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The Social Index Tariff Structure: An Internationalist Response to Economic Integration

Stephen Cullenberg and George DeMartino

This paper confronts a question that is of the utmost theoretical and political importance today: How might the rules of the game of international capitalist competition be revised so as to promote the benefits sometimes ascribed to it while mitigating the harmful consequences that we see everywhere today?

In posing this question, we confront a dilemma that is familiar to radical political economists. Our focus on class and other socioeconomic divisions encourages us to see that global integration on neoliberal terms may increase the power of capital at the expense of labor (and other constituencies), thereby posing a serious threat to living standards for working people in first and third world contexts alike. But many of the steps that nations might pursue in order to protect the quality of life at home might impair the economic prospects of those in other nations, particularly the less-developed countries (LDCs). For example, trade protectionism might very well have this effect.

This paper surveys three proposals that have been advanced by heterodox (and other) theorists to address this dilemma. We call this emerging approach the "competition reducing" approach, and we situate ourselves within it.

Let us make explicit the criteria we use to evaluate such proposals. We believe policies should promote an upward global harmonization of human development, defined as an expansion of the ability of people to achieve goals that they have reason to value — what Amartya Sen (1992: 4) calls an expansion of their "capabilities to achieve functionings." This implies that policies should protect the living standards and quality of life of one country against the competitive advantage of firms that are located in countries lacking basic worker or human rights or environmental

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standards, and so forth. But they must also provide *incentives and means* for countries with poor performance in these areas to improve. Policies should promote international cooperation among workers, and among environmentalists, and other progressive groups as a means of responding to the globalization of firms. Policies must also protect the diversity of different cultural and social norms across countries from the corrosive effects of global competition. Finally, in order to minimize the possibility of nationalist initiatives in progressive guise, policies should be multilateral, rule-based and democratically derived. These criteria arise out of the ethical and theoretical position we are developing in our work, and we cannot elaborate on these here. But we do not mean to suggest by this brevity that the delineation of such criteria is trivial or free of serious controversy. We therefore pose them here tentatively simply in order to enable an assessment of the policies on offer.

THE SOCIAL CHARTER APPROACH

The social charter approach has been pursued by the European Community. During negotiations over the social charter, labor federations attempted (largely unsuccessfully) to secure standardized industrial relations codes covering the right to organize and strike, workers' councils, etc. The unions sought these as guarantees that firms would not flee those countries with high labor and industrial relations standards for the greater profits promised by the conditions in low-standard countries (Silvia 1991).

Today, some argue that a social charter must be established as part of the process of North American economic integration. We are not convinced of the efficacy of this approach. First, the social charter approach can be expected to establish only a *minimum floor* of standards rather than a unified code of conduct at the highest level achieved by any country prior to its adoption. This creates two problems: it provides no incentive for countries to take steps to improve their standards *beyond* the level specified in the charter; and it leaves the relatively high-standard countries vulnerable to competition from the lower-standard countries. As a result, a social charter is not apt to empower progressive groups in their pursuit of, say, better environmental protections. More generally, the social charter approach is what might be called sticky upward: it lacks a motivating force that would generate a dynamic of improving standards over time. On balance, this approach is insufficient and must be augmented by other initiatives. We will discuss how that might be achieved below.

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THE SULLIVAN PRINCIPLES APPROACH

The Sullivan Principles is the voluntary code of conduct which was urged on multinational corporations (MNCs) doing business in South Africa prior to recent reforms there. International pressure was brought to bear on multinationals with a presence in South Africa to follow the Sullivan mandates concerning the establishment of nondiscriminatory employment practices in the South African facilities of MNCs.

Some economists argue today that the Sullivan Principles approach might have a more general applicability, especially where economic integration joins countries with very different regulations and standards. In the case of NAFTA, for example, Jagdish Bhagwati (1993) argues that the U.S. should implement a strong code of corporate conduct that would require U.S. firms operating in Mexico to follow the same standards that obtain at home.

But there are problems with this initiative. One is that it does not provide incentives for *comprehensive* human development in the low-standard country receiving the direct foreign investment. It might, as some argue, provide a demonstration effect for activists and nongovernmental organizations to advocate for a nationwide adoption of the higher standards that are introduced by the MNCs. But it is unlikely that this demonstration effect would suffice to induce universal improvements in social rights and living standards in the absence of other incentives, given the relative absence of right of association and political expression that obtains precisely in many low-standard countries.

Moreover, the Sullivan Principles approach is unilateral. While Bhagwati cites this as a strength of the approach, we see the need for a participatory, multilateral approach which can respect the diversity of aspirations and goals across nations. But there may be a way to integrate a Sullivan Principles approach into a multilateral framework, and we will address this issue momentarily.

THE SOCIAL TARIFF APPROACH

The social tariff approach entails the imposition of a tariff by a country with high labor and/or environmental standards on the imports from low-standard countries, so as to offset the competitive advantage arising from the difference in standards (see Chapman 1991; and Dorman 1992).

This approach has already been implemented in a manner of speaking in the U.S. During the 1980s several pieces of legislation governing trade with (and capital flows to) LDCs included various worker rights provisions. In such cases trade concessions are tied to some

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demonstration on the part of the beneficiary country that it is taking steps to guarantee "internationally recognized worker rights" (Perez-Lopez 1988).

The social tariff approach seeks to remove worker rights as a source of competitive advantage, but there are in our view serious shortcomings. This approach is also a unilateral one, predicated on the notion that countries will not cooperate in managing the terms of competition between them. But unilateral action is unlikely to forge international cooperation among workers, which we see as essential to a change in the balance of power between labor and capital. In fact, some LDC activists have opposed U.S. social tariffs because they see them as protectionist and nationalist (Cavanagh 1993). They have also argued that a unilateral social tariff is likely to be used by national governments to achieve unrelated political ends and by firms to achieve protection.

Finally, the social tariff approach ignores differences in wage levels, and so does not deter capital flight from high to low-wage countries. If this is among our concerns, then some other measures will be required. But here returns the dilemma which we identified at the outset: policies that achieve that goal might very well penalize LDCs and their workers.

SITS: A COOPERATIVE, INTERNATIONALIST ALTERNATIVE

In what follows we propose a variant of the social tariff approach that we believe would be capabilities-enhancing in first *and* third world countries.

Consider what we call a "social-index tariff structure" (SITS) regime. Under a SITS regime, social tariffs would be based on a measure of a country's human development. The goal of this arrangement would be to reward and protect those countries that afford a high level of human development by means of a tariff. In such an arrangement, each country would be assigned an index number reflecting its performance in enhancing the capabilities of its citizens. The Human Development Index (HDI) as developed by the United Nations Development Programme and reported yearly in the *Human Development Report* (HDR) represents an explicit *first approximation* of a measure of these capabilities. The HDI purposely incorporates a broad definition of human development that "makes it possible to capture better the complexity of human life ... and the many cultural, economic, social and political differences in people's lives throughout the world" (*HDR* 1990: 11). The HDI is a composite measure of development based on welfare (derived from income), life

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expectancy and educational attainment data. On the basis of this index, countries are ranked according to levels of human development.

Wealthier countries are of course more likely than poor countries to achieve a high HDI rank. Consequently, this ranking must not serve as a basis for instituting tariffs, as that would merely penalize poor countries for being poor. Instead we want to measure how well a country is doing *relative to its ability* — hence we must adjust the HDI by accounting for some index of national income or wealth.

There are several approaches available to make the correction for differences in income.[1] One involves simply dividing the countries into deciles based on national income, taking the average HDI for each decile, and then computing for each country the ratio of its *actual* HDI to the *average* HDI for its income group. Implicit in this approach is the rather plausible assumption that countries in each income group on average make roughly equal efforts to promote human development. In this case, the average level of HDI for a particular income group serves as a measure of the "expected" level of development for countries in that group. In forming the ratio of actual to expected HDI for each country, then, good performers have a value greater than one, and poor performers have values between zero and one. Finally, each income group will have some of each so that there will be no bias either in favor of nor against rich or poor countries. The number yielded in this way we call the *means-adjusted HDI*.

Next, we weight the means-adjusted HDI in order to account for the differences in wage costs between countries. We do this, again, to cancel the competitive advantage attained on the basis of wages that are low *relative* to the level of productivity achieved. This is the international analogue of the traditional trade union demand to take wages out of competition.

In order to make this "class" adjustment we multiply each country's means-adjusted HDI by the ratio of "earnings to value added for its manufacturing sector," as reported yearly by the World Bank. According to the Bank, earnings as a percent of value added shows "labor's share in income generated in the manufacturing sector" (1992: 290). We emphasize that this weighting *does not penalize a country for low wages per se*, but for wages that are low relative to productivity.[2] By making this final class correction, we now derive what we call the *class-means adjusted HDI*.

The formula for the class-means adjusted HDI, then, can now be written as

$$P_i = (H_i/A_j)(C_i) \qquad (1)$$

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where H = HDI, A = average HDI, group j, and C = (earnings/value added, manufacturing).

With this new index we can develop a multilateral, rule-based tariff structure that is based on countries' human development performance. The social tariff between any two countries is determined by their relative index values. The logic is straightforward: countries would be rewarded for making improvements in the conditions of social life measured and codified in the index. Hence, rather than being penalized with diminished competitiveness and capital flight for expanding worker rights (which might increase labor's share of national income), for example, a country would win improved access in its trading arrangements.

In seeking a criterion for dividing countries into different SITS bands, we established that the SITS data derived in this way are rather close to normally distributed. We then standardized the data (subtracting the mean and dividing by the standard deviation), transforming the SITS values into fractions of standard deviations about the mean, which provides a simple (albeit arbitrary) basis for grouping countries into tariff bands (see Table 1).

In this pyramiding trading regime, a social tariff would be levied on the exports of a country when it exports to another country in a higher band. For example, a country that exports to countries in higher bands might face an ad valorem tariff of 5% per band. Exports to countries in the same or a lower band would face no social tariff.

We emphasize that the manner in which a country increases its standing is not rigidly prescribed. For instance, a country can improve its performance by improving its education, longevity, national income, or wage share variables. We emphasize also that this approach is not anti-growth, but it explicitly does not reward growth at all costs, such as through the suppression of wages.

The basic idea behind the SITS approach can be broadened to include indexes of gender equality, income distribution, environmental protection, worker rights, corporate governance, and so on. As the index is broadened in this way, we more satisfactorily encompass the aspects of life that might be designated capabilities. These elaborations would be reflected in extensions of the performance equation. This approach parallels that already used by the UNDP to incorporate gender and income distribution considerations (*HDR* 1993). In this case, the corporate governance term might comprise the concerns of the Sullivan Principles approach: countries which adopt Sullivan Principles to control their national firms operating abroad would be rewarded in the computation of this term.

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Critically, such a trading regime would shift the burden in domestic political struggles: environmentalists would no longer face the objection that new regulations would *necessarily* imperil the competitive survival of domestic firms. A composite index would also grant maximum latitude for the progressive groups in each society to define for themselves the content of their demands.

Finally, a SITS regime could (and should) be instituted alongside a social charter approach, and would in fact correct the limitations of that approach discussed earlier. In this case, the social charter would establish the minimum standards required of all participating nations, while those countries that surpassed these minima would be protected through the SITS. Finally, a SITS regime would give new incentives for progressive social movements to unite internationally to seek an expansion in the aspects of social life reflected in the index.

CONCLUSION

We have undertaken to search for revised rules of the game of competition that are "capabilities-enhancing" rather than "capabilities-impoverishing." We have tried to envision a new set of rules, represented by a SITS trading regime, that might help to shift the balance of power in domestic struggles in favor of those who seek a better quality of life in all its diverse dimensions now, rather than in some distant future as the promised deferred effect of competition. In the absence of attention to such matters, we fear that progressives will be disarmed in the face of the growing momentum behind the extension of neoliberalism to the international arena.

Table 1: Class-Means Adjusted HDI Performance and Social Tariff Bands

Country	Performance(P)*
Band 1: Highest Performance	
Kenya	3.1953
Band 2: High Performance	
Madagascar	1.9745
France	1.9312
New Zealand	1.5638
Norway	1.5516
Hong Kong	1.4249

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Country	Performance(P)*
Luxembourg	1.3491
Austria	1.2411
Netherlands	1.1490
Honduras	1.1442
Denmark	1.0539
Band 3: Above-Average Performance	
Cyprus	.7914
Finland	.7821
Australia	.7047
Zambia	.6724
Canada	.6655
India	.6353
Czechoslovakia	.6336
UK	.5435
Mauritius	.4888
Costa Rica	.4629
Greece	.4558
Germany	.4549
Hungary	.4080
Belgium	.3712
Spain	.3488
Italy	.2922
Panama	.2388
Israel	.1802
Iran	.1294
USA	.0989
Tanzania	.0515
Sweden	.0326
Band 4: Below-Average Performance	
Portugal	-.0518
Japan	-.0917
Bangladesh	-.1312
Bolivia	-.1475
Korea, Rep.	-.2546
Thailand	-.4577
Singapore	-.4627
Botswana	-.5256

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Country	Performance(P)*
Ireland	-.5547
Jordan	-.5669
Uruguay	-.5771
Philippines	-.5795
Egypt	-.6116
Congo	-.6150
Malaysia	-.7001
Syria	-.7144
Nepal	-.7845
Indonesia	-.9740
Band 5: Low Performance	
Saudi Arabia	-1.0194
Sri Lanka	-1.0613
Mexico	-1.1110
Brazil	-1.1269
Poland	-1.1668
Ethiopia	-1.1980
Turkey	-1.2106
Swaziland	-1.2152
Argentina	-1.2367
Chile	-1.2668
Guatemala	-1.2983
Venezuela	-1.3387
Colombia	-1.3874
Peru	-1.4614
Pakistan	-1.4877
Band 6: Lowest Performance	
Niger	-2.1999

Notes: $^*P_i$ = $(H_i/A_j)(C_i)$, standardized.

where: P_i = standardized performance, country i;
H_i = HDI, country i; A_j = avg. HDI, group j;
C_i = earnings/value added, mfg;

Sources: *Human Development Report*, 1993; *World Development Report*, 1993; *World Tables*, 1993.

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NOTES

1. One approach would be to fit an equation that relates HDI to income, and to correct for income using it. Unfortunately, although the log of per capita real GDP correlates strongly with HDI, the various equations we have examined generate a bias against the poorest countries.
2. We note also that this variable is used here as an approximation only — among its limitations, it does not include agriculture. In our current work we are investigating how best to derive a measure of the "class" disparities between countries.

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