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SPD Chairman Oskar Lafontaine Criticizes Globalization (June 25, 1997)

To stem the shift in public opinion towards neoliberalism, SPD Chairman Oskar Lafontaine emphatically warns against lowering the standard of living by cutting welfare benefits and reducing wages in an attempt to make Germany more competitive. Instead, he calls on the international community to make a concerted effort to improve the regulatory structure of the global economy.

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### **SPD Chairman Oskar Lafontaine Speaks in Berlin on Globalization and Germany as a Location for Business and Industry**

The economy has undergone such rapid change and internationalization in recent years that it has assumed a new quality. As a result, there is one key term in contemporary political and economic debates that sparks the imagination but also much dispute. I am referring to the term globalization. This word is connected with great hopes but also with great fear – with hope for growing prosperity and new, secure jobs, but, at the same time, with fear of unemployment and social decline. [ . . . ] This fear is understandable. Nevertheless, I believe that globalization also represents a great opportunity that should be taken advantage of. [ . . . ]

The internationalization of the economy has greatly increased the mobility of goods and services, of knowledge and capital. At its core, globalization means nothing more than the creation of a comprehensive world market. Globalized markets with worldwide mobility of goods and services, of knowledge and capital, are leading to ever harsher competition among businesses. [ . . . ] Added to this is the rapid development of information and communication technologies. [ . . . ] These new information and communication technologies have led to a unified global financial market, which no longer places any restraints whatsoever on investment capital. The sums that move between the world's stock markets every day are twice as high as the currency reserves of all the central banks. Globalization has expanded the playing field for investment-seeking capital. Choosing a country in which to build new production facilities, research institutes, or administrative centers depends less and less on national origins. [ . . . ]

The political question that now poses itself is: Should globalization be viewed as an opportunity or a risk? And what conclusions should politics draw from this? [ . . . ] The worldwide international division of labor represents a chance to increase the prosperity of all the world's peoples and to give each its fair share of [the benefits of] economic and technological progress.

I am speaking expressly of the opportunities presented by globalization, not what accompanies necessarily or automatically. Whether the opportunities presented by globalization are in fact utilized, and who they ultimately benefit, also depends, in the end, on how economic policy responds to these new developments both on a national and an international level. The problem with the present economic policy is that it does not have a clear concept of competition. Its so-called business-location policy [*Standortpolitik*] continues to confuse competition among companies with competition among countries. The result is serious economic policy errors. In order to properly determine how economic policy needs to react to globalization, it is necessary to clearly distinguish between these two forms of competition.

In a market economy, even a globalized one, prosperity and technological progress, growth and employment are driven forward not by the state, but rather by the market, or to be more precise, by competition among private companies. We advocate competition among companies in the areas of performance and innovation. Every possible effort should be made at the national and the international level to ensure viable competition. In addition to competition among companies there is also competition among nation-states to attract new businesses and industry, the so-called location competition. In this competition, each country tries to preserve existing capital and jobs or to lure new capital and jobs to its territory. From an economic and political perspective, nothing can be said against international competition when the goal is the most efficient national administration, the best education system, the most innovative research landscape, or the most productive public infrastructure. All of this creates greater prosperity and improves the living conditions of the people.

What is problematic, however, is what might be called the race to the bottom among nation-states. In order to keep capital and jobs in a country or to attract them from elsewhere, actual wages, business taxes, and social standards in industrial countries are being driven further and further down, and environmental protection is suffering wanton neglect. For less developed countries, this means a decline in their chances of improving their social and ecological standards within the framework of economic development. Here, traditional economic policy reveals a strange contradiction: While the economy is becoming increasingly international, politics is reverting to an increasingly outdated nation-state mode of thinking. It is responding to the globalization of markets with the renationalization of politics. I call this a fateful, real economic downward spiral, at whose end there are no winners but only losers. The race to the bottom is the wrong path, both from an economic and a political standpoint, because it distorts and disrupts international competition among companies. It leads to recessive developments, growing unemployment, and increasing national debt. It prevents the optimal allocation of resources. It undermines the economic, social, and ecological foundations of our society. [ . . . ]

From an economic perspective, the politics of wage pressure is also the wrong track, since lowering real wages weakens domestic demand, promotes recessive trends, and increases the need to keep exporting more and more. If all the industrial countries were to act according to the same philosophy, then this approach would fail, solely on the basis of simple arithmetic. It is impossible for all countries to achieve export surpluses simultaneously, since one country's

exports are always another country's imports. And the overall sum of the trade balance of all the participants in global trade has to be zero. That is why aggressive export policy fostered by state wage dumping cannot add up. The race to the bottom among nation-states is by no means the inevitable result of globalization. It is the result of an erroneous political course. And this course can be corrected. [ . . . ]

The essence of what I've said thus far is that the challenges of globalization cannot be overcome with the current, real economic race to the bottom. [ . . . ] The answer to the globalization of markets cannot lie in the renationalization of politics, nor can it be found in the erection of protectionist barriers. The proper response to the internationalization of the economy can only be the improvement of international cooperation, because the same rule applies to both national and international economic relations: The market needs a politically defined regulatory framework [ . . . ] that responds to the increasing internationalization of the economy. The globalized world economy needs a new global economic order.

The eco-social market economy is also the European Union's political coordinate system. The Social Democrats are advocating the adoption of this model – the market economy with social and ecological responsibility – as the foundation of a new world economic order. Market effectiveness must be combined with a more balanced distribution of resources and moral responsibility for [the fate of] future generations, because I can think of no convincing reason why this basic system of economic and political values should not be fundamentally transferable to the large market of the world economy. Such a transfer could create the best prerequisites for competition between companies in the areas of performance and innovation and for fair trade that will benefit all participants. There is no reason for politics to capitulate.

We cannot let globalization lead to an erosion of the social security system, not least because the basic rules of the economy dictate against such a development. People need social security in order to take the economic risks that are necessary for economic and technological progress. The international community needs binding norms that lay down the elementary rights of employees in order to prevent social dumping and exploitation. These rights include freedom of association, collective bargaining autonomy, prohibition of forced labor, elimination of all “exploitative forms of child labor,” and non-discrimination in the hiring and employment of workers. These basic labor rights and social standards are a matter of fundamental human rights.

We need better international coordination of economic, finance, and monetary policies. This coordination is indispensable if we want to stabilize the world monetary system and increase growth and employment. If the global employment crisis is to be overcome, then we need an international growth initiative. This includes having national central banks take full advantage of any latitude they have to lower interest rates in close consultation with the finance policies of all participating countries. [ . . . ]

From Germany's perspective, one can say that the new international division of labor will change the economic structures of industrialized countries. Labor-intensive production that is subject to international competition will be outsourced more and more to countries with lower wage costs. It is important to realize that the internationalization of the economy will also increasingly affect countries outside of North America, Europe, and eastern Asia. This prospect often spreads feelings of concern in industrialized countries. This anxiety, however, fails to take many dynamic factors into account: the further development of technology and productivity in industrialized countries, and, no less important, economic and social developments in low-wage countries, even during the course of their own economic development.

The Federal Republic, with its traditionally strong capital goods industry, is in a particularly good position to benefit from the catching-up process of developing countries. Shutting ourselves off from these countries is certainly no solution. As these countries become integrated into the world market, they will also become more reliable partners within the scope of international cooperation. This can only suggest that an international regulatory framework will continue to attract more partners, step by step. If the new opportunities presented by globalization are to be utilized, then we need to rethink our policies, especially our economic policy. We need improved international cooperation in politics in the place of resignation, social dumping, and protectionism. Then we will be able to overcome the fateful, real economic race to the bottom among nation-states. [ . . . ]

Source: Rede des SPD-Vorsitzenden, Oskar Lafontaine, vor der Friedrich-Ebert-Stiftung am 25. Juni 1997 [Speech by SPD Chair, Oskar Lafontaine, to the Friedrich-Ebert-Foundation, on June 25, 1997], reprinted in *Internationale Politik*, no. 5, 1998, pp. 64-67.

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