

## Chapter 4

# Racing to the Bottom? The Effects of Globalization on Global Ethics

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### ABSTRACT

*The argument of this chapter will depend on two main precepts: (1) large corporations remain largely in control of the globalization process, and (2) the process of globalization is very unlikely to occur ethically if large corporations remain in control. Several facets of these precepts will be considered and argued for. Evidence will be considered supporting the contention that large corporations drive the main markers of globalization. After arguing for these precepts the characteristics and ethical ramifications of corporate-centered globalization will be considered. This final section will answer several questions that emerge from the chapter's argued for precepts. These questions will include: What needs to be done to be at the forefront of moral global policy? What ethical standards are key? Do MNCs have a moral duty to account for the effects of the race to the bottom? How do we compensate globalization's losers? What would an ethical business model look like? With an analysis of possible alternatives, an action plan to make change on a global scale emphasizing regulation, transparency, and accountability will be developed.*

### INTRODUCTION

Early in their college career, students memorize the definition of the 'global village'. Globalization is often portrayed as a phenomenon that not only brings the people of the world together in a positive way, but also benefits the entire world

economically and developmentally. Indeed, the profits of the 50 largest multinational corporations (MNCs) have increased 167% between 1983 and 2001 (Roach, 2005). Further, the average annual growth rate for Less Developed Countries (LDCs; defined as low income countries where Gross National Product per capita is \$765 or less and long term economic growth faces impediments)

DOI: 10.4018/978-1-61350-332-4.ch004

between 1965 and 1999 was 4.1%, compared to 3.2% for developed countries (Soubbotina, 2004). On the surface, these facts seem to support the contention that globalization has produced many positive outcomes for various groups worldwide. However, there is another side to globalization that the typical student in the typical class may not see. As globalization has increased markedly since the early 1970's, real wages for workers in the United States have remained stagnant for the average worker and decreased for unskilled workers (Slaughter & Swagel, 1997). Additionally, it is clear that there has been a loss of work opportunities for unskilled laborers linked to the export of jobs (in developed countries) and the creation of poor jobs (that pay below a living wage) in LDCs. Finally, there is a growing divide between the rich and the poor in the US and worldwide (Soubbotina, 2004; Wright, 2000).

The extent to which these developments can be linked to the current process of globalization is widely disagreed upon. There is growing theory and data, however, that these changes can be linked at least to some extent to how the process of globalization has occurred in the last several decades. This chapter will explore these effects in three sections: *LDCs and the Race to the Bottom*, *Changes in the American Workplace*, and *Considering Ethics and Social Responsibility*.

## **LDCS AND THE RACE TO THE BOTTOM**

The American business model has dominated the globalization trends of the last several decades (Cappelli, 2009; Stiglitz, 2003; 2004). This model is based upon equity ownership, incentive-based executive pay, and lack of regulation (Cappelli, 2009; O'Toole & Lawler, 2006). The combination of these factors has resulted in an increasing focus on short-term profits. Many argue that seeking short-term profits at any cost has led to a worldwide *race to the bottom* (Anderson & Cavanagh,

2004; Bigelow, 2002; Daly, 2001; Roach, 2005). The race to the bottom is aptly named as such as it describes the phenomenon by which LDCs compete for the global pool of capital made available by the increasing mobility of organizations. MNCs, with the power of the capital behind them (looking to compete in an environment of increased competition and short term pressures), may sacrifice a number of ethical principles such as human and environmental rights in order to positively impact the bottom line.

Imagine, for example, a large organization based in the United States is moving a portion of its manufacturing operations overseas. This is a multi-million dollar move that would provide a step forward in global development for the LDC in terms of jobs for the local people, monetary and political capital to governmental decision makers in the LDC, and likely upgrades to the local infrastructure required to build and operate a manufacturing facility. For the MNC, the situation in LDC 1 seems favorable as it includes a minimum wage of 75 cents per hour, with no child labor under age 16, no overtime laws, government organized unions are not allowed, a taxation rate of 20% on corporate profits, and only weakly enforced environmental laws. Clearly, the opportunity to increase the profit margin is very large in this country as compared to a developed country. LDC 2, however, also badly needs an infusion of capital and offers a minimum wage of 35 cents per hour, with no child labor below 14, no overtime laws, no organized unions allowed, a 15% taxation rate on corporate profits, and some weakly enforced environmental laws. LDC 3 enters the bidding for the capital with a minimum wage of 20 cents per hour, with no child labor laws, no overtime laws, no organized unions allowed (and suspected union organizers are jailed), a 7.5% taxation rate on corporate profits, and no environmental laws. This bidding process may continue until standards in the LDC can feasibly go no lower, thus reaching 'the bottom.'

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