

# Globalization: a moral imperative

► Jagdish Bhagwati

A leading international trade theorist argues that free markets and integration into the world economy are key to making a dent on poverty



Winners and losers: Indian farmers protest against the effects of globalization.

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even when largely unregulated whereas others can be fatal if left wholly to the marketplace.

In particular, the freeing of trade is largely benign: if I exchange some of my toothpaste for some of your toothbrushes, we will both be better off than if we did not trade at all. It would require a wild imagination, and a deranged mind, to think that such freeing of trade leads to debilitating economic crises. But only ideologues would deny that the hasty freeing of short-term capital flows, under pressure from what I have called in *Foreign Affairs* (May 1998) the US-Treasury Complex, was what helped to precipitate the huge Asian financial crisis. Equally, it is illogical to believe, as non-economists who fear globalization do, that freeing of trade is bad because the freeing of short-term capital flows led to a debilitating financial and economic crisis and could do so again. In fact, while there are some obvious similarities between free trade and free capital flows—e.g. that segmentation of markets creates efficiency losses—the economic and political dissimilarities are even more compelling and policymakers cannot ignore them.

Anti-globalist critics are in fact often reacting viscerally to a much larger issue: the victory of capitalism over its arch rival, communism. For campus idealists who have always looked for alternatives to what they conventionally consider to be the greed and lack of social conscience that characterize capitalism, the situation is psychologically intolerable. Some have turned to street theatre, nihilism and the anti-intellectualism that has been manifest in the last few years. The more sophisticated have succumbed to a stereotypical representation of corporations as the “evil” forces of capitalism that have captured the state, democratic institutions, and even international bodies such as the World Trade Organization.

What these critics often forget is that certain economic freedoms are basic to prosperity and social well-being under any conditions, and are thus of the highest moral value. Property rights and markets, for instance, provide incentives to produce and allocate resources efficiently, and can in turn strengthen democracy by allowing a means of sustenance outside pervasive government structures. The quality and breadth of democracy can then be enlarged as excluded groups, such as women and the poor, are pulled into literacy, gainful employment and better

“Globalization” has become today’s buzzword. It has also become a battle ground for two radically opposed groups. There are the “anti-globalists” who fear globalization and stress only its downside, seeking therefore powerful interventions aimed at taming, if not (unwittingly) crippling it. Then there are the “globalists” (a class to which I belong) who celebrate globalization instead, emphasize its upside, while seeking only to ensure that its few rough edges be handled through appropriate policies that serve to make globalization yet more attractive.

Many anti-globalists consider the central problem of globalization to be its amorality, or even its immorality. But these critics have too blanket an approach to globalization. The word covers a variety of phenomena that characterize an integrating world economy: trade, short-term capital flows, direct foreign investment, immigration, cultural convergence et al. The sins of one of the above cannot be visited upon the virtues of another. Some are benign

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- health through higher public spending or the spread of economic incentives.

Critics nevertheless go on to maintain that the global spread of free markets and free trade is responsible for continuing poverty in poor countries, and for alleged growth in inequality between and within countries. Labour unions in the rich countries also fear that their workers are being hurt by trade in cheap labour-using goods from poor countries.

But I do not think these concerns are well-founded. In India which has almost a quarter of the world's poor, there is good evidence that autarchic and anti-market policies produced abysmally low growth rates at 3.5 per cent annually over a quarter of a century, with a correspondingly negligible impact on poverty. Since growth rates picked up since the 1980s, poverty has declined. Higher growth rates in turn depend on several factors; but openness to trade and direct investment and a skilful use of markets are definitely an important contributory factor.

As for inequality among nations, it is precisely those countries that embraced integration into the world economy, i.e. the Far Eastern Four and then the ASEAN countries, which raced ahead with dramatic growth rates whereas several countries of Africa, Latin America and Asia that looked inwards failed to deliver growth and also made little dent on poverty.

The evidence on trade and investment impoverishing our workers is also flawed. My own research suggests that the downward pressure on workers' wages due to technical change has been dampened, not magnified, by trade with the poor countries. Research also shows that big corporations use abroad technologies similar to those at home, instead of exploiting lower standards or forcing them yet lower through their financial clout.

One result of these mistaken arguments against globalization has been an insistent clamour for certain environmental and labour standards to be linked to rules on international trade. But by seeking to create new "obstacles" to free trade, you undermine the freeing of trade, while mixing up trade with a moral agenda undermines that very moral agenda. It gives other countries the definite impression that you are using ethical rhetoric to mask protectionist self-interest.

The notion that global free trade and investment are responsible for poverty, inequality, lowering of standards and harming social progress is little short of astonishing. Yet it is given currency by national politicians and international bureaucrats who think that going along is a way of getting along. In denying the virtues of globalization, they actually harm the very causes they profess to embrace. ■

Nobody forces you to eat at McDonald's.

Paul Krugman,  
U.S. economist (1953-)

# Tomorrow's humane economy

► Jean-Louis Laville

Countering the previous viewpoint, the author turns to history to show that belief in the market as the best of all social orders is an old ideal that does not bear up to scrutiny

Since the early 1980s, when the Thatcherite and Reaganite revolutions were in full swing, the doctrine of neo-liberalism appears to have staked itself out across the countries of the world without meeting much serious opposition. But negative reactions to the spread of free market philosophy have ensued as the damage it has caused — in terms of inequalities, impoverishment, social exclusion and environmental destruction—come to light.

Supporters of the free market advocate deregulation to the extent that all human activity would be run by the private sector, while public authorities would be left to manage the tools of coercion and law within a given territory: namely, the army, the judicial system, and (if only in part) the police and prisons. On the other side, supporters of a more humane economy, who have grown hugely in number over recent years, back a rather different formula for the good society: "yes to the market

economy, not to the market society." In other words, they insist on the need to resurrect and re-establish regulation in new and varied forms so that it can cover today's global dimensions of economic activity.

The differences between these two broad schools of thought is at least three centuries old, beginning when the old divine order—in which political authority was enmeshed—collapsed. At the start of the 17th century, Galileo confounded the Scriptures by proving that the Earth rotated around the Sun. Shortly after, philosophers such as Thomas Hobbes and John Locke argued that the social order was not grounded in Providence, but in the decisions of individuals. The medieval dogma holding that all power came from God, who assigned each person his or her "natural" place in society, was shattered. From then on, societies faced a new challenge: defining the "social contract" that linked people with each other and with the state.

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