

Markets, Good Governance and Global Justice

SYMPOSIUM "THE COMMON GOOD IN A GLOBALISED WORLD"

Globalisation has come to mean many things but to most minds it is an economic phenomenon. Indeed, a lot of people would define globalisation as the relentless march of markets to cover all areas of the globe and all aspects of life.

Many go on to ask whether this ever-wider domain of economic motivation is consistent with social justice, and whether good governance can ensure that it becomes so. Unfortunately, I think that the answers to these two questions in Germany and elsewhere would often be 'no' and 'perhaps' – certainly here in Germany.

It will come as no surprise to hear that I'd answer 'yes' to both. After all, that compatibility is inherent in the very concept of Ludwig Erhart's social market economy. I am an advocate of the mutual benefits of growing trade, of the gains developing countries make from investment by multinationals, of the potential offered by access to integrated financial markets. In short, I believe that economic globalisation, appropriately managed, can and does improve people's lives. The billion people, largely in Asia, that have escaped from extreme poverty in the last 15 years testifies to this fact.

My aim today is to consider why so many others are unpersuaded of these benefits, which is after all why we're having this discussion. Then I want to offer some thoughts

on how we should respond to the challenges of globalisation, and specifically to the moral challenges. How can markets help to deliver global justice?

And to give you a preview of the punchline, the answer lies not in more regulation but rather in the quality of our institutions, which must be built on strong moral foundations. That includes the effectiveness with which markets operate, because markets are institutions too.

Globalisation in Context

To read some of the critiques, you might imagine that globalisation began in 1981, courtesy of Margaret Thatcher and Ronald Reagan. In fact, it's as old as history, with deep roots in human psychology. The evidence is clear that we evolved to trade. As Adam Smith memorably put it, we have a "propensity to truck, barter and exchange one thing for another."

Over the centuries this fundamental propensity to trade has extended the scope of organisation in human society from family groups, to villages, to vast cities. This growing social complexity, and the increased specialisation of work which Adam Smith was first to identify as the root of economic growth, has gone hand in hand with the greater scope and depth of international trade.

Modern information and communication technologies have taken this much further than was possible in the past, and have woven the astonishing web of global economic activity which we all rely on now.

It is less poetic than John Donne's observation that each of us is "a piece of the continent, a part of the main," but the example of the humble shirt has come to stand for the extent of modern globalisation. The different origins of the raw cotton, the woven fabric, the buttons, the thread, the machining, the packaging and shipping, the advertising and retailing – mean that a simple basic like the shirt on your back connects you to a host of other people in many other countries. All this is co-ordinated through markets.

In the modern global economy we depend on each other's efforts to a far greater degree than ever before. Almost every product or service we buy involves this social miracle of being able to depend reliably on strangers around the globe. One economist, at the University of Toulouse, has described this everyday globalised production as humanity's "Great Experiment".

The experiment has been millennia in the making. What's new is the scope and complexity of the connections today.

A lot of attention is paid to the internet which certainly accounts for the way supply chains in services as well as manufacturing have been sliced up and relocated around the globe. But we shouldn't forget the extraordinary impact of other new technologies.

Satellite TV is one which has spread rapidly in poor countries since the early 1990s. What is the impact on, say, a labourer in West Africa of seeing western TV programmes on the set in his local bar? For me the answer was summed up by a photograph of a man who'd bought a battered

pair of second-hand shoes in the local market – and drawn his own Nike 'swoosh' on the front.

Everybody now sees into each other's lives, lives which could not have been imagined in earlier eras but have become commonplace images. Similarly, the ubiquity of mobile phones in even very poor communities has plugged everyone personally into a mass of information about life elsewhere.

What does this mean for global justice?

These everyday links have stirred many emotions – hope, ambition, envy, anger, compassion. They pose an acutely difficult question. What boundaries matter now? When we talk about the common good, whose good do we mean?

To see why this is such a difficult question, think about one of the aspects of globalisation many of its critics see as particularly iniquitous, namely inequality.

You will often hear it said that inequality is greater than ever before. After all, the gap between the incomes of Bill Gates and a sub-dollar a day Bangladeshi or Tanzanian is unprecedented. So too is the gap between the incomes of the average American and the average inhabitant of the Democratic Republic of Congo or Zimbabwe. Indeed the inequalities within the United States itself are growing.

Yet this kind of comparison measures the experience of a few individuals, those at the very extremes of income distribution, rather than others. Give equal weight to the many members of the new middle classes of India and China, in the middle of the global income ranking, and the picture is different: the world has seen the biggest decline in inequality ever recorded.

Digging further into the figures complicates matters even more. More than a third of

Brazilians have a higher income than 5% of the inhabitants of France, which some might argue translates into a 10% probability that development aid from the French government to the Brazilian will transfer income from the poor to the rich.

Most of us might agree that global justice requires less inequality, and certainly not more. In which of the three ways I've sliced the figures should we assess inequality? At the level of countries or individuals? How do we weigh the well-being of poor Tanzanian farmers, middling Chinese factory workers, rich Brazilians and young unemployed men in a French suburb?

The example of trends in income inequality is just one instance of the fact that globalisation involves benefits and costs which affect different people whose interests will probably conflict. The benefits and costs may anyway simply be incommensurate.

What are the benefits? Trade and growth in many countries, even including parts of sub-Saharan Africa, have dramatically reduced poverty. The share of the world's population living on virtually no cash income fell from 40% to 21% of the world population in the two decades after 1981, which corresponds to a decline in the number of people in absolute poverty from just under 1.5 billion to 1.1 billion people.

One of the little-remarked benefits of globalisation is that it increases competition, which boosts efficiency and innovation. The extraordinary impact on China, or on Brazil and India, or moving from economic planning to competitive markets open to trade, speaks eloquently of these benefits. In 1980, living standards in China were barely any higher than they had been a thousand years earlier. Since then, they've been doubling every few years.

That is just the gains in incomes in the countries which have embraced competitive

markets. There have been even greater improvements in more fundamental indicators of well-being such as health, longevity (at least where HIV/Aids isn't epidemic) and levels of education. Tragically the Millennium Development Goals will not all be met but there has nevertheless been measurable progress in many indicators of human development.

Why there is a backlash

The costs of globalisation are often harder to quantify, and perhaps all the more alarming for it. International travel means epidemics can spread easily. Terrorists and criminals can make use of the global communications networks to organise their activities more horribly effectively. Carbon emissions have become an even more urgent global problem due to the growing scale of economic activity – especially in Brazil, Russia, India and China, designated the BRIC group by the economists at Goldman Sachs.

Perhaps the most intangible of all the costs of globalisation, people in all kinds of places and walks of life feel that their culture and way of life is under threat. This fear was shared by the equivalents of today's anti-globalisation protestors in the first age of industrialisation. William Blake's dark satanic mills would have featured on the pages of left of centre newspapers, and he'd no doubt have been a prominent blogger.

John Ruskin, the influential critic, regarded the 19th century's attachment to political economy as a mass delusion, and decried the effect of market transactions on traditional social relationships. How could profit-making transactions create a just society? He wrote that it was simply not credible. He was without doubt the Naomi Klein of his day.

This objection to conducting life in the economic mode, with markets as an organising principle of society, resonates with many people today. This is especially so in Germany and France, where opinion polls show startlingly little support for free enterprise.¹ But free enterprise should not be equated with greed. Nor should it be seen as a denial of solidarity.

The fear that cultural and historical traditions are being fatally weakened also inevitably grows at times of great change. The perception, it seems, is that markets, the vehicles of change, are in some way "disordering" society.

And so we have a backlash against globalisation, and dangerous nonsense about the 'clash of civilisations' has gained traction too.

Indeed, if I were in a pessimistic frame of mind, I might conclude that nearly twenty years after the fall of the Berlin Wall, the 'great experiment' of a global market economy, is looking somewhat fragile.

Some seem eager to exhume the Cold War. Once again there appears to be a scramble for resources in Africa, the kind of expansion of trade which in the past occurred at the barrel of a gun.

Nationalism, economic and political, is resurgent in other areas.

The Doha trade round has been progressively choked by a tangle of bilateral deals and growing protectionism in trade policy and, increasingly, in investment policies.

A narrow conception of national interest is threatening to disrupt energy markets, when in reality the effective operation of

markets is the only long-term guarantee of stability of supply.

Nationalism has emerged as well in political reactions to the growing presence of sovereign wealth funds and even to cross-border takeovers, which have been so much the bread and butter of the huge success story of EU economic integration.

The backlash has also taken the less overtly nationalistic form of growing regulation of markets. This is understandable perhaps in response to frauds such as Enron or Parmalat. The credit crunch has likewise raised some good questions about the regulatory framework in credit markets. There's little doubt that a serious stockmarket crash and recession now, after more than a decade of global growth, will add more momentum to the calls for tougher regulation; financial crises always do.

But the impulse to regulate more heavily business activity in other areas ranging from private equity investment to product labelling will in the long run damage the ability of businesses to create jobs and prosperity. Good regulation is essential but more regulation for the sake of doing something will do more harm than good.

In defence of global markets

Unfortunately, then, the political pendulum has swung firmly away from the liberalisation of markets which was one of the factors driving globalisation.

Those underlying trends are not going away: information and communications technologies are here to stay; the communist regimes did collapse under the weight of their economic and moral failure; we do face dramatic demographic and social change.

As I indicated earlier, globalisation does pose some difficult philosophical and politi-

¹ 2005 poll: 36% of French said they support market economy. 2007 poll, 47% of Germans said they support socialist ideas.

cal challenges. But markets are part of the solution, not part of the problem. Markets, in fact, are essential to a just society. They are themselves important institutions of freedom, and one thing visible in the rubble of the collapse of communist societies was the existence of some kind of link between the different forms of freedom.

What's more, markets are also fundamental to building the prosperity needed for freedom to be meaningful.

In the global context, that means trade remains absolutely fundamental to growth and the reduction of poverty. One thing I've learnt during the years I've spent advocating the liberalisation of trade rules is that the argument for the mutual gains from trade has to be made over and over again. The tyranny of so-called common sense insists that exports are good, imports bad and the balance of trade should preferably be in surplus.

Economists since David Hume have pointed out the illogic of the commonplace notion that the strength of the nation depends on a constant current account surplus. The logic of the case for freeing trade is compelling, to the extent that it is the one thing the great majority of economists seem to agree on. What's more, the experience of many decades tells us that growth in trade and economic growth have indeed gone hand in hand.

Sadly, despite the power of logic and experience combined, trade liberalisation always was and still remains a hard sell. But that doesn't alter the reality. And anybody who cares about global justice should care about preserving and improving our multi-lateral trade rules which apply all countries, large and small.

So-called fair trade is a sideshow in terms of reducing poverty. It makes people feel virtuous when they buy their coffee, but

what poor countries need is more trade, full stop.

The WTO is an imperfect organisation, and I've been involved in recent discussions on reforms to make it more manageable and effective. But it is the fairest and most effective framework for governing global trade we've ever had. I am dismayed by the lack of political support for the WTO: we allow it to be weakened at our peril.

Protectionism could gain real momentum. There have been periods in the past when governments have restricted trade and increased tariffs.

But in their magisterial new history, Ronald Findlay and Kevin O'Rourke show that using trade for political ends has often had disastrous results. The last great globalisation, a century ago, was put into reverse by political choices. We all know the horrors that followed.

The economic devastation of the 1930s, and all that followed in the wake of that cataclysmic collapse of international exchange, should stand as a warning about the consequences of any retreat from liberal trade policies. I wonder if 21st century voters would actually permit that to happen, despite the short-term appeal of protectionist measures?

It may be that unpicking the global web of production has become next to impossible. In many areas of manufacturing, international specialisation has gone so far that it is hard to conceive how it could be reversed. The skills, the management know-how and the specialised capital equipment for each small step in the chain of components and services all have their specific locations.

It would certainly be undesirable. Going back to the example of that symbolic shirt, restrictions on imports from China would

only divert production and logistics to Chinese-owned factories elsewhere in Asia or Africa. Production would be less efficient and less profitable. European consumers would pay higher prices. There are few European textile producers left to fill the gap; our industries have moved into the much higher value-added areas of design, speciality fabrics, and marketing. Nobody would benefit.

It's worth remembering, too, that a huge proportion of the cross-border trade and investment which define globalisation have occurred within Europe. Last year for example the EU accounted for two fifths of FDI inflows and nearly three quarters of outflows. These figures were even higher in the past. To an enormous degree, globalisation in terms of the trading and investment links between national economies has been and remains a process of European integration.

The share of developing countries in FDI has of course expanded significantly. A third of the \$1.5 trillion last year went to non-OECD countries. It's investment by European companies in developing countries which arouses fear here at home, fears of job losses or relocation. Yet it's hard to make the case morally, never mind logically, that cross-border investment is good for us in the EU but undesirable when it involves poorer countries.

I'd go further, and argue that we in Europe have a particular need for this kind of investment to go much further, because of our demography. At any time, those who are not working must be supported by the people who are working. Perhaps we can in the EU – despite all the setbacks and failures of our structural reforms so far – make a great leap forward in productivity growth which will enable young Europeans to support the growing number of pensioners.

It's much more likely that we will also need to need to rely on productivity growth else-

where in the world. The effect of growth in FDI and trade is equivalent to the impact of a new technology. It's the means by which we get more choice at lower prices, at no more effort to ourselves.

The future challenge

What prospects does globalisation offer us now?

For more than ten thousand years, human beings have adapted to a growing dependence on distant strangers. The benefits we reap from institutions which allow us to engage peacefully in commerce have increased over time.

Markets are prominent amongst those institutions. It's worth emphasising that markets are institutions. The 'free market' is an intellectual abstraction, like the supposed opposition between state and markets.

In reality every market consists of a web of social connections, which take place in a framework of rules set by governments, ranging from basic laws to specific regulations. The phrase 'social market economy' concisely captures this.

Institutions, their rules and how they are governed, are central to any response to the challenges of globalisation. The question is whether we have the ability to shape the institutions we need.

The answer depends on three underlying issues. First, is there a set of universal global values to underpin global institutions? Secondly, is there agreement about what outcomes will satisfy those values? And thirdly, can we work out the details of practical reforms which will achieve those outcomes?

On the first, I do believe a core of values is now widely shared by people of a range of cultures and beliefs. It can be justly

claimed that many of these values emanated from and were advanced through Christianity. These include the value of human life, the concept of equality itself and the importance of fairness and solidarity. Of course, different cultures weigh and interpret these fundamentals differently. It is all too obvious that people can and do inhabit different moral worlds.

Nevertheless, core values have been codified in important international treaties, and the number of signatories has been growing. An underlying Rawlsian morality has been implemented through international law. Of course these core values are not always observed, but we shouldn't underplay their symbolic importance.

Ideals such as fairness and freedom have such wide currency that there has, I believe, been a decisive shift in the intellectual climate away from moral relativism, and towards a reaffirmation of fundamental values. This has, paradoxically, been hastened by extremist attacks on our ideals.

It is harder to be confident that we have a shared understanding about how to evaluate the outcomes of globalisation. On the one hand, the ubiquity of modern communications means everyone has become more aware of other perspectives and interests. It is hard to recall any time in the past when a strong sense of international solidarity would have brought tens of thousands of demonstrators onto the streets of our countries demanding their governments act to tackle global poverty or climate change.

On the other hand – as my earlier question about how to weight individuals in the world income distribution illustrated – that is not the same as deciding whose well-being we should be caring about. Without answers, we can't shape effective institutions to deliver global justice.

These questions about how to implement our shared values are difficult. Let me give another example which presents day-to-day ethical dilemmas for multinational companies.

As investors in developing countries, we can maximise our favourable impact on the local economy by sourcing supplies locally. That will create more jobs, more tax revenues for public services, transfer more lasting know-how.

However, local suppliers might operate with lower environmental or labour standards than we expect at home. Sometimes it is easy to see that their standards are simply unacceptably low. Often, there is a grey area where we have to choose to implement one value judgement rather than another. Which horn of that dilemma best serves social justice?

The example goes to the heart of the question raised by the backlash against globalisation – can we trust markets and the profit-motive to deliver the kind of just world we all want? I think the example also shows that it will depend on the quality of the institutions we have for deliberating and tackling dilemmas of this kind.

That takes us on to my third question, practical reforms, there is no doubt that we still have a lot of work to reform and develop institutions – both market institutions and institutions of government – which implement the detail of our moral and political judgements.

The agenda is potentially enormous. I've already touched on the WTO, and the need to safeguard while making it more effective. There are large reform agendas for other international institutions.

I've mentioned too the latest question mark over financial market regulation. The credit crunch has highlighted the lack of adequate

information about credit risk in an important set of markets. We're in the throes of the third significant financial crisis in less than a decade. As the financial markets innovate constantly, I suspect the regulatory authorities will have to do a lot of work to ensure true transparency in global financial markets.

There are also many other aspects of the governance of global markets which will need detailed attention. A lot of concern has focussed on the activities and decisions of big companies. I have no objection to the scrutiny.

I do, however, urge there is equal scrutiny of the rest of the market economy: competition policy, contract law, stock exchange disclosure rules, tax exemptions, and so on. If markets do not seem to be working well, this is likely to be because there is too little competition, or because counter-productive regulations are distorting business and consumer decisions.

I know that sorting out the plumbing of the global market is hardly a rallying cry for those who care about social justice, but surely we should realise from our own achievements in building the European market that all this dull detail has a big payoff in terms of the well-being of citizens? There were many who opposed it including here I Germany.

Again, I emphasise that this is not a call for more regulation. Rather, the aim should be to ensure the broad framework of rules in the market economy give business and consumers the incentive to behave in ways which deliver the desired results. We should always ask ourselves what the underlying aims of regulation are and how those aims – consumer protection, financial stability – can best be served. A new regulation on top of the existing ones will hardly ever be the best solution.

So above all, I hope that any programme of institutional and political reform will have what the philosopher of pragmatism William James described as “the richest intimacy with the facts”. The path to global justice will be paved by a close attention to detail and a strong sense of realism.

Conclusions

We have been experiencing a period of transition between two worlds.

We are leaving behind us the era of nation states. Heaven knows, this period had its dark times. The solidarity of shared identity was often gained at the expense of others, at terrible cost. But from some perspectives, the world of nationalism offered greater certainties. In the economic sphere, it meant prosperity was combined with relative security. Welfare states could operate affordably within strong borders and with little immigration.

We are entering an uncertain future, with a world economy linked by ever-denser thickets of communication and information but as yet only a dim sense of how this world will be governed. The constitutional historian Philip Bobbitt describes it as the era of market states, although whether the world does take the shape he foresees will depend on the strength of the backlash and the political response.

The overlap between two eras is probably the time of greatest uncertainty. Many people are negotiating a collage of overlapping identities even as they enjoy the greater freedom and variety of the modern world. It is all too obvious that many young people growing up in European cities are struggling with the psychological burden of having to live in two or three overlapping moral universes, with different sets of values at home, at school, in the streets.

What is more, the characteristics of the new

technologies which are driving globalisation are also showing us so much more of the whole world's problems and uncertainties. Fears about globalisation are understandable.

Yet the benefits of globalisation have been extraordinary. The economic outlook for 2008 is not favourable, but up to last summer the world economy had experienced its longest sustained period of growth since the early 1970s. Hundreds of millions of people in China and India have left absolute poverty behind them.

One of the benefits of globalisation has been increased competition, fostering efficiency and innovation. The extraordinary impact on India or Brazil of moving from economic planning to competitive markets and openness to trade and investment speaks eloquently of these benefits.

Nor is it just a question of economic gains: on one count the number of democracies has quintupled in recent decades. I believe there has been a genuine advance in freedom around the world.

But that's in the past. Now's the time to invest for future dividends. We – European political and business and community leaders – must prove that in our different spheres of action we will govern globalisation in line with our own fundamental values. Europe has essentially shaped globalisation so far, and it's our responsibility to ensure it's well-governed in future.

We can take at least a bit of inspiration from the success of European institutions. There are far from perfect and as we've seen this past year or so, the EU faces enormous governance challenges. But who could have been confident, 20 years ago today, that we'd have got to this point? As the 20th anniversary of the fall of the Berlin Wall approaches, we should take pride in

what we've achieved and see it as an inspiration for building effective institutions for the globalised world we'll be facing in future.

Economics is often seen as the rationale for globalisation – just as the EU's often been seen as a means of delivering on bread and butter issues; after all, its origins were practical and we used to describe it simply as a common market.

I think this emphasis on the practical benefits and costs – although absolutely valid, as the benefits of globalisation have been enormous – has in one sense been counter-productive. For many people, it's hard to apply that kind of calculus to their innate moral sentiments.

What I've been arguing today is that the two approaches are aligned, as indeed they were in the minds of the visionary architects of Europe in the 1950s. The practical results of globalisation, the outcomes in terms of poverty and well-being, are not in conflict with our desire for social justice. Globalisation offers us the means to make progress towards our common purposes.