventually, convert back to dollars (basically, any globally accepted currency) to spend on clothes, housing and so on in the United States. Now suppose the Indian exchange rate begins to fall. As a foreign investor you will have good reason to sell the Indian stocks and take your money out of India, because, even if the stock prices remain unchanged, your earnings in dollars will be smaller, if you leave your money in India with the rupee falling. So while a fall in the exchange rate with no decline in stock prices gives the Indian investor no reason, *ceteris paribus*, to take money out of the stock market, the foreign investors will have good reason to get out of India. But if there are a sufficient number of foreign investors and they all begin to sell their stocks, the stock prices will begin to decline, and *then* there will be reason enough for Indian investors to sell the stocks as well. And so now the stock market will be brought down as well.

Likewise, if the Thai housing market begins to collapse and this hurts the profitability of Thai companies, this may cause the stock prices to fall. If Thailand had no foreign investors, that would be the end of the matter. But if there are foreign investors, they will, after selling their stocks, change their bahts for dollars since they had gone into Thailand originally for the Thai stock market. Hence, now the exchange rate will start collapsing.

These linkages between domestic markets in a developing country and the exchange rate are new and have played a larger role in the rapid spread of the 1997 East Asian crisis from one country to another and from one market to another than has been recognized by economists. But governments and citizens have been aware of this at the level of intuitive perception, and this has given rise to demands for currency unions and dollarization. Indeed there are gains to be had from groups of countries coming under single currencies and, ultimately, converging to a one-currency world, something that Stanley Jevons had recommended, prematurely, in 1878.

The main advantage of dollarization for a developing country is that it will delink the various domestic markets. The housing market suffering losses will be less likely to disrupt international trade, for instance. To dollarize, somewhat surprisingly, is the equivalent of compartmentalizing the bellows of a hovercraft, so that one puncture does not bring down the whole craft.

The main disadvantage of dollarization is the loss of autonomy. By coming under the control of the US Federal Reserve Board, Argentina loses control over its own monetary, and to a certain extent, even fiscal policy. Even if Argentina goes for dollarization, on the ground that under its present system of Currency Board (which locks the peso unalterably to the dollar) it is already virtually dollarized, most other nations will consider the cost of coming under another's central bank control too big a loss of autonomy to contemplate. The only way the advantages of common currencies will be feasible is if we can think of central banks, which are answerable to all the nations that use the common currency. The European central bank does have this feature of multi-country democracy and that is the reason why the euro is expected to be a net gain for all the nations that share it.

Unfortunately, global democracy is so under-developed that currency unions for countries that need them most, namely the developing nations, remain a far cry. Not only can we not think of a global democratic government (an idea that Bertrand Russell had campaigned for) with a global central bank, the main international financial institutions that we have, such as the IMF and the World Bank, remain largely answerable to the industrialized nations. Even when such organizations work for the poor countries, it is the *industrialized nations'* perception of the poor nations' well-being that is catered to.

DEMOCRATIC GLOBAL INSTITUTIONS

What can be done about the erosion of global democracy? Since in the social sciences political correctness demands optimism, it may sound strange to respond with a "not very much". But that is true at least in the next one or two decades. Utopian schemes such as a global government or a global bank that is answerable to all nations in the world are a distant dream. The process of globalization will course on, and inter-country democracy will continue to get bruised. It will be some time before this can bring us to discussing global governance and banking. In the mean time what is open to us are small measures, namely that of strengthening the democratic structure of global institutions, such as the World Bank, the IMF and the WTO. These are small measures, but extremely important, for these can contribute to global stability and moreover, even as an end in itself these are morally desirable. The lesson therefore is, ironically, quite different from what the protestors in Seattle and Washington, and also some arch conservative groups in industrialized nations, want, to wit, the dismantling of these organizations. On the contrary, we need to restructure these organizations and recognize that they have an especially important role to play today. The process can of course be hijacked so that these institutions become batons in the hands of the powerful nations. On the other hand, it is naïve to believe that removing these institutions will defang the powerful. We need these mitigating institutions but those committed to global democracy will have to be ever vigilant. There is enough evidence that powerful politicians in powerful nations like to think of international institutions as valuable only to the extent that they can use them to their own advantage.

On January 20, last year, Senator Jesse Helms, arguably the most important congressional voice in the US told the council members of the UN: “If the United Nations respects the rights of the American people, *and serves them as an effective tool of diplomacy, it will earn and deserve their respect and support.* But a United Nations that seeks to impose its presumed authority on the American people, without their consent begs for confrontation and—I want to be candid with you—eventual US withdrawal.” (My italics—but also my hunch that Helms would want it this way). Helms had gone on to express distaste for “supranational institutions”, including the international criminal court which was created last year. What is most damaging about this kind of remark is that any organization that meets with Jesse Helms’ approval, immediately becomes suspect from the point of view of the world as a whole. The last thing that a credible international organization will now want is Jesse Helms’ blessing.

What we need to work on is to give nations, rich and poor, equal say, at least in international organizations that are supposed to play a mediating role in world economics or international relations. This horizontal equity is violated in most organizations through at least one of two routes. First, there is the open channel, which gives a larger share of votes to the nations contributing more to these organizations. This is certainly true of the IMF and the World Bank. The second route is through the lack of transparency of decision-making. One can see the importance of this for democracy by looking at policy-making within a country. If the process of decision-making is visible to all, it becomes difficult for any group or lobby to hijack the agenda. Big business and the military which are usually close to government are able to push through their interests much more in Pakistan than in India and the reason is simply that government is more open to scrutiny in India. The same holds true for international organizations. Big and powerful nations, by virtue of contributing senior personnel and money to these organizations have much greater access to them. So if decisions occur behind opaque walls they are much more able to divert the agenda to suit their own interests. Take the case of the WTO. While it does follow the important principle of one-country one-vote, it is widely perceived as a preserve of powerful and rich nations. This is because of what some analysts call the “green room” effect, that is, what goes on behind the scenes. It is the green room where the agenda gets set on what is to appear on the table for all member nations to discuss and

vote on, and a lot of the end results get determined at that stage. If the WTO is to become a more democratic institution, it must not allow its green room to be hijacked by a few.

This problem is nowhere more obvious than in the drafting of international labor standards. These are ostensibly being designed in the interests of the workers of developing countries. But, ironically, the biggest opposition to such standards has come from the poor countries; and not just from their governments but also from the trade unions and grass-root workers. The apprehension in the Third World is justified. The form that these standards are tending to take—and the increasing talk of using trade sanctions to impose these standards—is close to what protectionist lobbies in industrial nations seek. This is not surprising given the greater access that the lobbies of rich countries have in the corridors of power in international organizations.

Most sound surprised by this criticism of global institutions. The fact that *the questioning* of the practice of richer nations (who contribute more funds) exercising more voting power in these organizations sounds outrageous, simply shows how far away we still are from *global* democracy. It does not at all seem outrageous that Bill Gates does not have multiple votes in the US elections on the ground that he contributes more to government coffers. In fact, the suggestion that he could have more votes sounds outrageous. This is because democracy within a nation is a much more settled an idea. But it is time to give serious thought to how we can give more equal voting power to different nations, irrespective of their wealth. Money itself gives a lot of advantage; one of the basic tenets of democracy is that we should not compound this advantage by giving the rich extra voting power.

In the same Security Council address mentioned above, Jesse Helms complained that, while the U.N. “lives and breathes on the hard-earned money of the American taxpayers”, U.N. officials had the audacity to declare “that countries like Fiji and Bangladesh are carrying America’s burden in peacekeeping.” Plainly, he was piqued not because some individual U.N. official had said what may not be accurate, but because it was minor nations like “Fiji” and “Bangladesh” that were was being given such importance. Clearly, the idea of each country having equal say is as yet unacceptable even as an idea.

But, fortunately, opinions change. Multi-nationals nowadays talk in terms of environmental responsibility and the importance of respecting labor standards, even when that implies having to take a cut in profits. This seems to violate age-old beliefs and also the textbook description of multinational corporations. When the one-person one-vote idea first came about, the rich feudal landlords must have been shocked and cried foul at this blatant injustice and the chaos in the process of decision-making that this would cause. But no longer does this democratic principle *within a nation* seem strange.

Now, with the call for restructuring international organizations ringing out from the streets of Seattle and Washington and also congressional committees, such as the recent one headed by Allan Meltzer, this is a good time for us to think through some of these issues not just from the point of view of economic efficiency and greater cost effectiveness but from the point of view of representation of the poor. For the sake of global stability, economic efficiency and also morality in international relations we must try to impart a greater democratic structure to our international organizations. This may not be in the individual interest of every state, especially the big and the powerful, but is certainly in the interest of us, collectively.