1 A global crisis?

Is there 'a rapidly accelerating and potentially fatal human crisis of global proportions?'[1] And if there is, are 'the systemic forces nurturing the growth and dominance of global corporations . . . at the heart of the current human dilemma?'[2]

On these questions, there is something amounting to a war of statistics seeking to prove that the world is richer than it ever has been,[3] that many people have been lifted out of poverty,[4] and that the economic systems in place are benefiting the world.[5] On the other hand, statistics also show that the gap between rich and poor is widening both within and between nations and that in many countries, poverty is both increasing by numbers and by depth.[6] Using almost any statistics 'we certainly know that the problem of world poverty is catastrophic'.[7] Of 6,133 million human beings in 2001, some:

- 799 million people are undernourished;[8]
- 50,000 people daily die of poverty-related causes.[9]

1 D. Korten *When Corporations Rule the World* (Kumarian Press, 1995), p. 3.
2 Korten, *When Corporations Rule*, p. 9.
3 'Between 1965 and 1998 average incomes more than doubled in developing countries': *World Bank Development Report 2000–2001, Attacking Poverty* (Oxford: Oxford University Press, 2001), p. vi.
4 'In 1990–1998 alone the number of people in extreme poverty fell by 78 million': *World Bank Development Report 2000–2001*, p. vi.
5 See, e.g., T. Larsson, *The Race to the Top: The Real Story of Globalisation* (Cato Institute, Washington, 1999); D. Irwin, *Free Trade Under Fire* (Princeton University Press, New Jersey 2002), a slightly more balanced approach in M. Moore, *World Without Walls* (Cambridge University Press, 2002).
6 UNCTAD Report, *The Least Developed Countries Report 2002* (UN, 2002). See ILO, *A Fair Globalisation: The Final Report of the World Commission on the Social Dimension of Globalisation* (ILO, Geneva, 2004).
7 T. Pogge, 'The First Millennium Development Goal' (www.etikk.ne/globaljustice/).
8 United Nations Development Programme, *Report 2003*, p. 87.
9 Such as starvation, pneumonia, tuberculosis, measles, malaria, pregnancy-related causes: World Health Organisation, *The World Health Report 2001* (WHO Publications, Geneva, 2001), Annex, Table 2.

This means that 'the global poverty death toll over the 15 years since the end of the Cold War was around 270 million, roughly the population of the US'.[10] And the figures go on and on:

- 34,000 children under five die daily from hunger and preventable diseases;[11]
- 1,000 million lack access to safe drinking water.[12]

What are we to make of this barrage of statistics with their apparently contradictory messages? As with all statistics, it depends on how they are compiled and precisely what is counted. There are definitional problems, for example the definition of poverty is hotly disputed,[13] as are the ways of arriving at the statistics.[14] Take just one example, the definition of poverty and the trends in poverty reduction. Reddy and Pogge show that both are highly questionable.[15] Trends are falsified by comparing different poverty 'lines' arrived at in different ways and targets are moderated by switching from an estimate of the *numbers* of persons in poverty to the *proportion* of the world's population in poverty. The numbers themselves are greatly affected by using flawed methodology for comparing the purchasing power of the poor across countries.

There is also the great danger posed by aggregation and averaging. Gaps in wealth disappear when some persons or nations are hugely wealthy and their wealth is increasing. In aggregate statistics the poor become invisible.[16] Aggregate counting disguises growing inequality and makes it possible to assert, as Moore does:

[10] Pogge, *Millennium Goal*, p. 11.
[11] US Department of Agriculture, *US Plan on Food Security, 1999*, p. iii (www.fas.usda.gov/summit/pressdoc.hmtl).
[12] UNDP, *2003 Report*, p. 9; Wateraid, 'The Education Drain' (www.wateraid.org.uk).
[13] Most thoughtful studies now rely not *just* on income data but on a multifactorial definition which takes account of insecurity, vulnerability and powerlessness: A. Sen, *Development as Freedom* (Oxford University Press, 1999); D. Narayan, P. Petesch, M. Shah and R. Chambers, *World Bank Development Report 2000–2001: Voices of the Poor – Can Anyone Hear Us*? (Oxford University Press, New York, 2000).
[14] See the detailed discussion of methodology in *World Bank Development Report 2000–2001*, ch. 1. UNCTAD, *Least Developed Countries Report 2002,* notes that its statistics differ from those of the World Bank because they are collected on a national-accounts-consistent basis which adds to the household survey basis used by the World Bank the further dimension of average annual private consumption per capita as reported in national accounts data.
[15] S. Reddy and T. Pogge, 'How Not to Count the Poor' (www.socialanalysis.org) and Pogge, *Millennium Goal*.
[16] 'Dealing with Aggregation' in *World Bank Development Report 2000–2001*, p. 22. See also *ibid.*, p. 25.

One fact is that developing countries are not losing out in world trade, despite what the WTO's critics say. The opposite is the case. Over the past decade, developing countries have consistently outperformed industrialised countries in terms of export growth – an average increase of almost 10 per cent a year, compared to 5 per cent for the industrialised countries.[17]

This statement uses averaging to disguise differences in performance; the average is skewed by the dazzling performance of China and good performance of India. Sub-Saharan Africa is getting poorer.[18] It also disguises poverty by using percentages: 5 per cent of the GDP of developed nations in real terms is many times 10 per cent of the GDP of the least developed nations. The inequality in wealth is staggering: 'The average income in the richest 20 countries is 37 times the average in the poorest 20 – a gap that has doubled in the past 40 years'.[19] It is not the task of this book to attempt a critique of the detail of the statistics. Even at an optimistic reading of reliable estimates, in our rich world,[20] the situation is dire:

of 6 billion people, 2.8 billion – almost half – live on less than $2 a day, and 1.2 billion – a fifth – live on less than $1 a day[21] . . . In rich countries fewer than 1 child in 100 does not reach its fifth birthday, while in the poorest countries as many as a fifth of children do not. And while in rich countries fewer than 5% of all children under five are malnourished, in poor countries as many as 50% are.'[22]

There is therefore certainly a deep human crisis which is worsening in certain parts of the world, particularly the poorest or Least Developed Countries (LDCs).[23] Why? Are 'the systemic forces nurturing the growth and dominance of global corporations . . . at the heart of the current human dilemma?'[24] Note that Korten does not point at corporations as the cause but at the underlying systemic forces. This is important because the blaming of corporations provides the wealthy world with a convenient scapegoat to point at. It needs to be recognised that all of us living in comfort in the rich nations of the world are benefiting from the deeds of corporations regularly vilified in the anti-globalisation press.

17 Moore, *World Without Walls*, p. 169.
18 UNCTAD, *Least Developed Countries Report 2002*, p. 7.
19 *Ibid.*, n. 9, p. 3.
20 'Human conditions have improved more in the past century than in the rest of history – global wealth, global connections, and technological capabilities have never been greater': *World Bank Development Report 2000–2001*, p. 3.
21 Oxfam puts the latter figure at 1.1 billion: *Rigged Rules and Double Standards* (Oxfam, 2002).
22 *World Bank Development Report 2000–2001*, p. 3.
23 UNCTAD, *Least Developed Countries Report 2002*, p. iii.
24 *Ibid.*, p. 9.

Most of us will be shareholders, if not in a direct sense, then in the sense that our pensions and savings depend on the profit maximisation of large corporations. Indeed, corporations have 'no soul to damn and no body to kick' which leaves them as faceless and convenient repositories for the guilt of the societies which invented them, profit from them and tolerate their operations.[25] The creation of the legal fiction of separate corporate personality cannot absolve from responsibility the societies for whose benefit they operate, any more than the fiction of dehumanising the negro could absolve the society that tolerated slave-trading from its responsibilities.

In his seminal work charting how dependent on the slave trade was the rise of capitalism, Eric Williams describes the massive profits made as a result of the 'triangular trade': manufactured goods shipped from England to Africa, exchanged at a profit for slaves which were taken to the West Indies and exchanged at a profit for sugar and rum which were imported at a profit into England. He shows how the West Indian slave trade and slavery in the West Indies was abolished only when the sugar colonies which used slaves became uneconomical and humanitarian voices were joined by those who would benefit economically from its abolition. Not only were great profits made from this trade but Williams shows that these profits provided the capital for the Industrial Revolution, with many of the traders becoming bankers and financing the great industrial projects. Colonisation further enriched Western countries. One small but telling example was recently revealed by Roy Moxham. In *The Great Hedge of India* he chronicles how he set out to find 'an English folly', a 2,300 mile long hedge built across India and found that instead of an amusing folly he was on the trail of a vicious instrument of oppression, a customs barrier that had been built to enforce a salt tax which was pitched at a level which the poor could not afford, was ruthlessly enforced even in times of famine and which may well have been responsible for millions of deaths. It was also the source of great wealth for a number of Englishmen, including Clive, operating through the East India Company:

> Clive's wealth had come indirectly from the Indian peasants who earned a fraction of what was earned by their English counterparts. An agricultural labourer in England earned perhaps the equivalent of 15 rupees (£1.50) a month, whereas the Indian labourer received only one rupee. What was more, the money was taken out of the country. That was to become the norm. Richard Burwell, one of Clive's colleagues, who made 400,000 rupees a year from illicit salt contracts, brought 6,000,000 rupees back to England. British individuals, and most of all

[25] For a more detailed examination of this aspect of the debate, see chapter 2.

the East India Company itself, took vast sums out of India and spent it in Britain . . . India, which when the British arrived had been relatively well off, became much poorer.[26]

Much of the riches now enjoyed in the West were built on slavery and colonialism, is the same system being perpetuated by economic imperialism?

In view of the voices raised in protest at the way in which the global economy creates extreme poverty, it is necessary to ask whether our system today is replicating the inhumanity of the past:

Seen in historical perspective, it [slavery] forms part of that general picture of the harsh treatment of the underprivileged classes, the unsympathetic poor laws and severe feudal laws and the indifference with which the rising capitalist class was beginning to reckon prosperity in terms of pounds sterling, and . . . becoming used to the idea of sacrificing human life to the deity of increased production.[27]

To what extent is the extreme impoverishment of millions of persons a result of legal and economic forces similar to those underlying the slave trade, with tragically similar results – the systematic deprivation of the poor of all human dignity?

Although many of the poorest states are 'independent' in political terms, in contrast to their vassal status under colonial rule, they are nevertheless economic prisoners of the rich West and of the transnational corporations (TNCs) which are the economic and political tools of Western societies.

What, then, are the 'systemic forces'? Many would point to 'globalisation'. Globalisation is a slippery concept which means different things to different people in different contexts. Here I adopt the following definition: 'it is the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge and (to a lesser extent) people across borders'.[28]

Put thus, it sounds benign. Why has it become the focus of both passionate support and equally passionate denigration?

As we were corralled behind barbed wire barricades [at Seattle], I found myself wondering how such fine, noble, principled expressions of universal values and rights as internationalism and solidarity had become so denigrated. Globalisation

[26] R. Moxham, *The Great Hedge of India* (Constable and Robinson, London, 2001), p. 41.
[27] E. Williams, *Capitalism and Slavery* (1944, new edn, University of North Carolina Press, 1994), p. 5, citing M. James, *Social Problems and Policy During the Puritan Revolution, 1640–1660* (London, 1930), p. 111.
[28] J. Stiglitz, *Globalisation and its Discontents* (Penguin, London, 2002), p. 9.

as a word, a slogan, an explanation of history, all too frequently now conjures up a vision of elitism, dominance and power by the few; suppression of human rights, unbridled, unregulated capitalism and privilege. By contrast, universal values, internationalism and solidarity were perceived as words of comfort, unity and tolerance. And yet what is globalisation, or should it be, but the implementation of just this drive to spread universal values and solidarity? Is this just a marketing problem? What truth is there to the accusations of the aggressive protesters and NGOs – not all of whom are mad or bad – who claim everything is getting worse and that globalisation is a threat to freedom, development, indigenous peoples and local cultures.[29]

As Stiglitz remarks 'The differences in views are so great that one wonders, are the protesters and the policy makers talking about the same phenomena?'[30]

As always in human affairs, much depends on the institutions which have been involved in the process and the underlying philosophies which they have adopted. Many commentators will immediately identify as the agents of change the International Monetary Fund (IMF), the World Trade Organisation (WTO) and the World Bank, prime movers in the globalisation process.[31] While this is undoubtedly correct, it may have tended to obscure the multiplicity of other players. Drahos and Braithwaite identify the various trading blocks of the rich world as significant players, in particular the USA and EU.[32] There has also been considerable discussion of the role of nation states. This is often concerned with the diminishing powers of the state in the face of a number of apparent threats: increased power at regional and/or international level and the disparity of power between some nation states and international corporations. While the disparity in power can be demonstrated by a raft of economic indicators,[33] the economics do not tell the whole story. Recent commentators have understood that it is not only the naked power balance that has wrought a change in the role of the state, but the underlying expectations of the role that the state *ought* to play that has changed. Rowan Williams argues that the state is increasingly seen as enabling citizens to fulfil their individual expectations, but has ceased to provide what could be termed a 'moral collectivity'. The new 'market state' may be seen as a response to globalisation[34] but may also be seen as a result of

[29] Moore, *World Without Walls*, p. 8. [30] Stiglitz, *Globalisation*, p. 9.
[31] Stiglitz, *Globalisation*, S. Skogky, *The Human Rights Obligations of the IMF and World Bank* (Cavendish, London, 2001); D. Kennedy and J. Southwick (eds.), *The Political Economy of International Trade Law* (Cambridge University Press, 2002) (esp. WTO). Their roles are discussed in chapter 3.
[32] P. Drahos and J. Braithwaite, *Global Business Regulation* (Cambridge University Press, 2000).
[33] J. Dine, *The Governance of Corporate Groups* (Cambridge University Press, 2000).
[34] Rowan Williams, *Guardian*, 27 February 2003.

different expectations of citizens. And many of these different expectations have been fuelled by a 'triumph of ideology over science',[35] most particularly by the neo-classicist doctrine that rational actors will, if left undirected, make maximally efficient economic decisions which will maximise their welfare, leading to an efficient economy where all will eventually benefit:

> For more than 20 years economists were enthralled by so-called 'rational expectations' models which assumed that all participants have the same (if not perfect) information and act perfectly rationally, that markets are perfectly efficient, that unemployment never exists (except when caused by greedy unions or government minimum wages) and where there is never any credit rationing.[36]

That this model is becoming increasingly discredited does not alter the fact that believers in this model now act as policy-makers in many countries and are trying to implement programmes based on the ideas that have come to be called 'market fundamentalism'.

In particular, such views lead to the undermining of the state as a responsible entity the purpose of which is to represent a collective morality and achieve a fair distribution of goods. It also inevitably points to the individual as providing the salvation for all, most importantly through the use of property transactions. The consumer as saviour is a direct descendant of these ideas. Globalisation is thus both driven by philosophies of open markets and fuelled by the consumerist, individual culture which operates at citizen level. Thus, the citizen becomes a consumer with considerable impact on our understanding of democracy. If the state exists merely to mend 'market failure' so that the invisible hand of the market can create paradise for all, what use is a vote at nation state level? Further, if the 'market' can manipulate politicians in the shape of threats and bribes from powerful companies, where is the citizen to exercise any influence? In *The Silent Takeover*, Hertz chronicles instances of companies providing benefits for society in the provision of infrastructure, education and environmental benefits and wonders:

> who, in this latest stage of the takeover, is taking over whom? Politicians are spending some of their time acting like salesmen, and corporations some of their time acting like politicians. Consumers are voting with their pockets while the electorate is increasingly staying away from the polling station . . . Can this fusion of consumer politics and corporate power provide satisfactory solutions to the problems created and encouraged by untrammelled capitalism, or even be a satisfactory replacement for traditional politics? Or is it a chimera? And if it is a monster, will it devour us?[37]

[35] J. Stiglitz, Guardian, 20 December 2002. [36] *Ibid.*
[37] N. Hertz, *The Silent Takeover* (Heinemann, 2001), p. 184.

The forces of globalisation and the institutions that are prominent in its creation are not the only forces which require examination if reform is to be attempted. The roots of the present 'World We're In'[38] run very deep indeed:

> The world today behaves like a madhouse. The worst of it is that the values we had more or less defined, taught, learned, are thought of as archaic as well as ridiculous. Respect for the world: who is that important to? The human being should be the absolute priority. And it isn't. It's becoming less and less so. It seems that it's more important to reach Mars than prevent 13 million Africans dying of hunger. Why would I want to know if there's water on Mars if we're polluting the water here on Earth, doing nothing to avoid it? Priorities need to be redefined, but there's no chance of redefining those priorities if we don't confront the need to know what democracy is. We live in a very peculiar world. Democracy isn't discussed, as if democracy had taken God's place, who is also not discussed.[39]

Perhaps the discussion should begin with the understanding that markets are not all-powerful: 'Adam Smith's invisible hand – the idea that free markets lead to efficiency as if guided by unseen forces – is invisible, at least in part, because it is not there'.[40] The redefinition of the role of governments, and, in this particular arena, trade negotiators must follow if they are no longer seeking to obey the invisible hand.

Growing inequality

We have seen that the average income in the world's richest twenty countries is thirty-seven times the average in the poorest countries, a gap that has doubled in the past forty years.[41] There is a simultaneous and linked environmental crisis.[42] Few studies doubt that the giant transnational corporate enterprises have played their part in creating both strands of this 'globalisation of poverty',[43] in particular because of their embrace of the free market classical economic theories, which underpins so much of corporate activity. The World Bank *World Development Report* is uncompromising. Setting out the numbers trying to live on less than US $2 or US $1 dollar a day (see above) it notes that:

38 W. Hutton, *The World We're In* (Little Brown, London, 2002).
39 Jose Saramago, *Guardian*, 28 December 2002.
40 Stiglitz, n. 35 above.
41 *World Bank Development Report 2000–2001*, p. 3.
42 M. Hertsgaard, *Earth Odyssey* (Abacus, London, 1999); H. Heerings and I. Zeldenrust, *Elusive Saviours* (International Books, Utrecht, 1995); J. Karliner, *The Corporate Planet* (Sierra Club, 1997).
43 In 1990, there were at least 212 million people without income or assets to guarantee the necessities for a basic existence. See United Nations Development Programme, *Human Development Report 1992* (Oxford University Press, 1992); United Population Fund, *The State of World Population 1992* (New York, 1992).

This destitution persists even though human conditions have improved more in the past century than in the rest of history – global wealth, global connections and technological connections have never been greater. But the distribution of these gains is extraordinarily unequal . . . And the experience in different parts of the world has been very diverse. In East Asia the number of people living on less than $1 a day fell from around 420 million to around 280 million between 1987 and 1998 – even after the setbacks of the financial crisis. Yet in Latin America, South Asia, and sub-Saharan Africa the numbers of poor people have been rising. And in the countries of Europe and Central Asia in transition to market economies, the number of people living on less than $1 rose more than twentyfold.[44]

And, as we have already seen, some scholars argue that these figures underestimate the problem.[45] Similar conclusions about growing inequality were reached by the International Labour Organisation (ILO) in its 2004 report, *A Fair Globalisation*;[46] while recognising that globalisation has great potential for good:

we also see how far short we still are from reaching this potential. The current process of globalisation is generating unbalanced outcomes, both between and within countries. Wealth is being created but too many countries and people are not sharing in its benefits . . . Many of them live in the limbo of the informal economy without formal rights and in a swathe of poor countries that subsist precariously on the margins of the global economy. Even in economically successful countries some workers and communities have been adversely affected by globalisation. Meanwhile the revolution in global communications, heightens awareness of these disparities.[47]

The 'systemic forces' driving globalisation and companies' part in globalisation are thus widely seen as the economics underlying capitalism and in particular the so-called 'Washington consensus' of neo-liberalism arguing for free and open world markets. Although there is a possibility that true free trade might benefit all, what seems clear is that trade rules which impose open borders on small and vulnerable nations, while keeping closed borders and subsidies for the benefit of rich nations, has a vicious effect.[48] However, while arguing that the claim that rich country markets are more closed and protected than those of developing countries is 'a distortion', Moore agrees that the tariffs imposed by the USA, EU and Japan on foods that are in competition with those grown in those countries and clothing and shoes are 'indefensible' and creating a burden on the poor. Citing Edward Gresser, Moore agrees that 'The

44 *World Bank Development Report 2000–2001*, p. 3. See also Hertz, *Silent Takeover*, pp. 40–1.
45 Reddy and Pogge, 'How Not to Count the Poor'.
46 ILO, Geneva, 2004. 47 ILO, *Fair Globalisation,* p. x.
48 Oxfam, *Rigged Rules*; J. Dunning (ed.), *Making Globalisation Work* (Oxford University Press, 2003).

US tariff system . . . could have been maliciously designed as a burden for the poor . . . Any tax that focuses, as tariffs do, on the necessities of life, will hit poor families harder than rich families'.[49] The ILO reports that unemployment worldwide has reached 185 million whereas the richest 1 per cent of the American population 'raked in 17% of the country's income, the highest level of income inequality since the 1920s'.[50]

Companies

The same economic dogma also forms the basis for the growth of the largest corporations and its consequences for their structure and operations will be revisited in chapter 2. Here, we will put aside the discussion of the 'systemic forces' and look at the catalogue of complaints which are lodged against the companies without (I hope) losing sight of the fact that a 'company' is a legal fiction created to benefit (some of) mankind. However, most studies accept the central role played by companies in globalisation and international trade:

> Transnational companies (TNCs) are the driving force behind globalisation. Through their production, trade and investment activities, they are integrating countries into a global market. Through their control over resources, access to markets, and development of new technologies, TNCs have the potential to generate enormous benefits for poverty reduction. However, that potential is being lost. The weakness of international rules, bad policies and weak governance in developing countries, and corporate practices which prioritise short-term profit over long-term human development are undermining the capacity of poor countries – and poor people – to benefit from international trade.[51]

The immense power of corporations is indicated by a comparison between the economic wealth generated by corporations, measured by sales, compared with a country's gross domestic product (GDP). On this basis 'the combined revenues of just General Motors and Ford . . . exceed the combined GDP for all of sub-Saharan Africa[52] and fifty-one of the largest one hundred economies are corporations.[53] Further, the number of transnational corporations jumped from 7,000 in 1970 to 40,000 in 1998, and they account for most of the world's trade. They also stand

[49] Moore, *World Without Walls*, p. 170, quoting E. Gresser, *Hidden Tax on the Poor: The Case for Reforming US Tariff Policy* (Progressive Policy Institute Report, 25 March 2002).
[50] *Guardian*, 25 February 2004. [51] Oxfam, *Rigged Rules*, p. 175.
[52] Karliner, *Corporate Planet*, p. 5; 'Global 500: The World's Largest Corporations', *Fortune*, August 1995, *World Bank Development Report 2000–2001*.
[53] S. Anderson and J. Cavanaugh, *The Rise of Global Corporate Power* (Institute for Policy Studies, Washington DC, 1996).