A Commonwealth alternative to Globalisation

by Keith Rankin*, 14 June 2002

Globalisation – the outgrowth of national boundaries, especially with respect to economic activity - is both a reality and a cause for fear. Taken to its logical conclusion, globalisation means a single-nation world economy.

A single economic nation is a political anarchy. As with any anarchy, some power eventually fills the power vacuum. Transnational corporations, imbued with American big business culture and able to play national governments off against each other, have provided a degree of *de facto* global governance. That is what the sceptics fear most about globalisation.

The familiar contrast to globalisation is the academically attractive multi-nation economic model through which, for their own separate but self-interested reasons, most politicians and economists continue to interpret the world.

In the pure form of the multi-nation model, each country has its own unique economy that only interacts with other economies through trade. Each country has its own distinct endowment of labour, capital and natural resources. Each political boundary is by definition an economic boundary. Indeed in APEC (Asia-Pacific Economic Cooperation), a 'club' which covers 60 percent of the world's population, the word 'economy' is a compulsory euphemism for 'nation'.

The only realistic alternative to globalisation is the recognition and planned development of supranational (sometimes called "regional") economic structures. To political economists from the 1850s to the 1930s, it seemed natural that the world should be divided into a small number of large economies which broadly matched the Euro-centred political empires of that time. John Stuart Mill, in his *Principles of Political Economy*,[1] noted that the English economy extended well beyond the political borders of England:

> "If Manchester, instead of being where it is, were a rock on the North Sea (its present industry continuing) it would still be but a town of England, not a country trading with England; it would be merely, as now, a place where England finds it convenient to carry on her cotton manufacture. The West Indies, in like manner, are the place where England finds it convenient to carry on the production of sugar, coffee and a few other tropical commodities. All the capital employed is English capital; almost all the industry is carried on for English uses…. The trade with the West Indies is therefore hardly to be considered as external trade, but more resembles the traffic between town and country, and is amenable to the principles of the home trade."

Had he lived longer, Mill might have added that countries like Argentina and Denmark became 'provinces' of this greater-English economy. What later became known as the "Sterling Group" included a number of countries that were not painted red on the map.

The process of decolonisation after World War Two etched the idealist multi-nation worldview into our collective consciousness, and, in the process, the pre-war era was dismissed as "imperialist". By the late twentieth century, the only possibilities seemed to be the open-economy multi-nation approach of the economics textbooks or the globalisation implicit in business practice.

The most important exception was the emergence of the European Union, which showed that countries could integrate economically (which means at least some political integration) without a loss of national identity. France remains as French as it ever was.

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The next most important exception is NAFTA, the North American Free Trade Agreement. In its present state of evolution, it does represent the economic hegemony of the United States over its North American neighbours. An expansion of NAFTA, however, will give more influence to the American periphery, and substantially diminish the control of the United States.

In the nineteenth century, the half dozen or so supranational economies were created by and dominated by an imperial power. In the twenty-first century the emerging regional economies are likely to reflect associations of geography and culture as well as shared histories. As a result of such commonalities, movements of labour (especially 'guest workers') and capital already follow distinct regional patterns.

India and China are probably large enough and autonomous enough to be regarded as macro-economies.

The other four macro-regions of the world are broadly autonomous with respect to capital and labour flows. The important potentially destabilising flows take place within rather than between these supranational economies. For example I see sub-Saharan Africa as connected to Europe through labour and capital flows, as well as to a shared history. Indeed the economic relationship between sub-Saharan Africa and the European Union is not unlike that between the United States and Latin America.

With the world divided into a small number of inclusive macro-economies, the North-South problem – the problem of massive inequality between nations – can be treated as a set of internal development challenges. Now that's still not easy; witness the historical inequities between say Italy's north and south, or Brazil's northeast and southeast. What matters is that inter-provincial inequality is easier to remedy than is international inequality.

For the remainder of this essay, I will focus on the American-Pacific region.

The economic links between Oceania (ie Australia, New Zealand and the Pacific Island nations) and the Americas have strengthened in recent years, while the flows of migrants and capital between Oceania and East Asia have weakened since the Asian economic crises of 1997-98. Asian countries remain critically important trade partners (noting the growing educational links between Australasia and Asia represent trade rather than labour flows). However, Oceanian imports of financial capital and exports of human capital are clearly more oriented towards the Americas. This was probably obvious to the wider world on 'Oscar' night, with the large presence of New Zealand and Australian film-makers amongst the nominees.

The New Zealand economy, once an important provincial economy within the British Empire, is once again (like all national economies today) a provincial economy. But a province of what? Certainly not a province of Australia, despite close cultural, geographic and historical links. Nor can New Zealand be said to be an economic province of the United States. Rather New Zealand, Australia and the United States can be thought of as economic provinces of an entity that is much bigger than each. I expect that New Zealand and Australia will eventually become a part of NAFTA, and that the evolution of NAFTA will make that organisation into something far more important than a mere free trade association.

To understand how an integrated American-Pacific economy might work in practice, I only have to look at my own country, New Zealand. The economic capital of New Zealand is Auckland, in the north. In the far south is a small rich province called Southland, which depends for its wealth on its pastures, its sheep and its world-renown tourist destinations such as Queenstown and Fiordland. Southland has a bigger neighbour (Otago), also in the far south, whose history is intertwined with that of Southland.

Auckland, Southland and Otago and are excellent analogues for the United States, New Zealand, and Australia respectively. I envisage an American-Pacific commonwealth that replicates on a larger canvas the economic relationships between these three New Zealand provinces.

First, Southland's historical wealth is due both to its resource base (including its "human resources") and to its relationship with the whole of New Zealand. Like Southland, a prosperous New Zealand needs to belong to a larger whole.

Second, making Southland a part of Otago in the nineteenth century did not work. Their local identities are different, and Southland's long-run economic health required its distinct identity to be preserved. Likewise, New Zealand cannot be a part of Australia.

Third, New Zealand is not an Auckland hegemony. Auckland does not impose an Auckland culture over New Zealand or demand tribute from the rest of New Zealand.

An American-Pacific commonwealth provides a double check on United States' power. First, the policing of places like Afghanistan and Bosnia would be left to Asia and to Europe. Second, the size of the United States' economy within the whole of America-Pacifica would be no more than 40 percent. A large commonwealth with transparent governance procedures is able to place limits on the actions of its largest province.

While a common*wealth* is essentially an economic entity, some degree of collective political action is required to combat market failure. The kinds of political actions required would include: the increased integration of taxation and social security; the provision of commonwealth-wide public goods; and the coordination of security arrangements (military and policing). Tax havens would be eliminated.

One issue in particular to be noted is that of education. In any country today, much of the schooling takes place in the peripheral provinces, while most of the tax-yielding employment is concentrated in the economically dominant provinces. Thus it is important that all levels of public education be funded in large part through commonwealth taxes. The administration of schooling and the setting of curricula would continue at the national rather than the supranational level.

This 'brain drain' problem is at present very real for New Zealand and even greater for the likes of Argentina. Yet, while there is a brain drain from Southland, there is no brain drain problem. Southland does not have to raise the taxes required to fund its schools.

My fantasy is that we will learn to see a small number of inclusive commonwealths as a viable alternative structure to both anarchic globalisation and the pretence of national economic autonomy.

To achieve this, we require a political economy that tells us how (and to what extent) such commonwealths should be governed. This is not a big ask. After all, we have had provinces ever since principalities gave way to nation states. We only need to adapt our understanding of regional development to a bigger stage. As John Stuart Mill intimated, our understanding of commonwealths is "amenable to the principles of the home trade".

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[1] Book 3, chapter 25, §17. First published in 1848.