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CHAPTER 10

Democratizing Globalization

Globalization was supposed to bring unprecedented benefits to all. Yet, curiously, it has come to be vilified both in the developed and the developing world. America and Europe see the threat of outsourcing; the developing countries see the advanced industrial countries tilting the global economic regime against them. Those in both see corporate interests being advanced at the expense of other values. In this book, I have argued that there is much merit in these criticisms—but that they are criticisms of globalization as it has been managed. I have attempted to show how we can remake globalization, to make it more nearly live up to its promise.

This book has been mainly about the economics of globalization, but as I noted in chapter 1, the problems have much to do with economic globalization outpacing political globalization, and with the economic consequences of globalization outpacing our ability to understand and shape globalization and to cope with these consequences through political processes. Reforming globalization is a matter of politics. In this concluding chapter, I want to deal with some of the key political issues. Among them are the prospects for unskilled workers and the impact of globalization on inequality; the democratic deficit in our global economic institutions, which weakens even democracy within our own countries; and the human tendency to think locally even while we live in an increasingly global economy.

Growing inequality and the threat of outsourcing

When in February 2004 President Bush's chief economic adviser, N. Gregory Mankiw, praised the opportunity that outsourcing, with its lower costs and hence higher profits, provided for U.S. companies, he was widely criticized. Americans were worried about jobs, in manufacturing—in which some 2.8 million jobs were lost from 2001 to 2004—and even in the high-tech and service sectors.[1] In some sense, outsourcing is not new: U.S. companies have been sending jobs overseas for decades. The number of manufacturing jobs in the United States has been shrinking since 1979, and the fraction of Americans working in manufacturing has been declining since the 1940s. (In 1945, 37 percent of working Americans were employed in manufacturing, while today the figure is less than 11 percent.)[2]

A dynamic economy is, of course, characterized by job loss and job creation—the loss of less-productive jobs and the shift of workers to areas of higher productivity. The production of horse carriages declined with the arrival of the automobile. During the debate over the North American Free Trade Agreement, 1992 presidential candidate Ross Perot warned that there would be a "giant sucking sound" as jobs were pulled out of the United States. The response from the Clinton administration was that America didn't want those low-wage, low-skill jobs, and that the market would create better-paid, higher-skill jobs. And during the first few years of NAFTA unemployment in the United States actually declined, from 6.8 percent, at the beginning of NAFTA, down to a low of 3.8 percent.

Just as the United States and European countries made the transition from agriculture to manufacturing more than a hundred years ago, more recently they have made the move from manufacturing to services. The share of manufacturing in employment and output has fallen not just in the United States but also in Europe and Japan (to 20 percent).[3] As America and Europe lost jobs in manufacturing, they gained jobs in the service sector, a sector that includes not only low-skill jobs

flipping hamburgers but high-paid jobs in the financial services sector. It was thought that America, with its high level of skills and its service-sector dominated economy would be protected from competition from abroad. What made outsourcing so scary was that even highly skilled jobs began to go abroad. The strategy of "upskilling" and education, though clearly valuable and important, does not provide a full answer for how to respond to global competition.

The scale and pace of the competitive threat, of the job loss in a relatively short time, is beyond anything that has happened before. This is the flip side of another unprecedented change: two countries, China and India, that were once desperately poor and economically isolated are now part of the global economy. Never before have the incomes of so many people risen so fast.[4]

Standard economic theory, which underlies the call for trade liberalization, has a scenario for what should happen with full liberalization—a scenario that its advocates seldom mention, but which we noted briefly in chapter 3. With full global economic integration, the world will become like a single country, and the wages of unskilled workers will be the same everywhere in the world, no matter where they live. Whether in America or in India or in China, unskilled workers of comparable skills performing comparable work will be paid the same. In theory, the actual wage will be *somewhere* between that received today by the Indian or Chinese unskilled worker and that received by his American or European counterpart; in practice, given the relative size of the populations, the likelihood is that the single wage to which they will converge will be closer to that of China and India than to that of the United States or Europe.

Of course, taking down all tariff and trade barriers will not lead instantly to full integration or to the equalization of wages. There will still be transportation costs, and in the case of very poor and remote countries, these remain important. In the past, at least two factors played a part in enabling wage differences to persist. The first is the scarcity of capital in developing countries. This matters because with less capital (such as new machines and technology) workers are less productive. Handlooms are less productive than machine looms—and because they are less productive, workers' wages will be lower. The second is the gap in knowledge between the developed and the less developed countries. Skills and technology have lagged in the developing world, and that has lowered productivity and depressed wages.

However, these impediments to wage equalization are disappearing. International capital markets have improved enormously. Today, while China is saving 42 percent of its GDP, it is also receiving more than $50 billion every year in foreign direct investment, an amount close to 4 percent of its GDP.[5] And in recent years, the flow of knowledge from the developed to the undeveloped countries has accelerated.

It will take decades to fully overcome the knowledge gap and the capital shortage in the developing world. The good news is that there will be a strong force pulling up wages in China and India. The downside is that there will be a strong force pushing down wages for unskilled workers in the West. So, while Americans and Europeans can rejoice in the rising living standards of unskilled workers in the developing world, they will be worrying about what is happening at home. The issue is not just the total number of jobs that will be outsourced—lost—to China or India. The real problem is that even a relatively small gap between the demand for and the supply of labor can create large problems, leading to wage stagnation and decline, and creating high levels of anxiety among the many workers who feel their jobs are at risk. That is what appears to be happening.

Of course, as we have seen, globalization and trade liberalization will increase overall incomes (if the country can manage to maintain full employment, a big "if"). But it follows that with incomes on average increasing, and wages, especially at the bottom, stagnating or falling, inequality will increase. Those in the industries who find themselves outcompeted especially will suffer; they may find their "human capital," the investments made in particular skills, no longer of much value. For the past five years, real wages in America have been basically stagnant; for those at the bottom, real wages have stagnated for more than a quarter of a century.[6] Whole communities may find themselves in difficult straits. As businesses shut down and jobs are lost, real estate prices will fall, which will hurt most people in those areas, since their main asset is their home.

Responding to the Challenges of Globalization

There are three ways in which the advanced industrial countries can respond to these challenges. One is to ignore the problem and accept the growing inequality. Those who take this position (many of them proponents of the now-discredited theory of trickle-down economics, which holds that so long as there is growth, *all* will benefit) emphasize the underlying strengths of a market economy and its ability to respond to change: we may not know where the new jobs will be created, they say, but so long as we allow markets to work their magic, new jobs will be created. It is only when, as in Europe, a government interferes with market processes by protecting jobs, that there are problems with unemployment.

But in both Europe and America, this approach is not working. While there are winners from globalization, there are numerous losers. Globalization is, of course, only one of the many forces affecting our societies and our economies. Even without it, there would be increasing inequality. Changes in technology have increased the premium the market places on certain skills, so that the winners in today's economy are those who have or can acquire those skills. These changes in technology may in the end be more important than globalization in determining the increase in inequality, and even the decline in unskilled wages. Voters can do little about the march of technology; but they can—through their elected representatives—do something about globalization. Protectionist sentiment has been increasing almost everywhere. In the United States, even a small trade bill, free trade with Central America, attracted enormous opposition, barely passing the House of Representatives by a 217 to 215 vote in July 2005. I do not believe it is tenable to pretend that everything will be fine if we just leave the markets alone. Nor is it tenable to ask workers to have faith that, with enough patience, globalization will make them all better off, even though now they must accept lower wages and decreased job security. Even if they were to accept on faith the proposition that globalization will lead to faster GDP growth, why should they believe that it would lead to faster growth in *their* incomes or an overall increase in *their* well-being? While politicians may refer obliquely to lessons of economics to reassure their constituents, both standard economic theory and a wealth of data is consistent with workers' own intuitions: without strong government redistributive policies, unskilled workers may well be worse off.

Similar issues arise with migration. I explained in chapter 3 how migration may lead to an increase in global efficiency, and how it may be of particular benefit to those in the developing world. But migration of unskilled labor leads to lower wages for unskilled workers in the developed world. With both trade liberalization and migration, the country as a whole may benefit, but those at the bottom are likely to be made worse off.

The second tack is to resist fair globalization. In this view, now is the time for America and Europe to use their economic power to make sure that the rules of the game favor them permanently—or at least for as long as possible. Power begets power; and by using their current combined economic power, they can at least protect their position, and perhaps even enhance it. This is a view based not on what is right or fair but on realpolitik.

In this logic, the United States, while continuing to pay lip service to fair trade, should protect itself from the onslaught of foreign goods and from outsourcing, while at the same time doing what it can to get access to foreign markets. America's seeming brazenness in doubling its agricultural subsidies while preaching the rhetoric of free trade is an example. As a sop to those who insist on fairness, some effort is put into finding "legal" ways of providing these subsidies, such as devising concepts like "non–trade distorting subsidies," getting other countries to agree that such subsidies are allowed, and then claiming that one's subsidies are of that sort. The presumption seems to be that because something is legal, it is morally right.

I believe that this approach is both morally wrong and economically and politically unviable. America's standing in the world has long been based not just on its economic and military power but on its moral leadership, on doing what is right and fair. But for those who believe in realpolitik, this is of little concern. More to the point, this option is not really possible, given how far we already are down the path of globalization. While the Uruguay Round trade agreement may

not be fair to the developing countries, it created the beginnings of a semblance of an international rule of law in trade, which the United States has to obey.

Moreover, one of the successes of the last three decades has been the creation of strong democracies in many parts of the developing world. Their citizens know what is going on, and they know when a proposed trade agreement is fundamentally unfair. American citizens may not care about the hypocrisy of its leaders in talking about free trade and maintaining agricultural subsidies, but Brazil's and Argentina's citizens do.

Too much is at stake—and there are too many who have already benefited from globalization—to allow America and Europe to pull back from globalization, to walk away from it. There are too many losers from globalization in the developing world to allow the developed world to try to shape globalization unfairly in its favor.

That leaves but one course—coping with globalization and reshaping it. For America, coping means recognizing that globalization will mean downward pressure on unskilled wages. The advanced industrial countries have to continue upskilling their labor forces, but they also have to strengthen their safety nets and increase the progressivity of their income tax systems; it is the people at the bottom who have been hurt by globalization (and, probably, by other forces, like changing technology); it seems the right thing to do, to lower taxes on them and to increase taxes on those who have been so well served by globalization. Regrettably, in America and elsewhere, policies have been moving in precisely the opposite direction. Investments in research, which will increase the productivity of the economy, are also important. These investments yield high returns. Increased productivity is likely to lead to increased wages and incomes; and if even a portion of the higher income that results is spent on a social agenda of education and health, the well-being of all citizens will be enhanced.

The critics of globalization are right: as it has been managed, there are too many losers. And I think the optimists among these critics—those who, at meetings like the World Social Forum at Mumbai with which I began this book, claimed that "another world is possible"—are also right. This book has laid out a number of reforms that would enable globalization more nearly to live up to its potential of benefiting those in both the developed and less developed countries: a reformed globalization that could receive the support of those in both.

THE DEMOCRATIC DEFICIT

I have argued in this book that we have to learn how to cope better with globalization (in both the developed and the less developed countries). We also have to learn how to manage it better, with a greater concern both for the poor countries and for the poor in rich countries, and for values that go beyond profits and GDP. The problem is that there is a democratic deficit in the way that globalization has been managed. The international institutions (the International Monetary Fund, the World Bank, the World Trade Organization), who have been entrusted with writing the rules of the game and managing the global economy, reflect the interests of the advanced industrial countries—or, more particularly, special interests (like agriculture and oil) within those countries. This imbalance is in some cases the result of distorted voting rights;[7] at other times, it comes from the sheer economic power of the countries and interests involved. The imbalance is seen both in the agenda and in the outcomes in every arena of globalization, from trade to the environment to finance. We see it in both what is on the agenda and what is not.

Over the past two centuries, democracies have learned how to temper the excesses of capitalism: to channel the power of the market, to ensure that there are more winners and fewer losers. The benefits of this process have been staggering, and have given many in the First World wonderfully high standards of living, much higher than were conceivable in 1800.

At the international level, however, we have failed to develop the democratic political institutions that are required if we are to make globalization work—to ensure that the power of the global market economy leads to the improvement of the lives of most of the people of the world, not just the richest in the richest countries. Because of the democratic deficit in the way globalization is managed, its excesses have not been tempered; indeed, as we noted in earlier chapters, globalization has sometimes circumscribed the ability of national democracies to temper the market economy.

The need for global institutions has never been greater, but confidence in them, and their legitimacy, has been eroding. The IMF's repeated failures in managing the crises of the past decade was the coup de grâce, following years of dissatisfaction with its programs in Africa and elsewhere, including the excessive austerity it forced upon these countries. The failure of the countries that followed the IMF–World Bank ideologically driven Washington Consensus policies and the contrast with the ongoing success of the East Asian countries, which I described in chapter 2, has not helped to restore confidence in these institutions. Neither did the arrogance with which the IMF demanded that it be allowed to force developing countries to open up their markets to speculative capital flows, followed a few years later by a quiet recognition that capital market liberalization might lead to instability but not growth. And while they pushed an agenda that led to financial market instability, they did nothing about one of the root causes of global instability, the global reserve system. At the WTO, in the trade front, matters are no better. After admitting at Doha, in November 2001, that the previous round of trade negotiations was unfair, the advanced industrial countries eventually effectively reneged on their promise of a development round.

The institutions themselves are, in some sense, not to blame: they are run by the United States and the other advanced industrial countries. Their failures represent failure of policy by those countries. The end of the Cold War gave the United States, the one remaining superpower, the opportunity to reshape the global economic and political system based on principles of fairness and concern for the poor; but the absence of competition from communist ideology also gave the United States the opportunity to reshape the global system based on its own self-interest and that of its multinational corporations. Regrettably, in the economic sphere, it chose the latter course.

Just as the international institutions cannot be fully blamed—the responsibility must lie partly with the governments that govern them—the governments themselves cannot be fully blamed. The responsibility lies partly with their voters. We may increasingly be part of a global economy, but almost all of us live in local communities, and continue to think, to an extraordinary degree, locally. It is natural for us to value a job lost at home far more than two jobs gained abroad (or in the context of war, a life lost at home far more than those lost abroad). Part of the mindset of thinking locally is that we don't often think of how policies that we advocate affect others and the global economy. We focus our attention on the direct effect on our *own* well-being. Cotton growers in the United States think of how they gain from their subsidies, not how millions in the rest of the world lose.

To make globalization work there will have to be a change of mindset: we will have to think and act more globally. Today, too few have this sense of global identity. There is an old aphorism about all politics being local, and, with most people living "locally," it is not surprising that globalization is approached within the very narrow framework of local politics. Local thinking persists even as the world grows more economically interdependent. It is this disjunction between local politics and global problems that is the source of so much of the dissatisfaction with globalization.

The contrast between analysis and advocacy for policies at the national and global level is stark. Within each country, we are aware that laws and regulations affect different people differently. Economists carefully calculate, for each tax, rule, or regulation, the extent to which different income groups are affected. We argue for and against different policies on the basis of whether they are just, whether they hurt the poor, whether their burden falls disproportionately on those less well off.

In the international arena, not only do we fail to do the analysis, we almost never argue for a policy on the basis of its fairness. Trade negotiators are told to get the best agreement they can, from the perspective of their country's own interests. They are not sent off to Geneva (where the trade negotiations generally occur) with the mandate to craft an agreement that is fair to all. Special attention is not given, as it should be, to the poorest, but to the strongest—such as the special interests that are the largest contributors to the campaigns of the American president and the party in power. In fact, often the special interests are elevated to be national interests: doing what is best for America's drug companies, for Microsoft and for ExxonMobil, is viewed as equivalent to doing what is best for the country in general. This is encapsulated in the famous quote of Charles Wilson, the head of GM, in 1953 that "what was good for our country was good for General Motors, and vice versa."[8] In the era of globalization, this is no longer true—if it ever was.

Even within the international institutions, seldom is global policy discussed in terms of social justice. There is a pretense that there are no trade-offs, and that, accordingly, decision making can be delegated to technocrats, who are assigned the complex task of finding and managing the best economic system, and who are thought to be better equipped than politicians to make objective decisions. There are, of course, some problems which should be delegated to technocrats—like choosing the best computer system for running the social security system. But delegating the writing of the rules of the economic game to technocrats can be justified only if there is a single best set of rules, one that makes everyone better off than any other set of rules. This is simply not the case; this view is not only wrong, but dangerous. With a few exceptions, there are always trade-offs. The existence of trade-offs means that there are choices to be made. It is only through the political system that those choices can be properly made, which is why it is so important to remedy the global democratic deficit.

Depoliticizing the decision-making process paves the way for decisions that are not representative of broader social interests. By removing decisions about the right trade regime or the right intellectual property regime from the *overt* political process, the door is opened to *covert* shaping of those decisions by particular interests. The drug companies can shape intellectual property agreements; producers, not consumers, can shape trade policy. Monetary policy provides another example. No economic issue affects people more than the macroeconomic performance of the economy. Increasing the unemployment rate makes workers worse off, but the resulting lower inflation makes bondholders happy. Balancing these interests is a quintessentially political activity, but there has been an attempt by those in financial markets to depoliticize the decision, to turn it over to technocrats, with a mandate to pursue the policies that are in the interests of financial markets. The IMF has been encouraging, sometimes even forcing (as a condition of assistance), countries to have their central banks focus *only* on inflation.

Europe succumbed to these doctrines. Today, throughout Euroland, there is unhappiness as the European Central Bank pursues a monetary policy that, while it may do wonders for bond markets by keeping inflation low and bond prices high, has left Europe's growth and employment in shambles.

Responding to the Democratic Deficit

There are two responses to the problem of the democratic deficit in the international institutions. The first is to reform the institutional arrangements, along the lines suggested earlier in this book. But this will not happen overnight. The second is to think more carefully about what decisions are made at the international level.

Globalization means that events in one part of the world have ripple effects elsewhere, as ideas and knowledge, goods and services, and capital and people move more easily across borders. Epidemics never respected borders, but with greater global travel diseases spread more quickly. Greenhouse gases produced in the advanced industrial countries lead to global warming everywhere in the world. Terrorism, too, has become global. As the countries of the world become more closely integrated, they become more interdependent. Greater interdependence gives rise to a greater need for collective action to solve common problems.

The agenda for collective action should focus on those items that represent the most essential areas for benefiting the entire global community. Other items should not be on the agenda.[9] In chapter 4, I argued that there is no need for a uniform set of intellectual property rights rules; excessive standardization not only takes away important degrees of political sovereignty but is actually counterproductive. A focused agenda is especially important because the expansiveness of the agenda itself puts developing countries, which cannot afford large staffs, at a disadvantage in negotiations. Global collective action should focus upon the need to halt negative externalities—actions by one party that adversely affect others—and on the opportunity to promote, by acting together, the well-being of all through the provision of global public goods, the benefits of which are enjoyed around the world.

As the world becomes more globalized, more integrated, there will be more and more areas in which there are opportunities for cooperative action, and in which such collective action is not only desirable but necessary. There is an array of global public goods—from global peace to global health, to preserving the global environment, to global knowledge. If these are not provided *collectively* by the international community, there is a risk—indeed, a likelihood—that they will be underprovided.[10]

Providing global public goods requires some system of finance. Chapter 9 described how a reform of the global reserve system can provide a large source of finance, in the order of magnitude of $200 billion to $400 billion a year. A second idea is to use revenues from the management of global resources—auctioning off fishing rights, or the right to extract natural resources beneath the sea, or carbon emissions permits—for providing global public goods. Finally, there are some instances in which taxation can actually contribute to economic efficiency. Such taxes, levied to overcome problems of negative externalities, are called corrective taxes. Taxation on global negative externalities, such as arms sales to developing countries, pollution, and destabilizing cross-border financial flows, can provide a third source of revenues for financing global public goods.

In the long run, the most important changes required to make globalization work are reforms to reduce the democratic deficit. Without such changes, there is a real danger that any reforms will be subverted. In chapter 3, for instance, we saw how as tariffs have come down, nontariff barriers have been erected. This is not the place to provide a detailed description of how each of the international institutions needs to be changed. Instead, I list the major elements of any reform package:

- *Changes in voting structure* at the IMF and the World Bank, giving more weight to the developing countries. At the IMF, the United States remains the single country with an effective veto. At both institutions, votes are largely on the basis of economic power—and too often, not economic power today but, to a too large extent, economic power as it existed at the time these institutions were created more than a half century ago.[11]

- *Changes in representation*—who represents each country. So long as trade ministers determine trade policy and finance ministers determine financial policy, other related concerns, like the environment or employment, will be given short shrift. One possible change is to insist that when there are areas of overlapping concerns, all the relevant ministries be represented. When intellectual property provisions are being discussed, surely the science and technology ministries—who may not only have a more balanced position but will even know something about the matter—should be at the table.
- *Adopting principles of representation.* It is difficult to make decisions, or to engage in negotiations, when 100 or more countries are involved. But the way, for instance, that trade negotiators have responded to this problem in the past should be viewed as totally unacceptable.[12] No matter what is done, there will be an imbalance of economic power, and there is little that can be done to stop the powerful from exercising that power; but at the very least, the formal processes should be more in accord with democratic principles. The major countries should be joined in negotiations by representatives of each of the various major groups: the least developed countries, the small agricultural exporters, and so on. In fact, some progress in this direction is already taking place.

Given that it will be difficult to make these changes, it is all the more important to make the following reforms in the way international institutions operate:

- *Increased transparency.* Because there is no direct democratic accountability for these institutions (we do not vote for our representatives to these institutions or for their leadership), transparency, enforced through strong freedom of information acts, is vital. Ironically, these institutions are *less* transparent than the more democratic of their member governments.

- *Improvements in conflict-of-interest rules* will not only increase confidence in, and the legitimacy of, international governance but (if economists are correct and incentives do matter) might actually lead to policies that are more in the general interest.
- *More openness, including improvements in procedures* to ensure not only more transparency but that more voices are heard. NGOs have taken on increased importance in ensuring that voices other than those of the multinational corporations get heard in the process of global economic decision making. In democracies like the United States, when regulatory agencies propose rules, interested parties are given an opportunity to comment, and the regulatory agency must respond. It should be the same for global institutions and regulatory agencies.
- *Enhancing the ability of developing countries to participate meaningfully in decision making,* by providing them with assistance in assessing the impact on them of proposed changes. The U.S. Treasury and the finance ministries of some of the other advanced industrial countries can make their own assessments, but developing countries typically do not have the resources to do so. The deliberative discussions of the WTO and other international economic organizations would also be helped if there were an independent body to evaluate alternative proposals and their impact on developing countries.
- *Improved accountability.* Even if there is not direct electoral accountability, there can be more independent evaluations of the performance of the international economic institutions. While the World Bank and the IMF presently do this—and, indeed, spend a considerable amount of money on such evaluations—the evaluation units have typically relied heavily on temporary staff supplied by the Fund or the Bank. Though this has an advantage in that they are well informed about what is going on, it is hard for them to provide a fully independent evaluation. The task of evaluation should be moved—to the UN, for instance. Assessments must be made of the disparity between predicted consequences and what actually happens: Why, for instance, did the IMF bail-out packages not work in the way predicted during the crises? Why was there money available to bail-out international banks, but not money to pay for food subsidies to the poor? Why were the benefits received by many of the

poorest countries from the last round of trade negotiations so much less than had been promised?

- *Better judicial procedures.* The need for this was highlighted by our discussion in chapter 3 of the process by which dumping duties are imposed by the United States, where it is simultaneously the prosecutor, judge, and jury in assessing dumping duties. Such a judicial procedure is obviously flawed. There needs to be an independent global judicial body to determine, for instance, whether dumping has occurred, and if so, what the dumping duties should be.
- *Better enforcement of the international rule of law.* I have repeatedly commented on the great achievement of the Uruguay Round in creating the beginning of a semblance of international law. It means that principles, not just power, can govern trade relations. The law may be imperfect, but it is better than no law at all. There are, however, still many areas where the law would make for a better globalization *if it were enforced.* One important instance was noted in the last chapter: America's refusal to do anything about global warming can be considered a major and unwarranted trade subsidy. The enforcement of regulations against such subsidies could be an important instrument both in creating a fairer trading system and in addressing one of today's most important global problems.

We have an imperfect system of global governance without global government; and one imperfection is the limitations on our ability to enforce international agreements and stop negative externalities. We must use what instruments we have—including trade sanctions.[13]

In chapter 3, I noted another major problem: the fragmentation of the global trading system into a series of bilateral and regional trade agreements. The great achievement of the multilateral trading system over the past sixty years, the most favored nation principle under which each country gave to every other country the same terms, is now being undermined by the United States, followed by others. Such agreements are legal under WTO rules only when they create more trade than they divert; almost surely, some bilateral agreements would fail this test. There should be an international tribunal to determine whether, as each agreement is proposed, it is legal, with the burden of proof lying

with the countries trying to fragment the global trading system. The tribunal would determine, for instance, whether Mexico's gains under NAFTA, to the extent that they exist, arose largely from diversion of the trade in textiles that the United States might have bought from Latin American countries other than Mexico. This might slow down, or even put a stop to, the rash of bilateral agreements that threatens to undermine the multilateral trade system.

Finding a New Balance

What is needed, if we are to make globalization work, is an international economic regime in which the well-being of the developed and developing countries are better balanced: a new *global social contract* between developed and less developed countries. Among the central ingredients are:

- A commitment by developed countries to a fairer trade regime, one that would actually promote development (along the lines outlined in chapter 3).
- A new approach to intellectual property and the promoting of research, which, while continuing to provide incentives and resources for innovation, would recognize the importance of developing countries' access to knowledge, the necessity of the availability of lifesaving medicines at affordable prices, and the rights of developing countries to have their traditional knowledge protected.
- An agreement by the developed countries to compensate developing countries for their environmental services, both in preservation of biodiversity and contribution to global warming through carbon sequestration.
- A recognition that we—developed and less developed countries alike—share one planet, and that global warming represents a real threat to that planet—one whose effects may be particularly disastrous for some of the developing countries; accordingly, we all need to limit carbon emissions—we need to put aside our squabbling about who's to blame and get down to the serious business of doing something; America, the richest country on the earth, and the most energy profligate, has a special obligation—and one of its states,

California—has already shown that there can be enormous emission reductions without eroding standards of living.

- A commitment by the developed countries to pay the developing countries fairly for their natural resources—and to extract them in ways that do not leave behind a legacy of environmental degradation.
- A renewal of the commitments already made by the developed countries to provide financial assistance to the poorer countries of 0.7 percent of GDP—a renewal accompanied this time by actions to fulfill that commitment. If America can afford a trillion dollars to fight a war in Iraq, surely it can afford less than $100 billion a year to fight a global war against poverty.
- An extension of the agreement for debt forgiveness made in July 2005 to more countries: too many countries' aspirations of development are being thwarted by the huge amounts they spend on servicing their debt—so large, in fact, that, as we noted, net flows of money in some recent years have been going from developing countries to the developed.
- Reforms of the global financial architecture that would reduce its instability—which has had such a crushing effect on so many developing countries—and shift more of the burden of the risk to the developed countries, which are in such a better position to bear these risks. Among the key reforms is a reform in the global reserve system, as discussed in chapter 9, which, I believe, would not only lead to enhanced stability, from which all would benefit, but could also help finance the global public goods that are so important if we are to make globalization work.
- A host of institutional (legal) reforms—to ensure, for instance, that new global monopolies do not emerge, to handle fairly the complexities of cross-border bankruptcies both of sovereigns and companies, and to force multinational corporations to confront their liabilities, from, for instance, their damage to the environment.
- If the developed countries have been sending too little money to the developing world, they have also been sending too many arms; they have been part and partner in much of the corruption; and in a variety of other ways, they have undermined the fledgling democracies.

The global social compact would entail not just lip service on the importance of democracy but the developed countries actually curtailing practices that undermine democracy and doing things to support it—and especially doing more to curtail arms shipments, bank secrecy, and bribery.

For globalization to work, of course, developing countries must do their part. The international community can help create an environment in which development is possible; it can help provide resources and opportunity. But in the end, responsibility for successful, sustainable development—with the fruits of that development widely shared—will have to rest on the shoulders of the developing countries themselves. Not all will succeed; but I believe strongly that with the global social contract described above, far more will succeed than in the past.

Elements of this new global social contract are already in place. At the international meeting on finance for development convened by the UN in Monterrey, Mexico, in March 2002, the advanced industrial countries made a commitment to increase their aid to 0.7 percent of GDP, but the meeting was also important because it recognized—at last—that development is too important and too complex to be left to finance ministers. Finance ministers and central bank governors bring a particular perspective to the discussion—an important perspective, but not the only one. Consider, for instance, the issue of sovereign debt restructuring. No government would entrust legislation setting forth the framework for bankruptcy to a committee dominated by creditor and creditor interests; however, putting the IMF in charge of the bankruptcy proceeding, as the IMF argued should happen, would have created an equivalent situation. Such decisions have to be approached with greater balance.

One way of achieving greater balance is to strengthen the Economic and Social Council at the UN. The Council could play an important role in defining the global economic agenda, in ensuring that attention gets focused not just on issues that are of interest to the advanced industrial countries but on those that are essential to the well-being of the entire world. It could encourage discussions of global financial reform which address the problems of the developing countries—the fact, for instance, that they are left to bear the brunt of exchange rate and interest rate risk. It could push for a reform of the global reserve system, or for new ways of handling sovereign debt restructuring—in which the bankruptcy process is not controlled by creditor countries. It could have a particularly important role in the many issues that cross the "silos" in which so much of international decision making is confined. It could push for the rainforest initiative that I described in chapter 6, which would simultaneously provide developing countries with incentives to maintain their rainforests (with enormous worldwide benefits for reducing global warming and maintaining biodiversity) and with money to promote their development. It could push an intellectual property regime that advances science and pays due respect to other values, like life and access to knowledge. It could make sure that any international oversight of a country's economic policies ("surveillance," as it is often called) focuses not just on inflation, which is of such concern to financial markets, but also on unemployment, which exerts such a toll on workers.

Discontent with globalization as it has been managed has partly reflected the discontent with outcomes, and partly the discontent with the lack of democratic process. Reducing the democratic deficit would be a major step forward in making globalization work on both counts. I have faith that policies and programs that have been subject to democratic scrutiny are likely to be more effective and more sensitive to the concerns of the citizenry.

Much is at stake

The globalization debate has become so intense because so much is at stake—not just economic well-being, but the very nature of our society, even perhaps the very survival of society as we have known it. The globalizers of the past twenty years may have thought that the economic doctrines they pushed for through the international institutions would by now have succeeded so well in enhancing the well-being of everyone that all would be forgiven. Perhaps they hoped that even if there were growing inequality, so long as there was enough money trickling down the poor could be placated. Even if a few were denied access to lifesaving medicines, if overall enough people saw their health improve they might be satisfied. As we have seen, for too many the promised benefits did not materialize.

But even had there been more *economic* success, unhappiness with some aspects of globalization would persist—and if more people realized what was going on, that unhappiness might have been even greater. The United States has argued that maintaining open trade borders is more important than the preservation of culture or the protection of food safety, at least against what it views as irrational fears over genetically modified foods. But even the United States has recognized that there are other values more important than economic globalization—or at least one value, security. The United States argues forcefully for trade restrictions that it claims will enhance its national security. It subsidizes oil and does not allow foreign ships to transport goods within its borders—in both cases arguing national security concerns. It even argues for "secondary boycotts": not only does it not allow its firms to sell products that might be of military use to China, but it has put enormous pressure on Europe to follow suit. The United States' Helms-Burton Act of 1996 imposes sanctions against foreign firms that trade with Cuba, even when the laws of those countries allow them to do so. The anthrax scare of 2001 (which in the end was never traced to terrorism from outside the United States) led to the passing of a bioterrorism law that imposes registration and record-keeping requirements on those wishing to export goods to the United States. The United States says the requirements are not onerous and costly; many foreign firms claim they are. At the very least, they are an added cost to selling to the United States. The increased difficulties of getting visas also make it more difficult for foreign companies to do business in the United States, including providing services. If other countries reciprocate, it will be clear that as one set of man-made barriers to trade is coming down, a new set is being erected.

Yes, a country's first responsibility to its citizens is protection, and national security must be given priority. The concerns are real; the worries about security are not just hypothetic exercises. Europe has become dependent on gas imports from Russia, the United States on oil imports from abroad. The challenge in making globalization work is to universalize these concerns and to democratize the procedures. The

United States cannot be allowed to pursue its security concerns without allowing others to do the same; it should not be allowed to be the sole arbiter of which countries European firms may trade with or what products they can sell.

The full potential implications of security for globalization are enormous. Worries about the availability of anything essential (like energy or food) bought from abroad in times of emergency are a rationale for restricting imports and subsidizing domestic production. When followed to its logical conclusion, the entire framework of trade liberalization is put into jeopardy. Does each country simply accept these risks as part of the price we face for a more efficient global economy? Does Europe simply say that if Russia is the cheapest provider of gas, then we should buy from Russia regardless of the implications for its security, or is it allowed to intervene in the energy market to reduce dependence? Do we welcome the increased interdependence and the risk that it brings, as a further incentive for peaceful resolution of international political disputes? Should we create an international procedure to judge when trade interventions for national security purposes are to be allowed? Or should we simply allow each country to use the national security card as a justification for protectionism at will?

The debate about security and globalization highlights—even for those who have been among globalization's cheerleaders—that values other than economic well-being are at stake. But these other values have been given short shrift in the way that globalization has been proceeding. The reason is simple: the democratic deficit means that issues that are, or should be, of importance to ordinary citizens don't get the attention they deserve. The richest country, the United States, knows it can get what it wants—it can do what it wants whenever its concerns, especially its security concerns, are at risk. The rest of the world, at least so far, has not been willing to stand up. Too many have just been swept along in a U.S.-orchestrated euphoria for globalization, regardless of how it has been designed and managed. But the time will come when the United States cannot do whatever it wants. The forces of global economic, social, political, and environmental change are more powerful in the long run than the capacity of even the mightiest nation to shape the world according to its interests or perspective.

The debate about security and globalization highlights a second theme of this book: economic globalization has been outpacing political globalization.

We have become economically interdependent more quickly than we have learned how to live together peacefully. Though the bonds that economic globalization forges—both the mutual interdependence that it implies and the greater understanding that arises from daily interactions—are a powerful force for peace, by themselves they are not enough; and without peace, there cannot be commerce. Once before, a century ago, the turmoil of war set back the pace of globalization; it would take more than half a century for globalization (as measured, for instance, by global trade relative to global GDP) to resume where it had left off.[14] Once before, at the end of World War I, the United States, already the world's strongest country, turned its back on multilateralism when it walked away from the League of Nations, the international institution created to help ensure global peace. The Bush administration, too, having previously announced its rejection of the Kyoto Protocol, the International Criminal Court, and major agreements designed to contain the arms race, also walked away from the UN when it went to war in Iraq with a preemptive attack in violation of international law.

The UN proved the value of deliberative democracy: after carefully weighing the evidence presented of an imminent threat from weapons of mass destruction, it concluded that the evidence was insufficient to justify a departure from long-standing precepts and embark on preemptive warfare. The conclusion proved correct; no weapons of mass destruction were found. The world's sole superpower has simultaneously been pushing for economic globalization and weakening the political foundations necessary to make economic globalization work. It has justified its actions as strengthening democracies globally, but it has undermined global democracy. It has talked about human rights, but has trod on those rights in its brazen defense of its right to use torture in contravention of the UN Convention Against Torture, and in a myriad of other ways.

If there was ever a country that should have been responsive to the calls of those seeking a fairer globalization based on an international rule of law, it should have been the United States: its Declaration of Independence does not say, "all Americans are created equal," but "all men are created equal." The Founding Fathers were concerned with the universality of the principles that they were articulating so well, and the Declaration of Independence, the Constitution, along with the Bill of Rights, the first ten amendments to the Constitution, provided the model for much of the rest of the world; the creators of those documents would have been pleased with the adoption by the UN of the Universal Declaration of Human Rights on December 10, 1948. From its beginnings as a nation, the United States benefited from globalization: the massive migration of workers to its shores, supported by capital and ideas from abroad. Today it is among the biggest beneficiaries of economic globalization. It is in the interests of the United States to make sure that there is no retrenchment; but if that is the case, it is also in its interest to make sure that the gap between economic and political globalization is reduced.[15]

For much of the world, globalization as it has been managed seems like a pact with the devil. A few people in the country become wealthier; GDP statistics, for what they are worth, look better, but ways of life and basic values are threatened. For some parts of the world the gains are even more tenuous, the costs more palpable. Closer integration into the global economy has brought greater volatility and insecurity, and more inequality. It has even threatened fundamental values.

This is not how it has to be. We can make globalization work, not just for the rich and powerful but for all people, including those in the poorest countries. The task will be long and arduous. We have already waited far too long. The time to begin is now.

NOTES

Preface

1. This is especially important given the attempt by the IMF to discredit me r than to engage in intellectual debate, both during the period in which I s as the World Bank's chief economist and after. The IMF tried to give the im sion that what I was saying in *Globalization and Its Discontents* was a depa from what I had said during my years at the Bank. Nothing could be fu from the truth. (I should be thankful for their vehement reaction to my b for, in most of the world, it led to increased sales—one country's publisher pasted a quote from the IMF attack on the book's cover.)
2. I should be clear: while the intellectual groundings have been taken away market fundamentalism, newspaper columnists and pundits—and occasio even a few economists—sometimes still invoke economic "science" in defen their position.
3. This research was cited when I was awarded the Nobel Prize.
4. See Bruce Greenwald and Joseph E. Stiglitz, "Externalities in Economies Imperfect Information and Incomplete Markets," *Quarterly Journal of Eco ics*, vol. 101, no. 2 (May 1986), pp. 229–64.
5. Joseph E. Stiglitz, *The Roaring Nineties* (New York: W. W. Norton, 2003).
6. An expression used by the philanthropist George Soros.
7. Matthew Miller, *The Two Percent Solution: Fixing America's Problems in Ways erals and Conservatives Can Love* (New York: PublicAffairs, 2003). This is Miller phrases the issue in the prologue to his book: "We'll first step back lay a little philosophical groundwork by examining the pervasive role of lu