

Fair Wages

by Martin A. Schoeller, President of Europe's 500*

The topic „Fight Against Poverty“ affects all of us because poverty is connected with overpopulation. That means lack of resources, political disturbances, also terrorism, pressure of immigration and also the loss of employment in Germany and with this the shrinkage of spending capacity in Germany, environmental and climatic problems. Shortly said the poverty of the Third World is affecting our life in Europe. We can attend to this because of human engagement, but simultaneously we can make a priority of this because of our own interest in our future here.

Initially we have researched how the income affects the state of the population, in order to challenge the romantic idea that the poor are happy and our interference was not beneficial, f.i. Africa. I believe we have said „A“ with world trade and through this the traditional, agricultural and family structures in the countries have been disturbed, now we also have to say „B“.

One possible theory deserves to be analysed: If we manage to raise the wages with political actions, in the consequence all this big problems can improve, inclusive the chance to reduce the world population growth.

The world trade is growing and growing. In the last 50 years the world trade has increased hundredfold. The predominant opinion of the WTO, EU and the majority of experts is that the growing world trade needs to be able to move as free as possible and will create sooner or later prosperity in all countries (compare Singapur, Korea, etc.) admitting that this will hurt Europe temporarily through the shifting of employment by outsourcing to the low wage countries.

It is assumed that non-restrictive trade is the solution for the world and that after a preliminary time of sacrifice prosperity will spread in the third world. This predominant opinion constitutes that every restriction of this trade is a step backwards. The official aim of direction is the reduction of all trade restraints and with this also no social system regulations. We should ask ourselves the question in fairness, why f.i. the unions are not participating in the WTO talks. This is a fact which is regretted strongly by George Soros with whom I have spoken about this personally.

All NGOs which engage themselves for Fair Trade or similar, are being tolerated as outsiders and as diversity of opinion, but not taken seriously. The word Fair Trade is a faux-pas word in

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Brussels and stands for dreamers or palliation of protectionism. But we see that in a big number of developing countries in the past 20 to 30 years even though world trade has exploded and billions of development aid given a totally stagnant picture of poverty is being delivered. This corresponds to observations in Brasil or other countries, which every one of us can make personally and which is the origination for our initiative.

Which approach do we pursue?

We want to propose a slight change of course in our European policy of foreign trade, in order to help reduce the problems in the countries and their respectiveness. Our approach is: the EU already imposes significant conditions and standards towards new acceding countries, which these countries have to fulfill in order to be able to participate in the European market business.

We think the EU shouldn't be afraid to impose requirements and standards for a gradual improvement of social and ecological standard towards the third world countries which want to supply goods to us – we should not only export technology, but also the social market economy. Technical and health standards are already being implemented. Social standards are just as important for our society. The fulfillment of these requirements can be rewarded with alleviation of market access and otherwise for instance custom duties or quota to enter the EU for those countries that do not want to adapt social standards.

We can picture that the EU could found an international trading club with the socially advanced countries of the third world. It should seem attractive for many countries to become part of this club through their fulfillment of requirements. It should become clear that whoever becomes a member will have better market access in Europe and will have all together lower costs and custom charges than those who will not become a member because they don't want to fulfill the requirements. Generally countries are open to fulfill requirements of the World Bank and IMF in order to maintain financing. Therefore, we think that they also need to be open to fulfill further conditions in order to gain or improve access to the important EU market.

The conditions could f.i. be that wages per hour which mostly are around 30 Cent have to gradually grow to at least 1.50 Dollar in the next 5 to 10 years (that is 300 Dollar per month) and parallel to this unemployment support needs to be developed. Who f.i. doesn't have a job, gets no unemployment support and to survive he needs to steal and the government is reacting with strengthening the police. Unfortunately, the Brazilian union leader Lula also so far had no better idea. The little man is sitting in prison, but the real responsible is the state, who doesn't manage to fulfill his obligation to develop a social net. The third world demands from us continuous reduction of agricultural subsidies. Europe could react by offering a reduction of agricultural subsidies or increasing the quota conditioned to a commitment of raising wages and unemployment support in the low wage countries.

What are the most frequent main counter-arguments that have been used so far to reject further rules in the international trade policy?

As already mentioned the political mainstream strives continually for reduction of so called market barriers. Further regulations are being looked at as market barriers and therefore are a step in the wrong direction. The main counter-arguments in particular are:

1. We are World Champion in exports.
2. A raise of wages in the Third World would diminish their competitive advantage.
3. How could a raise in wages be financed, which has no justification through more efficiency?
4. The market itself is the most efficient way to define the proper market value of labour. Interference here reminds the command economy.
5. Prosperity develops through democracy and cutback of corruption rather than through minimum wages.

How do we deal with this relevant objections?

We want to comment our view on each of the a.m. counter-arguments:

1. We are world champion in export. Therefore we do not create any difficulties. Taking a close look at the matter, one realises that in relation to the main regions of the developing countries Europe (and the US) import much more than they export and therefore have a much better position to negotiate as generally assumed.

2. A Loss of competitive advantage of course wouldn't happen for the following reasons: Wages would not suddenly be raised from 30 Cent to 15 Euro, but step by step from 30 to 40, 60, 80 etc. Cent. And at the end of the program there would still remain a huge wage cost benefit. Also the competitive ability towards countries with even lower wages would not create a disadvantage because the country which is introducing the raise of wages program would be rewarded with the corresponding advantages for accessing the European market.

3. One cannot pay more without more efficiency. This would create inflation. A raise in wages, however, increases the internal demand, the internal demand increases the utilisation of production capacity in the country and an increased utilisation rate reduces the costs. This cost reduction potential is available for the raise of wages, without the necessity of raising prices. We want to calculate an economic model which shows on the base of this mechanism a break-even curve for the self-financing effect of an increase of minimum wages.

4. The conviction is that the market always comes to the right price. Yes, we want to deregulate, but we have to be honest with the question under which circumstances does a market actually function? We perceive this argument to be a little bit hypocritical, because we all know that there are matters which the market cannot regulate such as water and air pollution, prevention of drugs, uncontrolled military weapons, monopolies and the same is true for unskilled work where there is no unemployment support.

5. We would like to create a consensus about the question which prerequisites need to be fulfilled in order for having a functioning market. Once such a consensus exists, politicians will be able to take this knowledge and consensus into account. We are convinced that this question deserves deeper research.

A study of the Bertelsmann-Stiftung aims to show that democracies often bring about a better prosperity and lower corruption. The study (Transformation Index) has, however, shown that this correlation does not exist and, therefore, the world cannot only rely on the hope that the democracy will automatically abolish poverty.

What are the next steps?

One can understand why the predominant opinion counts so religiously on the free market. Since we have today too high non wage labour costs in Northern Europe, a large focus goes towards the goal to reduce those. Everyone in Europe is thinking in the same direction: how to reduce? So the fact that there isn't much of this in the Third World comes in very handy. It is more difficult to think and argue that here in Europe something has to be reduced what at the same time has to be increased in the developing countries. And exactly this thinking we want to promote.

Also it is not acceptable that companies can get rid of environment requirements and social standards by relocation plants. The global relocation of plants should be possible without restrictions, but it should not aim for benefiting from the lack of social and ecological standards.

The advisory board of our foundation is supported by the Ex-President of Honduras, Ricardo Maduro Joest. Moreover, the foundation looks for cooperation with universities to research the correlation of legal standards and welfare.

All voluntary self committing initiatives of the industry are nice PR and also nice intentions, but in our opinion they will not effectuate any changes.

Our economy will and must continue to look for cost minimizing and profit maximizing. Therefore, social and ecologic standards need to be provided by law. This is why we would like to work on a concept that can be useful for the European Union and the developing countries creating a mutual win-win situation.

encl.: see charts

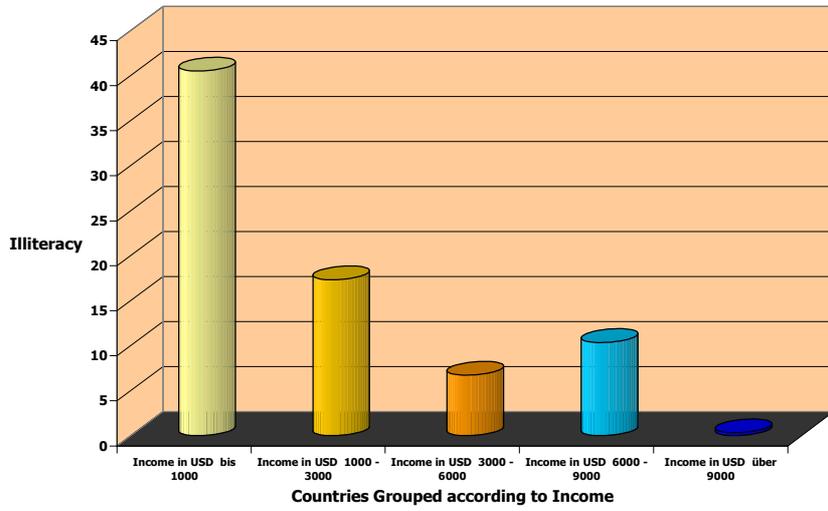
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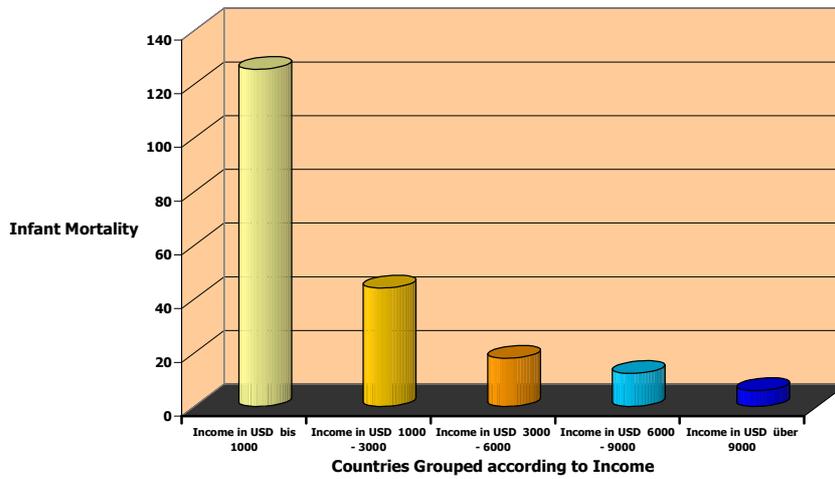
Income and Illiteracy



Quelle: www.worldbank.org

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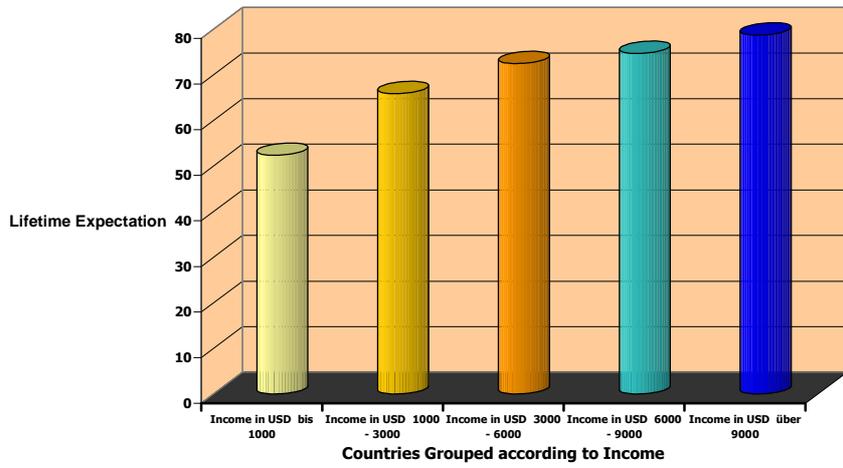
Income and Infant Mortality



Quelle: www.worldbank.org

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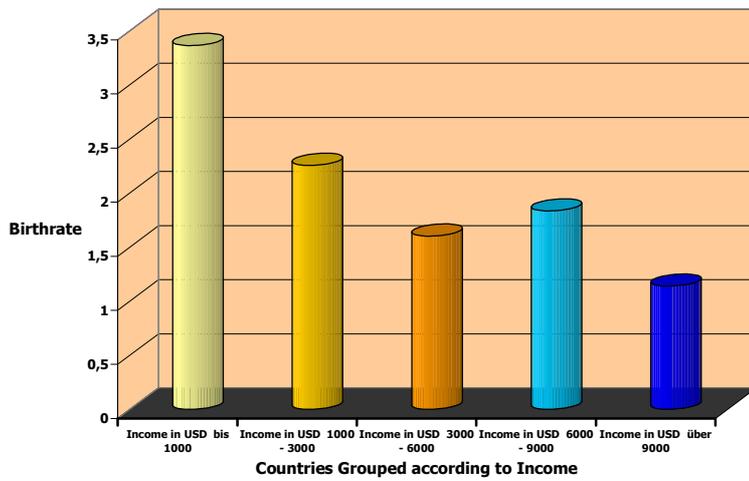
Income and Lifetime Expectation



Quelle: www.worldbank.org

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Income and Birthrates



Quelle: www.worldbank.org

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