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Towards a Global Ethic*

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In assessing current trends in the liberalisation and integration of the global economy and its ethical dimension Tom Giblin examines the power structures behind economic decision-taking. In particular he looks at the role played by transnational corporations (TNCs), the international financial institutions and the major governments who set their agenda as well as the impact of the World Trade Organisation (WTO). He also examines the causes of ongoing global financial crisis which is impacting heavily on the real economy and poverty levels in the developing world. He emphasises the need for permanent controls on short-term capital flows as well as structural reforms of global market operations.

Using a people-centred perspective to assess the quality of markets, Giblin highlights some inherent deficiencies in the way markets operate, paying special attention to their tendency towards monopoly power, the problem of information asymmetries and their inability to deal with externalities, including environmental degradation. Arising out of this Giblin suggests some reforms of the global economic architecture to ensure that both market and state-led operations work to promote the concept of an international common good centred on the eradication of poverty through sustainable development.

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Systemic issues in globalisation

a) Globalisation and polarisation

Despite rapid economic and trade growth in the period since the end of World War II the world has seen a massive rise in inequality. While significant development has taken place particularly in the Asian economies and also in parts of Latin America, a process which has seen the share of the richest 20% compared to the poorest 20% grow from 30:1 to 82:1 in the period since 1960, hardly gives grounds for optimism for its future prospects in tackling poverty. Given this trend it appears justified to state that there are some systemic flaws rather than minor blemishes in the global economic system as it operates at present.

Yet globalisation in terms of high levels of economic and political interdependence between states and peoples is not new. Historically most developing countries have experienced wave after wave of encounters with the global economy, from the slave trade, to colonisation, to bi-polar allegiances in the Cold War period, to structural adjustment and debt packages. Thus globalisation has wrought immense change as well as incalculable damage on developing countries.

While sub-Saharan Africa is the region which has had the slowest growth in trade this does not mean that globalisation is not an issue for that region. With its heavy dependence on primary commodity exports whose prices have been subject to large and rapid fluctuations, Africa is particularly vulnerable to global market trends. Even though it is true that the share of exports in GDP of these countries is quite low, it is nonetheless also true that the importance of exports as a source of foreign exchange is disproportionately large.

This instability of primary commodity prices has been a problem for a long time. Keynes proposed a trade agency to stabilise primary commodity prices at the time of the Bretton Woods agreement but it was vetoed by the United States which did not want to foot the bill.[1] No doubt such a scheme would have been very expensive but it still might have been preferable to the very unstable prices that free markets have produced. For example, until a year or so ago one Japanese investor (named Mr. 5% because he reputedly controlled 5% of the world copper market) could speculate to the extent that, at times of thin

trading, he could influence the world price of copper and gain massive profits. At the other end of this speculation is a country like Zambia where people's lives depend on the foreign exchange earned from copper exports.

b) Global financial crises – the experience of South-East Asia

At the same time as most of Africa has experienced economic stagnation, which of course has also been caused by conflict, the economies of South-East Asia were dubbed the "Asian tigers" due to their rapid growth. Yet this success has reversed sharply as the region's financial crisis has led to growing unemployment, exchange rate collapse and a massive growth in private debt. Various views emerge as to the cause of this acute crisis. Some maintain that there was no fundamental problem in the Asian economies. They assert that the crisis was caused by unstable financial markets and that the reversal of capital flows was like a traditional bank run. Illiquidity or a shortage of cash among debtors with which to pay short-term loans led creditors to try to take their money out.[2] The opposing view is that declining growth in Asia immediately before the crisis exposed the extent of risky or bad loans either in over leveraged companies or "crazy" property or infrastructure projects. Proponents of this view argue that this happened due to crony capitalism and a lack of adequate financial controls in a system where banking, government and business all belong to the same family, or informal network.

The more balaneed view is that the truth lies between these two extremes. Yes, there were underlying problems. In the wake of capital market liberalisation, urged by the West and implemented in these economies in the early 1990s, short run capital had been pouring into these countries. This allowed local bankers to take unreasonable risks on the assumption of high future growth and in the hope that if anything went wrong they would be bailed out. The lack of independence of banks from political and business interests further compounded this problem. However when panic set in on capital markets, these economies suffered a reversal that was totally disproportionate to the underlying problem.[3] Liberalised international capital markets "caused" the problem and then punished the problem excruciatingly. That makes them *the primary cause* while the interdependence of banks, politics and business was a *contributory cause.*

c) The need to control excessive financial speculation

A lesson from the Asia crisis is that there is a need for permanent controls on short-term capital flows. This need derives from the fact that inefficiencies and problems in capital markets are systemic rather than occasional. The systemic problem has been well diagnosed by Rudiger Dornbusch as follows:

> A central determinant of the direction of capital flows is the interest differential adjusted for exchange rate expectations. Unfortunately, those expectations have no tight link to reality. Ito's research for example and that of Frankel and Froot, bear out the problem of expectations that are not obviously rational. Of course, if expectations that are out of touch with market fundamentals come to dominate the level of rates, economists and policy makers alike face a conundrum. *We can no longer say that markets know best.* Surely, the question about fixed versus flexible exchange rates is to know what system avoids the trend towards overvaluation that the US dollar experienced in the 1960s and the acute, although brief, overvaluation of 1983-1987. Neither system offers a clear way out. *Perhaps a combination of transactions taxes and target zones offers a better, although unpopular, answer.*[4]

It is significant that many prominent economists (sueh as Dornbusch and James Tobin) see transactions taxes as a desirable permanent feature of liberalised capital markets. Such taxes could also generate significant revenues that might be channeled into investment in the human and physical capital infrastructure of the least developed countries. However, these taxes are unlikely to stem the tide of capital movements that are predicated on wide swings in exchange rates. They would simply be too small. A more fundamental challenge remains how to design a system that ean cope with wide swings in expectations.

In relation to expectations perhaps the most sensible thing we can say is that markets *over-react with a delay.* This is beeause the market tends to believe that "a sequence of positive or negative announcements foretells an extended series of future announcements of the same sign".[5] Thus the market follows bull and bear runs with reversals in between. Fundamentals do matter in signaling whether the bull and bear runs are real, but this reference to fundamentals only kicks in slowly. Markets can often ignore fundamentals and persist in the expectation that the good or bad run of the past will continue. Thus many failed to

heed some of the early warning signs in Asia. Yet some signs *were* visible such as indications that the phase of very high catch-up growth in Asia was coming to an end, or that exchange rates pegged to the appreciating dollar were too high and exports were suffering. Of course no one could have predicted the depth of the crisis which itself was a product of the massive reversal in market sentiment.

d) The growing power of TNCs

One of the factors which tends to lead to the globalisation of production is the extent to which national markets are too small to support minimum efficient scale of production. Hence there is a certain logic to the growth in TNCs, for example, in sectors such as aircraft production, space technology, some pharmaceutical R&D, the oil industry. But are these sectors the norm or the exception? At the same time as the global economy is increasingly in the hands of TNCs there are counter examples such as the preponderance of family owned enterprises in Germany. These middle sized firms are both at the cutting edge of technology and very competitive. Such diversity suggests that most sectors do not have to transnationalise to become technologically efficient.

If economies of scale are not the explanation for the massive increase in TNCs what is? One answer is that TNCs are always trying to consolidate their competitive advantage or *ownership* advantage with particular *locational* advantages such as access to market, protection of market share etc. There are many ways of consolidating their position such as buying and selling assets, or the rights to assets like franchising, intermediate product markets, network relationships and so on.[6]

Thus, behind the technological necessity that motivates a few sectors lies rhe wider tendency of firms within the free market to want to become TNCs in order to protect and enhance their degree of monopoly power and thus maximise profits and growth. TNCs are powerful players and are increasingly using their power to achieve their own goals.

It is interesting to note how many of the trade disputes taken to the WTO are really inter-company disputes that are worked out between national governments at the WTO dispute settlements body.[7] There is also a lot of evidence of the growing influence of TNCs in world trade negotiations. Of course huge international commercial interests are at stake in trade negotiations, especially in newer areas such as trade related

investment measures (TRIMS) and trade related intellectual property rights (TRIPS).[8] By comparison the influence of non-governmental organisations is very weak. It is worth recalling that a founding father of the theory of the free market, Adam Smith, described what businessmen do together in private as a "conspiracy against the public". Although in favour of free markets he was wary of dominance of markets by the few.

There are many examples of TNCs abusing their dominant position in segments of the market (either as sole producers, buyers or sellers), most notably in the developing world. They have perpetrated human rights infringements, environmental destruction and even influenced political situations to their advantage. Furthermore many only develop an effective, as opposed to a nominally ethical approach, when they fear that NGO action in the developed world will lose them market share. The story of Shell in Nigeria is an example. Recently Shell has nominally expressed all the right principles and in an expensively marketed and thoroughly convincing form.[9] In practice however the corporation has yet to thoroughly implement these.[10] Shell neglected the basic needs of the people in the poorest region of Nigeria for nearly 40 years and has been the major source of export revenue for one of the world's most corrupt regimes. Even now, studies done by the Kiltegan fathers in the Ojobo region show that when Shell money is allocated to these communities, Shell is not willing to invest the time and personnel to oversee that this money is spent properly. As a result contracts are sold to others and the work is not completed properly. Of course the story is complicated by the degree of local and national corruption and Shell does not have all the responsibility but it does have a significant share of responsibility, especially over

- payment of just compensation for environmental destruction such as damaged fishing areas;
- cleaning up oil spills;
- the use of armed guards and state military personnel to defend Shell installations;
- the extent to which it is willing to actively advocate protection of human rights with a Nigerian government to whom it provides half the country's export revenue.

e) Tensions in the roles of international financial institutions

The extent of global inequality and ongoing financial crisis point to the need for urgent and radical reform of the International Monetary Fund (IMF) and the World Bank. However, there is a fundamental flaw in the present system. The focus of the Fund is typically on short-term macroeconomic aggregates, while the focus of the Bank is on long-term development prospects. This flaw was identified in the External Review of ESAF (the Enhanced Structural Adjustment Facility).

One of the inescapable tensions in political economy is the tension between the short run and the long run. It is unfortunate to say the least that this tension divides two international financial institutions that since their inception have been unequal rivals. Originally, prior to the negotiation of the Bretton Woods system the Bank was to be the major institution and the Fund the minor player. However, despite the vision of Dexter White and Lord Keynes[11] this did not happen, in part because of the suspicion of banks in the US. So the Bank and the Fund have been competing siblings from the outset.

The Fund, (focusing on short-term balance of payments support) *dominates* the Bank (focusing on long-term development credit flows).[12] This is true *even* when they work together. So the short run dominates the long run perspective. Moreover, there is convincing evidence that in pursuing short run policies for stabilisation the IMF has pursued policies that are detrimental to countries in the long run. For example in the privatisation of the telephone service in Cote d'Ivoire the Fund insisted that the service was sold with monopoly rights in order to maximise the short term revenue from the sale, and thereby achieve short term financial targets. Yet the long run consequences of foreign owned monopolies are higher prices for the services provided by these assets and bigger repatriated profits.[13]

Or again in Zimbabwe the Fund urged rapid liberalisation of trade and of capital flows which led to a large rise in interest rates. This in turn impacted negatively on the government's already substantial budget deficit. It also hit much needed investment in the country's industrial base. As a result cheap clothing imports flooded into the country as well as large supplies of second hand clothes. As textile and clothing firms were hit by cheaper imports and higher interest payments many were forced out of business with resulting job losses. Hence, a

sector which had been considered as a potential engine of long run growth has been severely damaged.[14]

Also in Zambia, rapid inflation following an IMF prompted devaluation (which was part of a policy package to liberalise capital markets), has led to huge reductions in health and education expenditures. This has undermined the two critical areas of human development which are key pre-conditions to long run growth and development. Hence the short-term goal of getting the macroeconomic indicators right has damaged the country's long run growth and development potential.[15]

Elements of a global ethic

An ethical perspective on market centred globalisation

Market centred globalisation has been described as follows: "Technological advances and efficiency maximizing behaviour by multinational enterprises can lead to a more efficient allocation of resources around the globe since capital will move to where it is best rewarded. In a similar way, the price mechanism will enable a more efficient organization of production around the global production of goods and services."[16]

In popular terms the logic of the idea is "the invisible hand" of Adam Smith. Many agents acting efficiently to maximse their own good in free and competitive markets will deliver the best economic outcome for all. However, problems arise with this viewpoint. On the one hand it reflects an overly optimistic view of markets which has been dominant in the aftermath of the collapse of communism. We have become so used to an adversarial dualistic view of the world that pits free-marketeers against those who advocate state intervention that the collapse of that dualism has led to a naive confidence in markets that does not respect their inherent limits.

To use an analogy: being in favour of free markets is like being in favour of the rain. Without any rain there is drought. So too a complete absence of markets causes economic activity to become very distorted or even to dry up. Yet when there is too much rain, or too much rain in too short a time, flooding occurs. So too, uufettered markets or badly timed liberalisation can wash away in a flash what has been patiently constructed over the years. To say you are in favour of rain in the midst of a

flood is quite different to saying you are in favour of rain in the midst of a drought.

Yet markets can play a key role in development. For example the lack of free market access to developed country markets for developing country agricultural produce or textiles is a major obstacle to those countries' development. Indeed the current free trade negotiations between the EU and South Africa are stuck on that very point. Yet to proponents of the globalisation and liberalisation of markets it is necessary to remember that the *quality of markets* is critical when it comes to assessing whether their extension is likely to be of benefit or to bring substantial harm to some group. Assessing whether markets are of good quality or not means looking at their limits and also looking at the different sources of market failure. However, at present the main signpost used to judge economic success is GNP growth which only measures the extent of the market and growth in the number of market transactions without paying attention to the quality of the market.[17]

From this perspective we can ask is economic growth always good? Certainly more income brings benefits, but the very process of growth brings social, political and environmental costs that may outweigh those benefits. Raising the world's growth potential is an *apparently* good objective, but it is only *truly* good if it enhances human life both now and in the future, more than it diminishes it. When asked on the eve of Indian independence whether India would now develop like England had, Ghandi replied that England had plundered the entire globe in order to develop and asked how many globes would India need to plunder if she was to develop like England had. His question still stands. Is the great Western project of growth and development ultimately sustainable in human and environmental terms?

This is an ethical question. Many of those who believe that markets are generally benign are interested in equality. They want to increase the right to participate freely in the market to as many people as possible. Others disagree with this view pointing out that free access to markets does not produce equality of incomes. The statistics on the increasing gap between rich countries and poor countries are eloquent testament to the inequality in our world.

While those in favour of market-centred globalisation often point to the Asian tigers as examples of how real convergence in incomes has been delivered by the free market, research shows that:

- a ccrtain level of existing income equality within these countries;
- state funded education programmes;
- the availability of cheap finance through the non-market based linkages between banks, politicians, and business; and
- building domestic industry to serve a sufficiently large domestic market protected behind tariff and non-tariff barriers

were all important in ensuring that these economies were in a strong enough position to reap benefits from access to free markets. Yet an irony exists in that some of those features which previously brought success, have also been a contributory cause to Asia's problems.

A proper criterion on equality

Perhaps the most penetrating way of looking at inequality and providing a criterion for an assessment of human welfare under various growth strategies, is that proposed by this year's Nobel Laureate in economics Amartya Sen. He notes that every ethical theory of social arrangements tends to demand equality in some shape or form.[18] So while liberals demand equal access to markets, others demand equalisation of incomes. Sen argues that the most fundamental form of inequality is neither unequal opportunities to participate in the market nor unequal income but is in fact inequality in capacity to function.[19] The particular forms of human functioning that he notes are bodily functioning linked to health, economic and cultural functioning linked to education, and social functioning such as the ability to appear in public without shame. What is really interesting about Sen's analysis is that it allows us to explain how poverty mutates and is re-created within a wealthy society. So for instance to appear without shame in public in Ireland today requires a much bigger set of commodities than in years gone by, or indeed in other parts of the world today.[20] Similarly if wealth creates a greedy individualism it may reduce the capacity of a society to articulate its common good and pursue that good collectively.[21] It is also the case that growing economic wealth can be accompanied by rising environmental degradation so that the eco-capacity of human beings to function is endangered. For example while Ireland has the most rapid growth rate in the OECD it is also the case that air quality in Dublin has declined below EU recommended levels. This is not captured in GNP statistics.

At the same time Sen's approach allows us to focus on what is really important in our efforts at development, namely building the capacity to function of all people in all its dimensions. Hence when evaluating structural adjustment programmes and other policies we have to ask do they really enhance the capacity to function of the people and of the country as a whole. If they undermine the very foundations for this functioning in concentrating on macroeconomic aggregates and neglecting the basic needs of people including health and education the answer must surely be no.

Sen's approach also finds support in the ethics of the marketplace found in Catholic social teaching. In *Centesimus Annus* the question is posed:

> Can it perhaps be said that, after the failure of communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is it the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?

The encyclical continues in response:

> The answer is obviously complex. If by capitalism is meant an economic system which recognises the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a *business economy, market economy* or *simply free economy*. But if by capitalism is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.[22]

Or in other words, taking Sen's vocabulary, if the business economy is really at the service of human beings' freedom, or capacity to function, at all its levels, economic, social, cultural and religious, then it is to be approved of. A necessary condition for that (though not a sufficient one) is that the business economy itself should be properly structured and not blighted by market failure. This kind of ethical perspective encourages us

to look beyond a market centred "globalisation from above" perspective and to take into account a state centred perspective on globalisation and also a "globalisation from below" people centred perspective. It is only by looking at all three levels that one can evaluate whether a market centred globalisation process is really delivering increased welfare in terms of an enhanced capacity for human persons, societies and states to function, biologically, economically, culturally, and spiritually.

A state centred perspective on globalisation

While the economic power of states has declined nonethelcss it is states who have chosen to liberalise capital markets and who have refused to adopt more effective rules for those markets. In examining their decisions it is critical to ask: "Who determines the rules?" There is a crucial distinction between those states who can define the terms of their participation in world politics and economics, from those that cannot. A small number of countries dominate the Security Council of the UN. The same countries have a determining influence within the IMF because since its inception voting in that institution has been in proportion to the size of one's financial contribution. For instance within the IMF the US has 19% of the votes and the UK, Germany, France, Japan, each have between 5 and 7%.[23] The US can withhold funding for the UN in order to pressurise it to conform to US policies.

Under this scenario powerful countries can negotiate environmental and trade agreements to maximise their self interest, and do so from a position of institutionalised power. On the other hand the process of globalisation in many developing countries that are involved in structural adjustment is a process wherein state sovereignty is subordinated to complex and externally imposed conditionalities that must be fulfilled to receive outside aid or finance from the international community. This ean weaken a state's capacity to function politically. These countries also suffer from debt overhang which is a significant disincentive to improving tax collection (as the extra revenues generated are automatically allocated to repaying debts). This overhang is also an incentive to engage in corrupt practices (i.e. to grab what you can before the ship sinks) as well as being a disincentive to future investment. Even as state intervention becomes harder, co-ordinated state interventions become ever more necessary as environmental degradation, transnational erime, trade in drugs, weapons and illegal immigration pressures increase under the

same forces that stimulate the market economy, namely the falling cost and increasing speed of travel and communication.

The debate on whether to include labour and environmental rights in the agenda for international trade and investment agreements is an interesting example of how state sovereignty, in this case the opposition of developing country governments, has a key impact on global economic relations. These governments are fearful that labour rights and environmental issues will be used by Northern countries to justify protection in another guise. Yet NGOs who work in the communities who suffer environmental degradation and abuse of their labour rights find that those communities desire change, albeit change that would guarantee them a livelihood. These civil society actors taking a people centred perspective to globalisation as opposed to a state centred one, are advocating for the international regulation of trade and investment to ensure that such rights are not violated. From their perspective there is a need for a strong relationship between the ILO (the oldest UN organisations) and the WTO (which falls outside the UN structure) such that labour violations can be protected with sanctions of similar force to those that protect free trade.[24] Otherwise the pious aspirations of labour rights protection can always be sacrificed in the hard ball of trade negotiations. The same principle applies to environmental rights. This issue is undoubtedly a complex one and requires further attention by NGOs and researchers alike.[25]

Although the next section assesses the limits of markets, this does not mean that there are not limits to the role of states. A number of issues affect the appropriateness of state policies, including whether the state is democratic, accountable and operates according to standards of good governance. Other issues concern the efficiency with which a state undertakes its various roles. However, while the dominant view of the international financial institutions is that state activities need to be curtailed or regulated, in reality the view of what roles are appropriate or not for state actors should be determined according to the particular country context.[26]

The limits of markets

Many of the difficulties associated with globalisation can be understood as examples of the limits of markets. Markets are complex institutions that are built over time and grounded in

law and custom. Yet a number of myths surround their operations, the first being that of *laissez faire*. As long as markets are open then people can freely participate. However participation is grounded on an extensive body of law which constrains freedom. As Sunstein puts it:

> Freedom itself is a complex notion, to say the least, and free markets depend on a range of coercive legal interventions, including law of property, which can be a serious intrusion on the freedom of people who lack ownership rights... We cannot have a system of private property without legal rules, telling people who owns what, imposing penalties for trespass, and saying who can do what to whom. Without the law of eontract, freedom of contract, as we know and live it would be impossible. Moreover, the law that underlies free markets is coercive in the sense that in addition to facilitating individual transactions, it stops people from doing many things that they would like to do.[27]

The controversy about the Multilateral Agreement on Investment (MAI), that is still being proposed by the OECD, and about TRIMS and TRIPS in the WTO is fundamentally about working out the coercive laws that are to apply to the global marketplace. That rules are needed is beyond dispute. However as Sunstein notes it is those without strong lobbying power whose property rights are likely to be ignored. If these rules continue to be made to serve the interests of the powerful then the global market place will entrench inequality even further. The process of MAI which even the US now admits was inadequate in its provisions to ensure protection of the environment and labour standards, and lacking in the involvement of developing countries, illustrates the unequal power relationships that affect the shaping of this crucial body of international law. This has been blocked successfully for now, but what balance will be achieved when these issues come up at the WTO remains to be seen. In the same way the rules governing the IMF and World Bank should be adjusted to give more power to the Bank than the IMF so that long run considerations will be given greater weight than short run considerations in formulating policy rules for structural adjustment and development assistance.[28]

Secondly free markets if they are to be efficient pre-suppose that no one actor in the market is more powerful than another. As soon as any *degree of monopoly* power exists the free market will not deliver a socially optimal level of output and prices.

When we look at the world economy we see vast income inequality. Since spending power is like votes, we can be assured that the free market will respond to the needs and desires of those with most purchasing power and neglect the needs and desires of those with little purchasing power. As Sunstein puts it: "almost by definition, markets incorporate the norms and practices of advantaged groups. The market, dependent as it is on the criterion of private willingness to pay, is extremely unlikely to eliminate discrimination".[29] In our vastly unequal world this suggests that the free market will be an inadequate vehicle for eliminating poverty.

On the production side, too, market power is the norm rather than the exception. Monopoly power either in buying labour, buying/extracting materials or in selling products to a particular country or region gives rise to the potential for exploitation, either by charging too high a price or paying too low a rent. Examples of such exploitation abound and involve local enterprise just as frequently as they involve TNCs albeit on a smaller scale. One such example is levels of payments to banana workers by large plantation owners in Latin America.[30]

A third crucial limit to the market is *externalities*. The market is blind to anything that is not priced within that market. Yet there clearly are many such goods. The environment, labour rights, poverty eradication etc, are all external to the market. Indeed many of the campaigns of NGOs are attempts to internalise these externalities. By lobbying in the North NGOs hope to cause big companies who dominate markets in the South to lose market share in the North. This imposes a financial penalty on these companies for their neglect of the social impact of their operations in terms of eradicating poverty, and in protecting the environment, and the rights of workers. Thus these externalities now enter into the commercial profitability considerations of companies and their behaviour is influenced, at least at the level of their publicity campaigns, and usually also at the level of their behaviour on the ground.

A fourth more fundamental problem than externalities is that the market assumes that everything can be compared with everything else and traded off in monetary terms. It is indisputable however that people think that diverse goods should be valued in qualitatively different ways. So buying votes or selling children is morally reprehensible. Votes or children are *incommensurable* goods. That is to say that they are to be valued in a distinctive way that places them higher than commodities in a hierarchy of value.[31] How for example do we compare the loss

of a species of plant or animal with the loss of jobs? There is an inevitably tragic quality to our ethical choices when we are in situations where such choices have to be made. The good of human life, of the uniqueness of a species, of the dignity of the person, can never be fully represented in the market because they are incommensurable goods. These incommensurable goods are only visible from a people centred perspective.

A fifth limit to markets is *public goods*. Most private goods are both excludable and rival. That is to say if I have the good I can exclude you from enjoying it, and also if I have the good you will have less of it. Public goods on the other hand are not excludable and are non-rival. A key public good that we have considered is effective international institutions, institutions that would reflect the interests of rich and poor alike. A particular form of public goods are *club goods*. These as their name suggests are goods from which you can be excluded but which once you are included are non-rival, i.e., your consumption of the good does not reduce that of anyone else. Club goods help explain international agreements. As Frey puts it, "the formation of international agreements can be usefully analysed with the help of club theory which stresses the voluntary nature of membership and the exclusion of non-members who may not benefit from the goods jointly provided."[32]

The crucial problem with public goods and club goods however is *free riding*. Who will pay for a good if everybody can benefit from it? There is always a temptation for one country to avoid paying anything and let the others carry the burden. This limit to the market is central to the discussions of environmental issues. Everyone at the Kyoto Conference on the Environment accepted the desirability of reducing greenhouse gasses and CFCs, yet most states were hoping to free ride.[33]

The temptation to free ride is not overwhelming, however. Sunstein notes that:

> experimental work shows that people contribute to a shared good, and refuse to free ride, far more often than economists predict. It also shows that agents are especially willing to cooperate, and hence to solve collective action problems without coercion, if most other people are seen as cooperators. In such circumstances the social norm is to cooperate and the social meaning of non-cooperation is greed or selfishness. By contrast, it emerges that when a number of people free ride, and are seen to free ride, cooperation breaks down. In these, circumstances, no social

norms call for cooperation and hence the social meaning of cooperation is a willingness to be a "dupe" or a "sucker".[34]

This analysis is surely pertinent for international agreements. Fundamental reform of the international institutions is needed that would encompass a reformed UN Security Council and changes in voting rights at the international financial institutions. Lack of inclusiveness in the process, or unequal power in the conclusion of an agreement, will give rise to the belief that some countries are trying to free ride. This will radically diminish the capacity for an agreement adequate to achieve the public or club good, and also diminish commitment to implementation of any agreement concluded.[35]

A final limitation that markets have relates to the quality of information available to buyers and sellers. This problem is called *information asymmetries.*[36] This can be applied to investment decisions in developing countries by investors in the developed countries. If one assumes that the sellers of assets in the developing countries have more information about their assets than investors in the developed world have, then these investors risk buying a dud asset or making a dud investment. This means that investment funds will typically not move to the place where they receive the best return, but instead will herd towards destinations where others are already investing. Just as a "full restaurant" will draw in other customers, so the Asian boom drew in investors. But this can quickly change and as market confidence evaporates, perhaps through new perceptions of underlying weaknesses, then the market will collapse. In this case the market does not work efficiently and the developing world is starved of investment funds. Earlier we noted how herding behaviour had greatly exacerbated both the inflow of credit towards unwise investment outlets in Asia and its precipitous withdrawal. The problem therefore is not just a structural one in Asia but a structural one in world capital markets which relates to the inherent limits of markets with asymmetric information.

Towards a people centred globalisation

Taking a *people centred perspective* requires taking inequality as well as culture and values into account. Looking at the

experience of people on our planet there is a real danger that our world is becoming ever more divided into two zones. One is a *zone of peace and prosperity*, a giant security community centred on economic growth, democracy, and liberal tolerance. The other is a *zone of turmoil*, with states becoming evcr weaker, where there is a lack of social security protection, deepening exclusion and a chronic debt problem.

In general it is true to say that market centred globalisation is a process in which life becomes worse for those at the margins, be they states or people. This is because resources tend to concentrate among richer countries and groups of people. If we examine the pattern of foreign direct investment between 1990-1994 for example, 68.4% went to developed countries, 18.1% to the Asian economies, but only 1.5% went to Africa (and most of that on oil and mining), and 4.2% to Latin America. Such a distribution based on the workings of an increasingly liberal free market does not promise anything but increasing inequality.[37]

This approach to the ethics of globalisation is admittedly complex but so is reality. Unless this complexity is addressed, any process of globalisation will be bereft of an adequate ethical criterion by which to judge its contribution to human welfare. It will build on a *flawed notion of equality*. Furthermore there will be no capacity to articulate the common good because a market centred process of globalisation will neglect the real impact that this process has at political and social levels. Markets are not neutral forces as many rules are set by powerful TNCs with monopoly power. At the same time poverty remains endemic in our world. Its existence is a denial of our common humanity and an indictment of the lack of an adequate and effective ethical basis to global economic and political relations as we approach the new millennium. Building a new global ethic is the millennium challenge.

Footnotes

1 For an account see Harold James, *International Monetary Co-operation Since Bretton Woods*, Oxford University Press, 1996, p.37.

2 See Steven Radelet and Jeffrey D. Sachs, "The East Asian financial crisis: diagnosis, remedies, prospects", *Brookings Papers on Eeonomic Activity*, 1:1998

3 Marcus Miller and Pongsak Luangaram, "Financial crisis in East Asia: bank runs, asset bubbles and antidotes", *National Institute Economic Review*, July 1998; Paul Krugman, "Will Asia bonnce back", mimeo, March 1998

4 R. Dornbusch, in M. D. Bordo and B. Eichengreen eds., *A Retrospective on the Bretton Woods System*, University of Chicago Press, 1993, p. 103, emphasis inscrted.

5 Robert A. Haugen, *The New Finance: The Case against Efficient Markets*, Prentice Hall 1995, p.25

6 John Dunning, "Globalisation and the new economic geograpy of FDI", in *Oxford Development Studies*, vol. 26, no.1, 1998, pp. 47-69

7 It is interesting to note that the US government took the EU's banana trade regime to the WTO within 24 hours of Chiquita Brands making a donation of $500,000 to the Democratic party. See Charlotte Denny, "It's all a matter of balance", *The Guardian*, 17 November 1998.

8 See Myriam Vander Stichele, *Towards a World Transnationals Organisation?*, The World Trade Organisation Series, no. 3, Transnational Institute, April 1998.

9 Shell Publication, *Profits and Principles – does there have to be a choice?*, 1998

10 See Trócaire publication, *Human rights denied: a campaigner's guide to Nigeria, Shell and the Ogoni Issue*, 1997

11 The chief negotiators of the Bretton Woods agreements on behalf of the US and the UK respectively.

12 James, op. cit., pp. 35-48

13 Kwesi Botchwey, Paul Collier, Jan Willem Gunning, Koichi Hamada, *Report of the group of independent persons appointed to conduct an evaluation of certain aspects of the enhanced structural adjustment facility*, January 1998, p.28

14 See P. Carmody "Neoclassical practice and the collapse of industry in Zimbabwe: the case of textiles, clothing and footwear", forthcoming in *Economic Geography*.

15 External Review, p. 29

16 Ngaire Woods, "Editorial Introdnction. Globalization: definirions, debates and implications", *Oxford Development Studies*, vol. 26, no. 1, February 1998

17 The quality of markets is measured by other indicators such as the distribution of wealth, impact on the environment and the nature of the transactions being made. In terms of the latter the money gained from odious trades such as those in people, illicit drugs and arms to repressive regimes is still included in GNP even though these transactions damage rather than promote human wellbeing.

18 Amartya Sen, *Inequality Re-examined*, Clarendon Press, Oxford, 1992, p. 12

19 The expression "human functioning" is somewhat mechanistic and unappealing, however it expresses the necessary conditions for human living at its different levels. These necessary conditions which constitute a capacity to function are not the same as the maximum levels that might be achieved by human self-expression in any given context.

20 Sen, op.cit., p. 114-16

21 Throughout this paper when I use the term "the common good" I do not mean something that is obvious and "out there" given either by authority or by nature. Instead I mean something that respects nature and the inherent structures of human life but in so doing incorporates free creativity and imagination which are also part of human nature. The common good is always constructed, therefore, in a free discussion between people within a particular community whether local or global.

22 *Centesimus Annus*, par. 42

23 Bruno S. Frey "The public choice of international organizations", in Dennis C. Mueller eds., *Perspectives on Public Choice*, Cambridge University Press, 1997

24 See Trócaire/SIPTU publication, *Worker's Rights in the Global Economy*, 1997.

25 Indeed the papers from Trócaire's *People, Power and Participation* conference published in this *Review* illustrate that only by taking into account the views of civil society and by building up eivil society's capacity to be active in relarion to policies, be these economic, social or other areas, can one expect to build a developmental srate.

26 The debate on the appropriate balance between state, people and market-centred approaches to development is a large one and would need to be the subject of a separate paper. Ohviously the state has a key role in terms of providing public goods, dealing with externalities, correcting information gaps and in resource distribution. The state fulfils its role in different ways in different countries, e.g. public versus private provision of childcare. Rather than determining which approach is best, based on ideological grounds, it is more fruitful to examine outcomes on a case by case basis. A number of issues have been touched on here such as the linkage between trade policy and labour rights and proposals around a multilateral agreement on investment. Another key point is that rather than being in competition with each other the state, civil society and the market ean reinforce one another for the benefit of society, e.g. more infrastructure provision enhances opportunties for farmers' groups and exporting companies. For an interesting discussion on the balance between state and market intervention see Tony Killick, *A Reaction Too Far*, Overseas Development Institute, London, 1989.

27 Cass R. Sunstein, *Free Markets and Social Justice*, Oxford University Press, 1997

28 It is also worth pointing out that one of the issues which the anthors grappled with in the external review of ESAF was the appropriare role of the IMF which is a monetary institution bur is increasingly becoming involved in development issues.

29 Sunstein, op. cit., p.161

30 Catholic social teaching has long recognised that power inequalities can distort the legitimacy of contracts freely entered into. *Rerum Novarum* para.34 recognises this in relation to the unjust wage to which worker may be forced "freely" to contract. *Populorum Progressio* para.59 applies this principle to unjust international contracts.

31 Sunstein, op. cit. pp.263-5

32 Frey, op. cit., p.109

33 Indeed the provision to allow trade in pollution quotas in Kyoro will allow wealthier countries to avoid costly adjustments to their economics by buying pollution quotas from poorer countries – a comparatively free ride.

34 Sunstein, op. cit., p.53

35 Such an analysis can also be applied to some forms of burden sharing around debt relief.

36 This was analysed in a famous paper by Akerlof looking at the market for secoud hand ears. A dud second hand car is called a lemon. Now if the owner has better information than the buyer about the quality of the second hand car the buyer faces a dilemma. He or she risks getting stuck with a lemon. Many bad cars will be offered at the same price as a good car. So it is possible the market will uot function at all. One way around this problem is to take other buyers' behaviour as a proxy for informarion about the quality of the cars on offer. So if a lot of people buy from a particular second hand car dealer you can suppose that this firm must sell good quality second hand cars. This is like choosing a full restaurant to eat in rather than an empty one.

37 Dunning op. cit.