

WORLD WITHOUT PITY

Thank you for the opportunity to be part of another MEDA Convention. The theme of the Convention is

FAITH ACROSS BORDERS

As I thought about this, I recalled that my first speech to a MEDA convention was in 1971, 28 years ago, at the Conrad Hilton in Chicago. I was still in my twenties at the time – hopefully we still give young people a platform. My subject was ETHICS AND CORPORATE FINANCE and I raised the potential problems of taking your company public if you were a Christian. A distinguished gentleman stood up after my speech and challenged me quite vigorously. I later learned that this was Lyle Yost of Hesston Manufacturing who at that time was proprietor of the largest Mennonite-owned firm in North America. He was planning to go public several weeks later but this was not known.

Hesston Manufacturing did go public and in the vagaries of the global agricultural business suffered setbacks which in the end resulted in loss of control to a global firm based in Italy.

This past year, Ray Loewen, the founder and President of the largest Mennonite-owned company in Canada, not only lost control of his company but also his position and probably most of his wealth.

The rules of the market place are “winner takes all”. The point of my speech in 1971 was that exposing ourselves to the expectations of the financial markets we also were forced to play by those rules. The freedom to make choices about people or products or growth is taken out of our hands. While it isn't the Bible, we could do much worse than heed the advice of Kahlil Gibran in THE PROPHET. Gibran writes:

“And before you leave the market place, see that no one has gone his way with empty hands”

The title of my speech today is “WORLD WITHOUT PITY” and that applies to the Presidents of companies as well as to the peasants of Asia.

To get a handle on our world and the issues let's begin with a cartoon.

The caption is GLOBALIZATION 1998 and on the left there is a primitive native in grass skirt and spear. The native catches cold and on the right side we see the financial world catching pneumonia. This presumably represents the devaluation of the Thai baht in 1997 and the chaos that followed. The cartoon seems a little fanciful; but look at a real-life headline from the Canadian Financial Press.

US SEX SCANDAL LIFTS LOONIE

The world has become connected in ways that are not only dangerous but bizarre. The world GLOBALIZATION is used with ease but a little perspective might be in order.

In March 1995 I gave a talk to MCC on the subject of Globalization. My 2000 page unabridged English Dictionary did not have the word Globalization. Neither did the spell-check on my computer and I could not find it in a number of annual reports ranging from the World Bank to Lester Brown to the World Economic Forum. That was less than four years ago!!

In keeping with the theme of this Convention I will address three interrelated subjects.

FIRST – DOES GLOBALIZATION MATTER? Will a borderless economic world be significantly different from the world we have known?

SECOND – DO THE RULES OF THE MARKET OPERATE IN THE SAME WAY ON A GLOBAL BASIS AS THEY HAVE WITHIN LOCAL AND NATIONAL MARKETS?

THIRD – WILL THE CHANGE TO A GLOBAL MARKET SYSTEM BE ETHICALLY NEUTRAL?

The point of my speech is not that there are no good people or responsible companies. The reality is that these kinds of people and companies do not run the world anymore.

The driving force in the world has become financial and the connection between the decision maker and the persons and communities that are impacted has been cut.

The moral dimension of our society has always been based on relationships between people – but when the central decisions of our time are made without any reference to relationships – you can be assured they are made without reference to the moral dimension.

What does it mean to be a Christian in a context where the basic economic, political and financial structures are amoral because of this disconnect?

Morality does not exist in a vacuum. Morality develops in context. This context or framework relates to community, to religion and to the heritage and values of nations and societies. As the supportive framework or context disappears, there is increasing evidence that the morality also disappears.

Does this matter? Many voices argue that the unseen hand of the market place will result in a better outcome than the heavy hand of Government or any other countervailing force. The problem is that a market place dominated by derivatives, hedge funds and short sellers is hardly the market described by Adam Smith. There may indeed be an unseen hand – but it is hardly the benign hand of pure competition.

One of the few places where competition still reigns is the Internet and the Zapatistas have made brilliant use of this new medium. They are fighting the battle for their land rights but have also critiqued the dominant philosophy of our time which they label as Neoliberalism. The

central theme of the Zapatistas going back a century to their founder Emiliano Zapata is the preservation of a communal land holding system for the villagers of his state of Morelos as they only way to preserve the wholeness of their culture. The Zapatistas may in reality be ahead of the curve on this one!

From the perspective of the Zapatistas the world is now dominated by the unencumbered rule of the market place – and in the last 14 months this has resulted in the economic collapse of much of the world. The trigger for the current Zapatista emergence was the implementation of the NAFTA treaty in January 1995. The current Zapatistas are not planning to fight a revolution in the traditional way – theirs is a revolution of ideas. Maybe the world should listen.

Zapata's original grievance in 1910 was the loss of land by villages and farmers to the encroachment of sugar plantations. The sugar industry was going global as a result of railroads and newer, higher capacity technology driving the search for land. In the competition for land a corporate dictatorship shaded the outcome in favor of the plantation. Sound a bit familiar.

The financial failure of our time is as much a failure of values or ethics as economics. Even George Soros can recognize greed when he sees it!

In my view, the increasingly fragile ethical heritage of our Judeo-Christian roots will not successfully transfer to a global market that does not share this heritage.

In January 1989 I was in Buenos Aires and met a senior diplomat from the Washington DC Embassy of the Soviet Union.

We became friends during the course of the Conference. He challenged me to return to the birthplace of my parents and become part of the process of change.

I asked him what I could bring to the Soviet scene that would be useful.

He made a very perceptive response.

As a businessman, bring the idea of the entrepreneur, but as a Christian help us rebuild a MORAL FOUNDATION.

He went on to say that he had studied the West very closely and realized that the success of the market system could not be separated from the Judeo-Christian heritage. He pointed out that in North America many transactions took place in an environment with a very substantial level of trust. This was the lubricant of the market system. He maintained that this trust was absent in the Soviet Union and for this reason the introduction of the market system would be a failure.

The market system cannot exist without a moral foundation. The Soviet Union and its modern fragments do not have the necessary moral foundation and the economic collapse of Russia several months ago will not have been a surprise to my friend.

With the assistance of MEDA several of us actually thought we could speak to this question and organized four-Conferences on "BUSINESS AND ETHICS" in 1990, 91, and 92. History suggests that our efforts were a very small drop in a very large ocean.

History provides us with many examples of the abuse of market power within a society, between levels of society, or between societies.

In 1936 three companies pooled their resources to start a Holding Company called National City Lines or NCL. The purpose of NCL was to promote the virtues of buses for public transportation in major American cities. Since many cities had well-functioning electric street car systems the buses were not taking hold. NCL would purchase the street car companies, tear out the tracks and electric lines and replace them with buses. Who were these insightful investors in NCL? The three major investors were General Motors who built the buses plus Firestone and Chevron. Was it really the market system at work when America changed from non-polluting electricity to diesel in public transportation? Their greatest success was replacing a well-functioning electric system in Los Angeles basin.

World Without Pity

At the beginning of November 1998 the market capitalization of all of the shares on the Indonesian stock market had dropped to 16 billion dollars. In other words, Bill Gates could buy 51% control of the entire Indonesian economy for 20% of the value of his shares in Microsoft. Quoting Peter Newman, the Canadian financial writer, "Bill Gates is not a person, but an ecosystem."

What about the Big Leagues like the World Bank and the US Government? Larry Summers is a senior economic advisor in the Clinton Administration. In 1992, Summers was chief economist at the World Bank and actually wrote the following memo regarding pollution.

"Just between you and me, shouldn't the World Bank be encouraging MORE migration of the dirty industries to the less developed countries?"

Summers added: "I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that."

Why is the logic impeccable? Because, life is cheap in the third world.

World without Pity

Palliser Furniture recently opened a plant in Mexico. In preparation, I traveled much of Mexico last winter and picked up a number of stories from the back yard of Texas. One story relates to the problem in Chiapas. Sometime ago I was with some of the most senior business leaders of Mexico and they lamented that Chiapas was really a non-issue since it represented no political or military danger – if only Commandante Marcos would stop using the Internet so effectively! They defined the issue primarily as a PR problem.

With this in mind it was interesting to read a report from Chase Manhattan about Chiapas. A VP of Chase wrote: "While Chiapas, in our opinion, does not pose a fundamental threat to Mexican political stability, it is PERCEIVED to be so by many in the investment community. The Government will need to eliminate the Zapatistas to demonstrate their effective control of the national territory and of security policy."

World Without Pity

Let's fast forward into the first decade of the next century. A University researcher in China or some similar location discovers a new genetic combination for an important local crop and begins to distribute seeds in the community. A letter arrives from Monsanto on fancy legal letterhead advising all concerned that the company in fact owns the global rights to this form of life – even if Monsanto is not present in the country or community. The Government of China will by then have joined the WTO and most of the potential scientific breakthroughs will have been scooped and locked up before this researcher even got out of Grad School.

Do you recognize the world I am describing?

The purpose of these anecdotes is to demonstrate that when a decision becomes disconnected from its context – when the people or cities or countries who are affected by a decision are not part of the decision – somehow the ethical dimension disappears.

Palliser Furniture was founded in the northeast corner of Winnipeg and the majority of our factories are still in that location. Most members of our family live in the same community, shop in the same stores as our employees and attend the same churches. We are not immune to economic realities and deal with tough business decisions when necessary. What would happen if Palliser would announce an across the board cut in our staff of 20% just to raise our share price? A visit to the grocery store would become distinctly unpleasant when we have to look into the eyes of those affected by our arbitrary decision.

But Palliser is that arbitrary in Asia. We make products under contract in a number of Asian countries. Given issues of language, culture, distance and other factors we employ what are essentially contractors who find the factories and place our products in their factories. When the value of the currency drops in country A, our contractor will move a product from a factory in country B to benefit from the lower price. Is that fair? I may never have even visited either factory and will never need to look the affected employees in the eye.

Do I have a choice? My competitors are also moving their products around. None of us may have a lot of choice but this demonstrates the difference between a world which has grown up in the context of a community or nation and another world where there are no boundaries. In this larger global world we stop being accountable to one another and ethical questions tend to be sacrificed.

HOW DOES THIS PHENOMENON AFFECT US IN NORTH AMERICA?

Both Americans and Canadians consider their societies to be basically fair. The major difference is that Americans tend to define fairness as opportunity while Canadians would put a little more emphasis on outcomes. We can afford to have these opinions because the world as it has existed tends to work well for us. How would we feel if it stopped producing acceptable results?

The number of Indonesians below the poverty line has increased from 20 million to 90 million during the past year. Would anyone care to explain to me what those 70 million people did wrong? What would happen in our countries if 70 million people were suddenly thrown into extreme poverty?

It isn't happening in such a dramatic way but in the past quarter century the least competitive part of North American society has been increasingly marginalized. The disparity of incomes and opportunity for those at the bottom and the top has increased dramatically. Why is there no revolution? Will there be a collapse in the consensus that our society is basically fair? Will there be a collapse in the international consensus about the fairness of the world and its systems?

WHAT IS DRIVING THESE CHANGES?

In my 1993 speech to MEDA entitled NORTH AMERICA – NO LONGER AN ISLAND, I argued that technology was the driving force for globalization and that it created opportunity for all societies. I further argued that culture would play an increasing role in the competition between societies and would give the developing societies a chance to catch up. Between 1993 and 1997 the countries of East Asia as well as others made incredible progress and then there was a sudden and dramatic collapse. What really happened?

What I failed to anticipate was the emerging dominance of FINANCE over every other dimension. A financially driven world permits a leveraging of greed that has not been possible since the days of the Robber Barons. There was a time when most people with capital owned some real assets they could see and be identified with - such as my Furniture factory in my own community. This has been changing for sometime – but the bull market of recent years and the development of a much more international capital market has changed all of the rules.

There is a progression of steps from the operator of a business to a public company to a long term investor and then to a punter or speculator in shares. More recently investors buy mutual funds with little interest in the underlying shares and in the last few years the hedge funds have emerged. In this latest incarnation investors simply try to find the best poker player to play the game on their behalf. Do we have any idea what these people are doing with our money? Do we really feel good if our rate of return was based on a destructive bet against the currency of a small country and we won?

Earlier I promised to address three questions. The first was:

DOES GLOBALIZATION MATTER?

A global world is different than a local or national world in very fundamental ways. We easily understand the economic analysis of free trade and comparative advantage. What is important to add is that a global world tends to become a financial world rather than a world of operators. Secondly, a global world centralizes the power of the decision-makers and increases the remoteness of those making a decision from those affected by that decision.

The fact that the most important decisions are now financial rather than operational only compounds the problem. Our moral values were developed in a much more local context and seem to evaporate in a global marketplace.

The second question was:

DOES GLOBALIZATION AFFECT THE RULES OF THE MARKET SYSTEM?

I have answered this question in part by pointing out that our market system has a moral foundation even if we never speak about it. If we shift to a marketplace where the invisible hand of the market is the only set of rules – what will our world look like?

On the screen there is the headline of a commentary by Peter Newman in Macleans, the Canadian news magazine which Canada defends as a cultural icon and the American Government maintains is a commodity like shoes. Newman entitled the article:

GET READY FOR THE RUTHLESS ECONOMY.

The subtitle was

“GLOBALIZATION MEANS THAT PEOPLE ARE KEPT ON THE JOB ONLY UNTIL THEY CAN BE REPLACED BY CHEAPER CANDIDATES?”

Palliser Furniture rated a paragraph in this article and I was not sure if we were part of the problem or the solution. Newman describes the different nature of this new more global economy. He writes:

“The problem is that global players must steel themselves against the very different rules by which international business is played. It means:

1. Having to compete, really compete, down and dirty, with rivals ten times your size whose ethics belong to the pirates who once swept the Caribbean...
2. Realizing that corporate playing fields that may have not have seemed quite level in Canada begin to look pretty good.
3. Joining what US economist Paul Samuelson describes as the ‘ruthless economy’ that views employees as expendable factors of production.

4. The end of corporate responsibility. Brownie points for good corporate citizenship count for nothing when the score is kept in numbered accounts in a Swiss Bank or a Liechtenstein trust.
5. Understanding that the lifeblood of the global market is mobility....

We live in a world where 51 of the world's 100 largest economies are corporations. Wal-Mart by itself has revenues greater than the GDP of 161 countries. Concentration of power is only being increased as one mega-merger after another is announced. These mergers are in part driven by ego but also by real global considerations.

How will the market system function with a herd of corporate elephants roaming the globe?

One very disturbing signal was the move by the US Government to bail out the failure of a very large hedge fund. The signal was – if you become large enough to take down the neighborhood with you we will not let you fall. International investors have become accustomed to investing in high risk situations with appropriately high returns on the expectation that in the event of an economic collapse, such as Mexico in 1995 or Thailand in 1997, the international community would bail them out – with the bills paid by the locals through an austerity program.

This phenomenon has even been given the wonderful name of MORAL HAZARD. In other words, investors have been led to believe that they will not be held accountable for their follies.

At the top of the pyramid are an evolving set of international arrangements which are in effect the rules of the game – but it is a game designed for big players and for trade and finance. For example, the Uruguay round of trade negotiations resulted in the WTO or World Trade Organization. The WTO has created a rules-based system of trade. Smaller countries must give up sovereignty to be a part of the game but have little negotiating power. The largest actor on the field, however, states that no agreement can impair its sovereignty. Imagine a game where the strongest team always reserves the right to re-interpret the rules if it is not winning.

The other part of this picture is the corporations. They can now play the game in different places where there are different rules. By different rules I mean the wage structure, the rules on pollution, the corruptibility of local authorities. They demand to be treated in a fair and equitable manner inside each country – the punishment is to withdraw investment – or use legal avenues. The corporations, however, do not agree to submit to any global rules of the game.

For example, every country has a local structure for income tax but given the global web of relationships within a large company, a small jurisdiction in Central America does not have a

hope of claiming its share of tax or of insisting on other measures of performance. Many of the world's most international companies in fact pay very little tax.

The most recent development in this effort to create a global market was MAI or the Multilateral Agreement on Investment. The intent was to compel nations to limit their sovereignty so that foreign investors would have the same right to buy, sell product or whatever in any country, the same rights as were granted to local companies. On the surface this sounds rather sensible.

There is a catch or rather a few catches.

First, a country retains a great deal of control over the behavior of a local company since its owners and operators are personally subject to local laws. If you fail to declare taxes, for example, it might not be so pleasant.

Second, the largest economies and the largest economy in particular never really need to obey these rules since they have alternative ways to create pressure. Witness all of the trade disputes between the US and its neighbors Canada and Mexico. We often win in the trade tribunals but are forced to change our policy anyhow.

Third, why should only capital be mobile and protected? Why not make labor or one could say people mobile as well?

The MAI was defeated largely through the efforts of NGO's using the Internet. The proponents of the MAI like the leaders of Mexico feel it was a PR problem – only the NGO's were a little harder to eliminate.

The point I hope is being made in these arguments is that the trend to a more global market and the reliance on market principles alone creates circumstances where the distance between financial decision-makers and those affected becomes ever larger. In this context the moral dimensions of any decision or action tend to disappear entirely.

This is complicated by the fact that the larger corporations operate in a largely borderless environment and can escape the restraining effect of local authorities. We have the United Nations, but the level of support in the US in particular is abysmal. Therefore, there is no international body which matches the corporations in power or scope.

Our world is also divided on how we understand the problem. Angus Reid, an important Canadian polling firm does an annual global survey. One question was of particular interest:

He asked people all over the world whether they thought the Government had a role in the reduction of the disparity of incomes.

69% of Americans and 47% of Canadians said the Government had no role whatsoever. The next highest country was 39%. North Americans and Americans in particular have a different view of fairness compared to the rest of the world. This difference of views may yet come back to haunt us. The rest of the world is not willing to bet on the market for a fair outcome – at least not the way the game is being played.

Three more examples and then some comments about our personal experience in Mexico.

NIKE

Nike is a major American sport shoe company that does not own any factories. Peter Newman probably had companies such as NIKE in mind when he described the transnational companies as those that “mostly roost where taxes are the lowest and worker protection laws the meanest.”

Nike reputedly produces most of its sneakers in Indonesia paying wages of \$1.00 per day – and that was before the collapse of the currency.

Nike has established great brand identity by using Michael Jordan to endorse its products. It has been reported that the endorsement fees paid to Michael Jordan alone are greater than all of the wages paid to all of the workers in all of the Nike factories in Indonesia. Assuming that is true, how does that feel?

In the final analysis, these problems become very practical. MEDA reported in a recent edition of MARKETPLACE that the Christian Peacemaker Teams had been active in HAITI in the critique of a company producing products for Disney. After being pilloried for its low wages, the company presumably shifted its production to China.

The reality is that China has a new factory – where CPT would not be allowed to demonstrate, the company is still in production, Disney has its products and the CPT members have not reduced their standard of living. The only losers are the workers in Haiti who went from a low paying job to no job.

Justice and fairness are becoming very complicated questions. We all agree that what we see in the world around us does not pass the smell test. If it smells unfair it probably is unfair.

A final example will be a story from the October 26, 1998 edition of Fortune – hardly the flagship in the fight against Neoliberalism. The cover story is about Rupert Murdoch who owns the Fox network and much more. The title of the story is THE RULES ACCORDING TO RUPERT.

Murdoch became an American citizen so that he could qualify for the ownership of television in America. The parent company, however, does its accounting out of Australia where lax accounting standards permit him to exaggerate his income. When it comes to taxes Fortune says that he sings with a Caribbean lilt. News Corp has 800 business units of which the majority are incorporated in low tax or no tax havens like Bermuda, British Virgin Islands, Netherlands, Antilles and more. The result is an effective tax rate during the past 8 years of 5.7%.

At least Murdoch is a real investor who starts and runs things – even if he wishes to control the world – or at least the media end of it.

Mexico

Palliser opened two factories in 1998 in the City of Saltillo and Ben Sprunger asked me how we dealt with the issues of fairness across this particular border.

My father was a shoe shine boy in Mexico during the 20's so the country is not entirely foreign! NAFTA creates either a strategic opportunity or a strategic problem for any of us producing products with high labor costs. Japan has East Asia in its backyard, Western Europe now has Eastern Europe and we have Mexico.

Mexico is an alternative to Asia for our industry. Asia will always be less expensive but will always have an ocean. Our experience also suggests that in post-NAFTA Mexico it is quite possible to be an owner – however in Asia, especially China, we felt the cultural and other barriers to ownership were greater.

HOW DID WE APPROACH MEXICO?

First, I believe that foreign direct investment or FDI is superior to a more opportunistic contract approach. The owner and managers at least have to deal with real people – although, for some that doesn't make much difference. Second, FDI cannot be withdrawn in a capricious manner the way portfolio investment was pulled out of Mexico in 1995 and Asia in 1997.

In 1996, Asia gained 100 billion in foreign portfolio investment – that is – the purchase of stocks, bonds or loans. In 1997 100 billion was withdrawn. Add the speculative attacks of hedge funds and the Asian meltdown is no mystery.

Secondly, we decided to learn about Mexico ourselves rather than employ a consultant to identify the lowest cost location. Many of our people visited Mexico and I personally spent over 80 days in Mexico during the past 12 months. I have visited 9 States, 20 cities and many more factories to gain an understanding.

Many of us are taking Spanish lessons to lower barriers to communication and we hired a number of Spanish-speaking personnel in Winnipeg.

Third, we applied some social criteria to our choice. We rejected the border zone entirely since we did not wish to reinforce what is in many ways an unhealthy social environment. We also rejected the least developed areas of Mexico since we did not feel we could be total pioneers if we wished to succeed. We also considered but rejected the Mennonite Colonies.

In the end we selected Saltillo, a City the size of Winnipeg, located three hours south of the Texas border and one hour from the excellent supply center of Monterrey. The 6400 foot elevation and cooler climate also appealed to us Canadians. Saltillo has a very strong industrial climate, a good safety record and the north is reputed to be more honest and less corrupted.

We had a few problems. After making an offer on one piece of property we discovered that the seller did not in fact own the property! On the other hand we have had phenomenal cooperation from all levels of Government and local contractors and suppliers. Everything takes a bit longer than you budget – but we were producing product within 6 months of reaching a location decision.

We did careful surveys of the labor rates and working conditions. In the end we selected a level close to the better employers. We also selected a more expensive location near the city center to make our factories more appealing to the work force. The quality of personnel appears to be excellent and we are finding the Mexicans readily identify with the company and view that association as an important and central part of their lives.

We heard all of the stories about corruption in Mexico. We developed some very helpful friendships in the business community and they all advised that in the past this has indeed been a part of life – and sometimes remains a part of theirs. On the other hand, they suggested that in today's environment we could come in clean and stay clean. In fact, they felt it was important that we reinforce the new directions Mexico is hoping to take. We have paid nothing nor have we been asked for anything.

Finally, what is our attitude to the social and political environment? As foreigners, do we ignore events or should we become involved. Remember, that argument always cuts two ways. How do we feel when Japanese or Germans give us lectures about our social or political problems?

One Mexican issue is the Mennonite Community and its disastrous sociological situation. I have inquired privately and am encouraging the North American Mennonite agencies to

become more active and interventionist but I am also in dialogue with the Canadian Government – since these folks are Canadian citizens.

The real issue is whether the Mexican Mennonites should be pressured to improve their incredibly bad education system and should be encouraged to move to more open leadership.

A second visible issue is the lack of social and political development as epitomized by the Zapatistas. I decided to keep my distance for the first year since foreigners who get involved tend to have very short visas. Nevertheless, I have also begun to take greater interest recently and am at least becoming fully informed.

Finally, we will become involved in local social situations through the DeFehr Foundation and have already provided funds for projects in the Mennonite Colonies.

Our goal is to become part of the Mexican fabric – to get to know our Mexican managers and employees as well as we know their counterparts in Canada. We intend to pay taxes, to obey the laws but also to be successful furniture manufacturer. There are many things that we cannot change about Mexico, but we can make choices.

Let me conclude.

During my student days in the 60's I did believe that there was an inevitability to progress and a more fair and color blind world. Regrettably I no longer believe that.

I do believe that we are responsible for our own actions and in the realm that we control we can operate according to reasonable standards. In the larger picture, however, unless we address the structural questions at the level where decisions are made and where power exists, our efforts are largely futile.

We can create a few holy corners or at least pretend to.

We can be a presence and a testimony and at times clean up the mess created by others.

But we should not kid ourselves that we are making the world a better place.

There is a tide in the affairs of men – and the current tide is very ominous. I look in vain for thoughtful and informed voices to present alternatives to the economic currents that are divorcing morality and the marketplace.

We need some prophets but there are few in sight.

Art DeFehr

March 6, 1999

MEDA Winnipeg