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Globalization and the Common Good: An Economist's Account for Skeptical Scholars

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I aim in this essay to give an observant Christian economist's account of globalization's common—but not uniform, nor universal—good fruit. I aim especially at an audience of scholarly skeptics, especially those from other disciplines, and importantly ethicists, philosophers, and theologians. I hope and trust that they will consider, critique, complement, and complete my reasoning on the important nexus of globalization and "good."

Most varieties of economic globalization serve the common good, when this ethical notion is understood in its most natural conception. A few do not, however. And all varieties are subject to perversions and concerns, the most striking of which is the way economic globalization abets widely understood "bads," such as crime. Yet the identities of the particular communities whose "goods" globalization serves well have changed sharply over the last few generations. I shall argue that this, too, is not necessarily a good thing. So the enthusiasm with which we believe that economic globalization serves the common good should vary greatly with who we are, and with what specific global markets we are evaluating.

To be concrete, the good that economic globalization encourages

- is best assured in open global markets for inputs that firms buy and sell from each other, then assemble into outputs, including the input called

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Author's Note: *Professor of Economics and International Relations, Maxwell School of Citizenship and Public Affairs, Syracuse University, Syracuse, NY 13244. Senior Fellow Emeritus, Peterson Institute for International Economics, Washington, DC 20036.* *These reflections come from the privilege of a frontline perspective that for several decades has placed me by grace in the heart of the Washington policy community—no common consensus there about the goodness of globalization!—and at the interface of mainline economics, development studies, politics, and international relations. In reflecting over the years, I have gained greatly from colloquy and co-authorship with C. Fred Bergsten, I. M. (Mac) Destler, Kimberly Ann Elliott, Howard Lewis III, and Howard F. Rosen, especially, as well as from graduate students in three offerings of a course titled "Globalization and Development." I have also been aided by comments on an incomplete earlier draft by P. J. Hill, Andrew Yuengert, and especially Christopher B. Barrett, John Mason, and Paul Oslington.*

innovation;

- requires market-supportive institutions and regulatory oversight to be predictably good, especially in ethics-bounded activities and limited-information markets, such as human trafficking and finance; and
- accrues all-too-naturally to the more capable in our many communities, and may therefore require insurance and other redistributive institutions in democratic societies to be predictably good.

1 Preliminaries

In my essay, I will emphasize

- a clear conception of *economic* globalization, the cross-border integration of markets, including the markets supplied by not-for-profit (NFP) firms, with integral attention to political, institutional, and ideological support for what I will call the *"open market system,"* and
- the multiplicity of conceptions of, and horizons for, the *common* good—because doing so highlights the inevitable tradeoff between *openness* and *family preference* (for "our" family), which are *both* good things.

I will be taking the market system, characterized below, as a given, and arguing that it works better ("good"-er) when it works across borders. I will devote considerable space to the obvious question being begged, "better for whom?"—for which communities? I will work with a primitive, economistic notion of the "good," and will use asides to propose that refinement of this is the principal way that ethicists, theologians, and other scholars can fruitfully labor together with (even against) economists.

Economic Globalization as an Open Market System

The market system, as I conceive it descriptively, is *not* free-of-government, nor is the openness I endorse free-of-international-discrimination. Free-marketeers and free-traders may be dismayed. The "market system" is a distinctive mix of competition and cooperation, a complex, vertical, and social network of purchases and sales, contracts and conventions among firms—firms that are themselves social units, and that include some motivated by service, not profit, such as schools, hospitals, mutual insurance companies, credit unions, labor unions, and agricultural and other cooperatives.[1] This past year's Nobel Prizes in economics went to two scholars (one a political scientist) who pioneered exactly this social conception of firms.

The quality of the social network's competition and cooperation determines how effectively and efficiently it combines fundamental inputs such as worker services to produce intermediate and then final goods for those very workers. In other words, the quality of this social market system determines the material standard of living of its workers (and its growth rate also, once innovation is recognized as an input).

A government's economic regulations can contribute (or not) to the quality of this competitive-cooperative market system—internally within a firm and externally across them. Internal regulation ideally establishes and maintains clear property rights and the rule of law, including rights and laws concerning shareholders and labor relations. External regulation ideally maintains the sanctity of contracts (every contract is a voluntary agreement to be assured by judicially enforceable provisions), and conditions for relatively free entry of new firms, new products, and new ideas (e.g., antitrust/competition policies). External regulation also defines and ideally bans coercion, corruption, and fraud, all "bads" for effective market systems. Naturally, when government regulation fails or is corrupted, the quality of the market system suffers, too.

The preceding paragraph contains the reasons why the market system *must* ideally rest on and feature a fundamental role for government and its institutions. The market system is made up of commercial societies interacting with and within political societies, and is embedded in social customs and institutions.

I mean this and almost everything above descriptively, not prescriptively. This is the way the world truly *is*. But because I care as a Christian about its integrity and justice as well as its "quality," I wish I could cite detailed, applied, relevant, and modern-yet-historically-rooted critical scholarship along these lines by those who are gifted and specialized in social ethics. Frankly, I do not see enough.[2]

In this conception of the market system, pure "globalization" is even-handed *openness* at sovereign-government boundaries, free entry at the border and equal treatment within it. Free trade has thus always been carefully defined as non-discrimination between "our" commercial society and "theirs." Free investment, including mergers and acquisitions, has always been carefully defined as "national treatment" for foreign firms.

There is widespread ignorance that *neither* free trade nor free investment require, or necessarily even promote, so-called "free markets," markets with minimal government intrusion. Free trade and free investment *do* require that exactly the same government regulations apply in our geographical space to our goods and theirs, to our firms and theirs.

In brief, economic globalization is about markets being open to foreigners, "contestable" in the technical language used by economists. Globalization is *not* about markets being closed to government meddling.

It should then be obvious why indiscriminate openness is *not* necessarily beneficial. For example, among "goods" traded across borders are commercial "bads," such as human trafficking and other criminal activities mediated by "bad firms." In regretful parallel with goods crossing borders are globalized addictions, weapons that facilitate violence, and financial instability. Openness to these and other "bads" is one of the major concerns at the end of this essay.

Our Many Conceptions of Common Good

There is less consensus on a suitable conception of "common good" than there is for markets and globalization.[3] There are obviously different normative conceptions of fundamental "good." My paper will rest on a fairly straightforward, commonly-held conception. Enhancements to human capability and creativity are my primitive *"good,"* as I will describe below. Ethicists, theologians, and other scholars have obviously developed more precise and deeper conceptions of the "good."[4]

Different conceptions of "common" good need more discussion. The conception of "common" that is most useful for this essay is based on social groupings, because globalization is properly conceived as "our" non-discriminatory openness to "them," and theirs to us. The communal pronoun "we" could then signify one's blood family, extended family, blended family, locality, denomination, religion, affinity group, race, class, gender, city, province, nation-state, region (global "North, South") and even broader conceptions (humankind, "planet earth"). The corresponding common good would, of course, be captured by everything from "good for our marriage" right down (up?) to "good for the animate earth's ecological harmony."

I find it unhelpful to narrow communal pronouns like "we" and "us" to mere nation-states, the conventional social unit involved in globalization debates. Some of the most contentious openness issues are and have been about "us's" smaller than national citizenry. For example, the United States has contended within itself for centuries over the meaning and scope of the Constitution's inter-state commerce clause, dictating openness among states for America's "common good." Similar contentions exist across every federal union and within the European Union. Or, for example, North-South contentions over globalization's rules and representation in international institutions concern what is good for an "us" much larger than nation-states.

All this notwithstanding, to conceive "us" as a nation-state is familiar and natural for economic globalization. It is also very revealing. In this conception, fellow citizens are a type of family, and border discrimination constitutes mere family preference. Indeed, maximum even-handed openness to *all* foreigners would seem to be at best a profoundly mixed blessing! Family ties, community ties, patriotism, and distinctive citizen rights and obligations remind us that there are often communal benefits from *not* being completely and indiscriminately "open." Few of us seriously endorse a "market" in which we could sell off our difficult children and buy more promising substitutes! No serious commentator endorses openness toward mortal enemies. And "doing good to all people" is modulated in Galatians 6:10 by "especially to those who belong to the family of believers."

2 The Nexus of Economic Globalization and "the" Global Common Good

With these preliminaries in mind, answers to the "globalization-good?" question will certainly differ among groups. Globalization is good for cosmopolitans, but may be bad for those who prize tribal culture, self-sufficiency, Gandhi's *swaraj*, and the "small-as-beautiful." It is perhaps good for the world's highly educated, but bad for its illiterates. It is good for men, perhaps, but especially good for women. It is good for every nation-state but especially good for middle-income nation-states with strong (though not necessarily democratic) socio-political institutions, as we will argue below.

Second—and less obvious (and distinctly less neutral)—recent research shows that economic globalization has profoundly different effects even *within* groups, as well as among them. Globalization shakes and sifts! Globalization almost always enlarges the opportunities of the most capable in a group and contracts the opportunities of those who seem comparable, but are less capable. For example, among "twin" firms of similar size, age, activity, and national origin, economic globalization raises the market shares of those that are most productive by luck or management wisdom, and shrinks or kills off those that are not. Economic globalization is, frankly, Darwinian. Its "blessing" to the favored twin at the expense of the less-favored twin is redolent with Scripture and is the main reason for globalization's acknowledged effect on volatility and anxiety, as discussed below.

The dark implication of this second point is that no matter how precisely and homogeneously we define the group called "we," globalization seems to propel some of us up and some down within the same "we"! How then, can it possibly be serving "our" *common* good?

The answer to that question lies in a third conclusion from recent research. If the Darwinian process just described leads, on *average*, to growing human capability and creativity and to institutional "best practice" around the globalizing world, then it might be serving the various "common goods" anyway despite distributional dispersion,[5] division, and extinction.

The most important real-life example is the growing global standard of living, discussed in the next section. That is in turn driven largely by openness to producer best-practice anywhere in the world, allowing firms freely to trade inputs, personnel, innovations, and superior management practices with each other, thereby boosting their productivity—both its level and its growth.

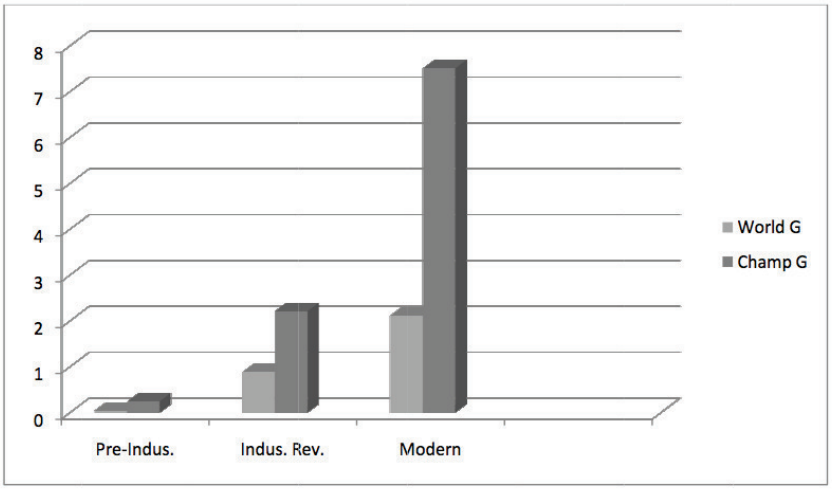
Almost as important are the opportunities that global openness gives for productivity from institutional refinement[6]—globally better ("good"-er) government bureaucracies, quasi-commercial institutions, and purpose-driven not-for-profit firms (NFPs), such as cooperatives, labor unions, educational and health-related institutions,[7] charities and philanthropies. Human standards of living track average productivity tightly. Average productivity tracks globalization tightly.

The Correlation Between Globalization, Human Capability, and Institutional Improvement

The evidence that globalization has facilitated a growing global average standard of living is condensed—hyper-capsulized!—in the following chart. The chart, like all correlations, proves nothing by itself. It requires an account, an interpretation, ideally plausible and powerful-against-alternatives. I have tried below to provide such an account, synthetically distilling the essence of an ongoing deliberation among students of globalization and development.

The chart depicts annual growth in the average person's command over goods and services during three eras, a near-millennial length pre-industrial era, a century-plus of European and colonial industrialization, and an ongoing two thirds of a century of modern diffusion of that industrialization.

"Industrialization" is the misleading term that is most often used to distinguish these three eras. Far better is to think of this flow of economic history as tracing the advent and diffusion of the "market system," as I have described it above. The so-called "industrial revolution" of the 1800s pioneered and refined the institutions of the market system "in parallel" among Western-sphere countries representing slightly more than twenty percent of the world's population. Japan began imitating the system in the late 1860s. But the modern era truly globalized the system, spreading it to an additional sixty percent or so of the world's population, expanding its market and institutional boundaries well beyond national borders, and shedding the coercive imperial/colonial institutions that encouraged trade in the 1800s and early 1900s, but hardly the market system.[8]



Notes to Chart

Horizontal Legend: **Pre-Indus.** = 1000-1820, **820** years; **Indus. Rev.** = 1820-1950, **130** years; **Modern** = 1950-2006, **66** years.

Vertical Legend: annual average compound growth rates (**G**) in Gross Domestic Product per person for the **World** as a whole, and for the **"Champion" growth regions** of the eras, respectively, Western Europe and the United States (Pre.-Indus.), Australia, Canada, Mexico, New Zealand, Scandinavia (Indus. Rev.), China, Japan, South Korea (Modern).

Sources: Maddison (2001), Appendix B, Table B-22, as updated by Rodrik (2009), Figure 1. Several of Maddison's and Rodrik's sub-eras were re-aggregated over time using years-of-sub-era duration as weights for the sub-era growth rates.

This condensed profile reveals three striking facts, all widely accepted, though controversy swirls over their interpretation. I will claim that the three capture the essence of the way that modern economic and institutional globalization has provided the foundation for growing global living standards.

1. The world's living standards were stagnant for most of the second millennium of the Common Era. But generational progress at one percent per year per person began in the early 1800s, and accelerated in

the modern era to two percent per year. Globalization reflected in cross-border trade (exports) rose from less than one percent of world GDP before 1820, to volatile single-digit percentages that fell back to five percent in 1950, and then exploded to roughly eighteen percent over the past decade that begins the third millennium.[9]

2. The countries whose prosperity grew fastest (each era's "growth champions" in the charts) uniformly started below the world's standard-of-living leaders. They then grew at *increasing* extraordinary super-rates, and thereby converged more-and-more-quickly toward the leaders as the modern era arrived. These growth champions also became more populous, representing well over half (sixty percent) of the modern world's population, and became generally more dependent across borders for imports of inputs and foreign investment and for exports of more-finished inputs, outputs, and their own corporate competence.
3. Largely because of faster modern-era convergence (measured by the surging *difference* in the heights of adjacent pillars) between standard-of-living leaders and those populous champions who rely on them for ideas, innovation, inputs, institutions, and markets, the *duration* of each of these eras shrinks. To put the point in more colorful, metaphoric terms, modern globalization is like a time warp. It is what allows modern growth champions to converge in a temporal blink-of-the-eye toward the already-prosperous.

An Interpretation

But my account is controversial. First, it rests on correlation. Does globalization really *cause* any of these remarkable trends? Researchers are still arguing its weight and "place," compared to the influence of technological progress and institutional refinement.[10] Yet almost no researcher denies globalization any contribution at all, especially when openness is broadly conceived as an underlying (necessary) condition for innovations and organizational/institutional design to be diffused quickly across borders

Moreover, as I have argued above, markets are best conceived as government-regulated social networks among purpose-and-profit-driven firms, covering rights to "own" innovations (temporarily) and business methods ("trade secrets"), and enshrining exclusive rights to represent stakeholders, e.g., shareholders or unionized workers. In this broad conception, openness at borders is a pre-condition for *any* technological and institutional progress to blossom beyond its insular birthplace.

A second controversy stems from my account being global, but hardly universal. Many are left out, roughly twenty percent of the world's people. Granted that, on average, over the past two generations, countries that have consciously deepened their globalization have seen poverty rates fall and middle classes grow. Granted, common people in this common experience have usually gained. But not always (e.g., Haiti), nor in every person's case (e.g., distributional measures within globalizing countries often decline, such as the income ratio of the poorest to the richest ten percent). Moreover, the standard-of-living gap between the modern era's "emerging" (globalizing) economies and others with very low development has continued to widen (by a depressing two to five percent per year),[11] leading naturally to the question, "how common is this alleged common good?[12]

Third, my account emphasizes catch-up by emerging-economy champions to the world's standard-of-living leaders. That raises another controversial question—what about those leaders? If/when catch-up convergence is complete, what *then* is the case for globalization serving the common good? To be more pointed, how in this account does globalization serve the common good of citizens in already rich countries? These questions are addressed below.

A Deeper Account

What are the deeper arguments that support my account? A deeper defense of economic globalization springs from my conception of the market system, and rests on three foundations, summarized by the words entry, diffusion, and scale. Economic globalization maximizes—subject to regulatory mediation—free entry, information diffusion, and scale economies, all desirable features of the market system and all catalysts for productivity and prosperity.

Entry. Globalization as I conceive it is almost identical to the economist's idea of free entry for aspiring producers (always subject to a country's rule of law and regulations). Free entry means something more precisely rendered as "no unnatural barriers" to entry, recognizing that most goods and services have natural barriers: up-front costs like licensing, credentialing, experience, and fund-raising; ongoing (fixed) costs like research, representation, rent, quality assurance, and debt service. "No unnatural barriers" means no incumbent-favoring regulation, no incumbent predation on newcomers,[13] and no unjustifiable border barriers.[14]

Globalization is then the cultivation of open-to-all rivalry among firms and institutions with the most attractive or innovative final goods and services, generated by productive producers with strong inside management practices and outside reputations. These firms and institutions are often themselves globalized in their supply chains and distribution systems so that they can truly be both cost-effective and respected by loyal buyers. That open-to-all rivalry applies to NFP suppliers of service—it has nothing to do with profits—and it applies to government services, too, especially postal and communications services, public-health, pension, and insurance services. Markets open to all sorts of entrepreneurial enterprise, including so-called social entrepreneurship, is the most predictable way to discipline and refine the market system.

Diffusion. Global diffusion expands the refinement of the market system. That refinement is continuous. But it began several centuries ago in the "West" and its satellite colonies; it subsequently united the American colonies and the European Union into "single" markets; and it created best-practice information bases about how to organize a firm, a charity, a government agency, including its innovation, its labor relations, and its customer (client, voter) relations.

There are, however, two defensible arguments against diffusion—and in favor of keeping technologies bottled up within a sub-global unit. One is national security.[15] The second is to maintain incentives that reward innovators, producers who pour resources into refining and supplying research and development, best-practice management and institutional practice, and new products and processes. This second is the case for maintaining territorial "intellectual property rights." These do indeed involve granting time-limited barriers both to diffusion (they nevertheless legally allow varieties of "fair use," and even reverse engineering of close substitutes) and to free entry (unless entry to the product market or to the process is authorized by a license and paid for).

Both arguments against diffusion are controversial in practice, because they involve subjective judgments in uncertain environments. Both invite excessive claims by firms providing alleged security and owning intellectual property, claims that are of course met with heated disagreement from rival firms that are closed out of markets. Though research reaches no clear conclusion yet, my judgment is that the contentions have been resolved in real life by institutions that place too little weight, ethically and economically, on the benefits of diffusion through openness (e.g., the Trade-Related Intellectual Property arrangements in many cross-border trade agreements).

Except for these two reservations, diffusion of best-practice is precisely what free entry facilitates.

Scale. Globalization creates markets and institutions of a large size that is often *necessary* for goods and services to charge buyers prices that are adequate to cover the resource costs of their production. Markets that do not cover costs have an equilibrium volume of zero—that is, they are missing markets; they are phantoms; they are never seen in reality; they do not naturally "work" to supply the product.

Merely national markets are often inadequately large to cover costs, e.g., for munitions and weaponry, communications satellites, and internet commerce and "e-government." Small nations are closed out of such markets without globalization,[16] and large nations only gain more when globalization allows the lump of start-up and fixed costs to be shared (divided, attenuated) among the customers of open-border nations. Cell-phone services spanning much of the African continent illustrate this. Productive experience ("savvy") itself usually gains from scale, experience of how to produce a better mousetrap or better disability insurance or .... Large scale allows for more experimentation, more continuous refinement, more good innovation. Open borders help diffuse those good practices.

Nowhere are the benefits of global scale more obvious than in customized input markets, including research and development, and in what is called business services. Firms and institutions all gain as they convert inputs into outputs using workers, machines, components, and marketing. They can purchase these in global markets—services of expert workers, of machines that are calibrated and customized to run on unpredictable energy systems, of components that survive storage in hyper-hot locations and near-twin components for hyper-cold locations. Globalized scale economies avoid what Adam Smith referred to at the very advent of the Industrial Revolution as the regretful way that labor's specialized productivity could be limited by the "extent of the market."

But Adam Smith never foresaw the scope of his scale: the way scale economies would revolutionize business and institutional practice world-wide, allowing business-to-business input markets to burgeon, inviting firms to slim down and specialize on just a few "core competencies,"[17] then rely on globally common information about global suppliers of infinite shades of suitability in global supply and distribution chains, all kept sharp by free global entry.

The global common good itself grows when entry, diffusion, and scale are cultivated globally. Their opposites—encircled incumbency, insular insiderism, cronyist provincialism—rarely serve any broad common good.

I want to draw my readers' attention also to what is *not* here. *Not* part of this account are arguments that I find diversionary, unpersuasive, and usually useless. There is no defense in my interpretation of how globalization expands markets at the expense of government activity, or private initiative at the expense of public. There is no defense of "business" per se, and certainly not of "business as usual." In fact the "usual" incumbent producers, aging and encrusted, are almost always the rabid institutional enemies of entry and diffusion, which inevitably cause their corporate scale to shrink. Terms like capitalism, neo-liberalism, liberty, and free enterprise never appear in this essay; words like profits, commerce, efficiency, and competition only rarely appear. These omissions are substantive, not just rhetorical.

I despair when critics of globalization—who could be constructively complementing or critiquing economics by devising market-consistent ethical criteria, or experimentation in institutional frameworks for ownership, re-contracting (e.g., bankruptcy), and targeted diffusion of intellectual property (e.g., frontier pharmaceuticals for the poor)—*instead* chase will-o-the-wisp red herrings and scowl at Cheshire cats that have little to do with the *real* issues and institutions of *real* economic globalization!

Real-Life Complexities and Concerns

So where are the flaws in this seemingly overwhelming apologia? My answer is "nowhere." Flaws are the wrong focus. But complexities and concerns abound, especially when we probe in more detail below the sweeping correlations across averages, when we probe specific communities, specific types of globalization, and measures of dispersion around averages. Each of the following complexities nests a concern. Each concern strikes me as fertile ground for collaboration between economists, ethicists, and other disciplines.

Complexity/Concern #1: Offshore Outsourcing and the "Global Business Model." Roughly two thirds of the modern era's global transactions involve firm-to-firm trade in *inputs*. That is why what is called *offshore outsourcing* is not a distinctively American issue. It is the norm in the modern era. Around the world, for-profit and NFP firms have discovered that they can improve the quality and lower the cost of their supplier-distributor relationships by engaging foreign partners. Technological change has already fragmented the integrated firm (and its conglomerate family) through outsourcing; globalization allows the outsourcing to include foreigners (offshoring) on a non-discriminatory basis. Offshoring obviously improves productivity and the welfare of the firm's owners and trustee-visionaries (in the case of NFPs). Workers could as easily gain as lose, likewise host communities, as when, for example, hospitals abroad buy American medical equipment and professional services from American specialists. Offshoring is ubiquitous; there is no obvious imbalance in its use among countries.

Yet the one clear conclusion is that globally-networked offshoring firms lose their national origins. They are increasingly *not* American or French or any other national "us" anywhere in the world.[18] Or, in a more sinister rendering, they are everywhere an "us-unto-themselves," an affinity group called global business, with a corporate flag but no national flag. It is *not* at all obvious how that cohesive corporate cosmopolitanism advances the common good of other social groups. A narrow-but-important way to express the corresponding concern is that corporate insiders, including workers, gain more than (even at the expense of) outsider communities.

Complexity/Concern #2: Worker Migration and Global Services Trade. Open migration is a type of globalization "bigger" than economics. It involves cultural and societal identity and political rights and obligations. The part of it that is more narrowly economic, however, is temporary worker migration. It introduces a distinctive complexity and concern.

Most commentators believe that the next frontier of modern economic globalization is services. Merchandise trade, including agriculture, was yesterday's globalization. And services trade includes trade in corporate control (cross-border mergers and acquisition) and in so-called "public" utilities that are vaguely thought to serve the common good. Services trade also, for the past decade, has involved an explicit bargain between rich, emerging, and poor members of the World Trade Organization to include time-limited cross-border movements of authorized mid-skill workers as the fourth "mode" of trading services[19] (e.g., poor-country nurses filling guest-worker jobs in rich-country medical facilities). "Mode 4" worker-services trade currently accounts for less than two percent of overall world services trade. To promote the good of the poorest twenty percent of the world's population, those left out of the modern wave of globalization, it is necessary for rich and emerging countries to make concessions that allow mid-skill poor workers market access. That will be the quid-pro-quo for their own higher-skill retailers, bankers, insurers, and consultants to increase their access to poor-country service markets. If no such concessions materialize, globalization of services will stagnate indefinitely at its present miniscule intensity.

The corresponding concern is that visceral resistance to so-called "guest workers," however defensible using vague norms that we citizens owe each other jobs "first-most," may undermine further and deeper globalization. This would not only attenuate the global gains, but would condemn the world's poorest twenty percent (Collier, 2007 calls them the "bottom billion") to stagnation.

Complexity/Concern #3: Volatility and Insurance. For the reasons discussed above, volatility of many kinds goes hand-in-hand with economic globalization. But insurance and reinsurance markets that normally deal with volatility (by pooling people into mutual societies, i.e., common-good risk groups!) have many familiar shortcomings (e.g., adverse selection and moral hazard[20]). These shortcomings are due to unavoidably asymmetric information between the would-be insured and the insurer. Governments, NFP mutual associations, and charities are absolutely necessary for coping with some of these shortcomings, such as "insuring the un-insurable" and reinsuring the insurers—but governments and NFPs are also some of the most notoriously wasteful, ineffective, and corrupt providers of insurance themselves (think of American disability and Medicaid fraud, or flood insurance, even deposit insurance).

Moreover, insurance markets that matter to people, as opposed to firms, such as health, pension, and life insurance, are hardly globalized at all (they are part of the services frontier described above). Deeper globalization will remain elusive without progress at the frontiers of insurance-market innovation, and without progress in spreading insurance services among classes and countries where they are rare and exotic and expensive. Only innovative, widely available, and wisely regulated types of insurance can cope with globalization's endemic volatility. The corresponding concern is that absent such globalized personal insurance, the good that globalization stimulates for human and institutional capability will be outweighed by the unwelcome unpredictability of that same good.

Complexity/Concern #4: Democratic Legitimization of Economic Globalization, and the Death of Political Support when the Median is the Margin. Whatever its average benefits, globalization rewards twins who have-what-it-takes at the expense of twins who "have not," as discussed above. When we focus only on that, and then place the twins in a typical, democratic population with only modest overall economic growth, the result is almost certainly nearly as many "losers" as gainers. The typical citizen (median voter) in this typical democracy is as likely to lose as to win. Why then will its voters continue to support a process that is perceived as beneficial to "people *like* me"—only if they are lucky or hyper-successful—*at the expense of me*! Indeed why *should* its voters warm to such coin-toss outcomes? Typical voters-in-the-middle of the typical country, for good democratic reasons, may not continue to endorse deeper economic globalization. It is democratically *ill*egitimate!

Except in our chart's growth champions, this legitimization concern is ubiquitous. It confronts democracies everywhere; it is not merely a concern for rich-country voters. It lays a pragmatic ethical foundation for a principled re-distribution policy that aims to make the typical (median) citizen better off from economic globalization. It is pragmatic because it rests on material persuasion of one's fellow voters; it does not rest on national solidarity, safety nets, or charitable motives. It is ethical because it refuses to let globalization proceed unless democratic voters "in the middle" support it. Political philosophers could help economists tremendously by deepening this kind of reasoning.

And there is a darker implicit concern. These same traits make it easier for elitist, autocratic states to embrace globalization, and its economic good, than democracies can. They need not be concerned with the "masses," the large middle class and the "unwashed" below them. That is serious. Globalization opportunities and their corresponding prosperity could in principle encourage a world where democracy was unsupported in geo-political natural selection. Global economic good that impedes global democracy in that way may not be nearly as attractive in terms of wider (wider than material) human values. These concerns seem ripe for scholarly reasoning that goes well beyond conventional economics.

Complexity/Concern #5: Global Institutional Reform. National and sub-national governments of all types have gained institutionally from globalization; even politics has. Yet inter-governmental institutions, both global and regional, are at present sorry mediators of common goods, and sorry monitors of global "bads," discussed below. The most familiar inter-governmental institutions are anachronistic dinosaurs from a war-racked, ideology-warped, secularized early twentieth-century. They were a humanly hopeful architecture to banish carnage and depression. Admittedly, for three generations they have "worked" remarkably well, certainly "well enough." But today they are all-but-moribund.

If they cannot mediate among the economic common-goods of the nations, then a key concern is that the market *system*, so important in my account, does not exist across borders, because the undergirding inter-governmental oversight and regulation does not exist at that level. Moreover, if there are few if any successful cross-border mediator institutions for other conceptions of the common good (The UN for security against aggression? Interpol for crime? The International Labor Organization for human rights in the workplace?), then one can only use the word "anarchy" to describe the nexus among the various common goods. That is the same concern writ large.

Surely the design of organizations that enfold smaller common-good groups into a larger conception of the good that they hold in common is a pragmatically noble enterprise. How could it develop? Does the European Union provide models, institutions to embrace and to avoid? Does Judaism, Roman Catholicism, Orthodox Christianity, or any branch of Islam? Do multi-divisional, multi-national corporations? These are rich institutional questions, better answered by students of history, law, politics, and religion than by economists.

3 Has Its Goodness Changed? For Whom? And What About Those "Bads?"

Even patient sympathizers with my sweeping apologia (however conditioned) may be asking more pressing, more immediate questions at this point. Has not the argument changed in the past few years? Has not the mix of goods and "bads" changed? Has not there been change in the identity of those blessed and burdened? Here are my answers.

Change. Change has happened, indeed, for better and worse. For example, I will argue below that the past generation has experienced truly astounding growth in financial globalization, much faster than any other type, but that its endemic volatility and market shortcomings (even in the presence of wise prudential regulation) make its beneficence dubious.

Some "good" change has failed to happen. I argue above that global integration of services markets, including middle-skill guest-worker services, would have been a way to expand globalization's common good to be maximally—globally—inclusive. But this has gone nowhere in the past generation.

Incidence. [21] My interpretation and account have a hidden message. The identity of those gaining most from globalization evolves predictably. The greatest good is delivered to countries that initially trail the world's standard-of-living leaders and that progressively deepen their global integration, both in intensity and type (trade and productive investment especially). Less good is delivered to countries which are already among the leaders, or to countries that have already reached openness plateaus of various types.

In brief, it is the *momentum* of globalization that matters for growth, and those that have already grown into leaders gain only the incremental ideas, innovations, and institutional reforms that the world generates every year. That is by no means nothing. It is no reason to discount the value of globalization for the already rich. But globalization delivers far more good to countries catching up, able to import an accumulated *stock* of ideas, innovations, and institutions, and not just the incremental flow.

So the economist's gains are by no means equi-proportionally divided among globalizing countries, much less within them. These generalizations mean concretely that "emerging economies" today are getting more (good) out of globalization than "the West." The global gains across countries are unevenly distributed. But it is wrong to say "inequitably" instead of merely unevenly. Today's rich countries enjoyed their own historical era of global-market-driven emergence and convergence. They are not generally made poorer by today's growing prosperity of others.[22] They should not be envious that poorer emerging countries are becoming more prosperous. But of course they (we) are! And perceptions of *relative* prosperity affect human satisfaction (shalom) more than we want to admit.

Furthermore, a significant group of countries, representing roughly twenty percent of the world's population (see above, and Collier, 2007), are hardly growing at all, and falling further behind both the rich and the emerging globalizers in average standard of living. The usual broad indicators of their globalization are, curiously, *not* demonstrably smaller than those of emerging economies. For specific countries, like the Philippines or South Africa, the type of globalization most promising to their prosperity has been stifled, trade in time-limited guest-worker services. In other cases, such as "dualistic" economies, often resource-oriented, corruption and failures in internal governance and institutional development has left most of the population insulated from globalization's good.

"Bads." It is surprising how few commentators give weight to the ways that globalized markets and institutions serve the "bad," too. Widely-held global norms identify certain goods as "bads," most persuasively illustrated by human trafficking, theft, and humanly debilitating substances, especially "illicit" drugs.[23] Human trafficking includes cross-border prostitution and indentured slavery, usually victimizing the young and the desperately poor. Theft includes growing global piracy (and theft for ransom), and globalized trade in stolen motor vehicles, art, personal identities, and intellectual property.

The same natural and policy trends that have globalized goods markets have facilitated global "bad markets." Bads are of course traded by "bad institutions," the global gangs and criminal syndicates that mediate them through "bad" global supply chains and distribution networks. Globalized corruption[24] among government officials allows the bad firms to remain in their bad business.

Yet careful research on the globalization of such bads comes so far to a surprising conclusion. Far from "Highjacking the Global Economy," the title of one of the best and broadest studies, global trade in bads seems to have grown more-or-less apace with trade in goods: pirated goods trade is estimated to be roughly five percent of total "legitimate" trade, and the sum of illicit trade in art, arms, and coerced human services is twenty times smaller.[25] Far from "a few bad apples spoiling the bunch," the mix between global good and global bads in global trade is not that different from its average, internal, national mix. Some of this is arguably a credit to the growth of globalized government institutions that discipline the trade in these bads: Interpol, money-laundering and tax-evasion conventions, and international cooperation protocols on intelligence-sharing and cyber-crime. And much of it is a credit to the growth of enterprising, globalized non-governmental organizations such as Transparency International and the International Justice Mission.

But it is not clear we should be so sanguine about *other* bads. One of history's saddest and most-studied bads is the recurrent volatility and crisis that has spilled over from financial markets for centuries. Modern global financial markets dubiously globalize financial volatility and crisis. Volatility and crisis are facilitated by global communications that spread rumor and mis- and dis-information to all corners of the earth. Small-scale financial crises in the past generation have metastasized through cross-border "contagion" to a quasi-global scale that victimizes innocent institutions and countries, all abetted by globalized financial instruments that enable lucrative bets to be placed on failure, whatever their insurance value may be in avoiding risk ("hedging").

Unlike other bads, it is not at all clear that global financial volatility is merely a proportional up-scaling of national volatility. It may be a multiple. It may be "going bad." It may be *very* bad. If so, then there is no better example of the need for governments to agree across borders on global regulatory forums to police and undergird this important part of the market system, all aimed at minimizing volatility and the frequency, intensity, and duration of crisis. Primitive (and controversial) real-life examples exist in the Basel Committee process, now in the third phase of a long quest to globalize best-practice standards for commercial-bank capital, and in the inter-governmental Group of Twenty's deputization of the Financial Standards Board to be a nascent provider of global prudential regulation for financial transactions of all types. But no one is betting that institutions for adequate global prudential regulation will be in place soon.[26]

Finally, non-discriminatory openness at the border can have bad consequences beyond the bad volatility, the bad goods that flow more freely, and the bad firms that prosper from facilitating their trade. Global market openness, especially financial openness, also spreads bad *practices* globally, especially fraud, predation, and insidious forms of discrimination— e.g., the excessively long-lived stigmatization of sovereign borrowers and their resident firms in the absence of a global "work-out" institution. All three of these bad practices are familiar shortcomings of markets with asymmetric information (familiar from the pioneering work of several recent Nobel laureates in economics). The sharpest way to articulate the problem is to ask, rhetorically, why anyone with good sense should welcome fraud, predation, and discrimination on a global scale!

4 Summing Up

So, has globalization really served the common good historically? And even if the answer is yes for many countries and social groups, has its good diminished or become adulterated? Worse, has it begun to go bad? All bad? My answers tend toward yes, then no.

I argue above that economic globalization—*widespread, non-discriminatory, systemic market openness at national borders*

- does indeed raise the average prosperity of people, societies, and their institutions, including commercial and purpose-driven firms both, whose average institutional productivity is greatly enhanced by global innovation and input markets, and even including purpose-driven national political institutions and government bureaucracies.
- Yet globalization has done this good more predictably in the "emerging" world over the past several generations than among the twentieth century's rich countries, and it remains incomplete—benefitting only 80 percent of the world's population—until negotiated openness to trade in temporary worker services allow services markets more generally to integrate across borders.

- Furthermore, globalization's tendency to diffuse its gains unequally and sometimes unpredictably *within* any sub-society in the broader society has yet to be adequately recognized, and yet to be met with adequate mutual-aid institutions and policy remediation.
- Finally, economic globalization's unfortunate facilitation of global communal "bads," especially financial volatility and crisis, fraud, predation, and discrimination, needs always to be held as a counterweight in evaluating any conception of the common good it serves.

But I remind readers that at various places in this essay I have invited them to constructively supplement this economist's primitives and partialities.

Endnotes

1. In my term "service" I am including services to members of credit unions, labor unions, and cooperatives. Transactions among broadly defined "firms" (social groups), each of which is purpose-driven, each of which chooses sensibly, subject to constraints, is the *core* concern of economics—even households are a sort of firm. The core concern is *not* ego-centric, materialistic individuals pursuing consumerist maximization, however much that caricature appears in textbook introductions to "homo economicus." Critics who attack homo economicus for the straw man he truly is contribute little to fundamental economic discourse.
2. Among the most thoughtful and constructive treatments, in my opinion, are Stackhouse (2007) and Dunning (2003), especially the chapter contributions by Deepak Lal, by Hans Küng, and by four authors reflecting the ethics of monotheistic faiths and "eastern religions."
3. Paul Oslington made me aware of the rich elaboration of the term "common good" in Roman Catholic social teaching, seen especially in the century-plus of papal economic encyclicals. I am not using the term in that way, and am consciously avoiding any precise conception of the "good," in order to focus on the many competing conceptions of commonality. Economists, ethicists, and theologians *together* need to work more carefully on modern, commercially-relevant conceptions of "good."
4. I will be more precise below about whether I am thinking about average human capability and creativity or its distribution, and whether I am thinking about humans as individuals or in groups,

and about whether there might be "bad" capability and creativity. These issues are one of the most important illustrations, in my opinion, of where theologians and other broad scholars could help economists deepen their discourse.

5. The ethics of distribution and government-sanctioned re-distribution will be considered briefly below under the complexity/concern that I label democratic legitimization. Suffice it to say here that I find entirely-too-demanding ethical principles such as Pareto optimality ("it is good only if no one is made worse off") or Rawls-rooted criteria ("it is good only if the worst-off can be made better off"). Social ethicists could help economists enormously by developing less primitive and less abstract re-distributional principles than these.
6. I believe that this is the dominating effect of globalization on institutions, with the important exception, discussed at the end of the essay, of "bad" institutions mediating global trade in "bads." Thus in the specific case of government market regulation, my judgment is that "races to the bottom"—firms seeking out the least restrictive regulations across countries—are dominated by "races to the top"—firms seeking out countries with predictable, effective, market-supportive regulation that undergirds the market system described at the beginning of the essay.
7. I believe that my account could be expanded for education and health to show similar gains from economic globalization. That would allow me to define human capability and the standard of living more broadly in the way that the twenty-year-old Human Development Index defines them, an average (index) of GDP per capita, educational, and health indicators. See UNDP (2009). The France-funded Commission on the Measurement of Economic Performance and Social Progress (2009), chaired/advised by Nobel prize-winners Joseph E. Stiglitz and Amartya Sen, has recently recommended an even broader measure of human capability and the standard of living. It has yet to be implemented, and it is less clear that economic globalization would advance each and every sub-component.
8. Population shares are rough era averages from Maddison (2001, appendix table B-10, p. 241). I am unaware of any widely respected research that ascribes the modern era's gains of emerging globalizing countries to exploitation, unlike the rich-if-somewhat-polemic literature on the role of nineteenth and twentieth-century

colonial imperialism in generating gains from globalization for imperial colonizers.

9. Maddison (2001, appendix table F-5, p. 363) and associated text for the early period.
10. The debate is bracketed and well summarized in the combination of Rodrik (2007) and Commission on Growth and Development (2008). "Cultural" influences, as embedded in values and institutions, play an important role in McCloskey's distinctive multi-volume treatment, of which McCloskey (2006) is the first volume.
11. UNDP (2009, p. 198).
12. One informed commentator (Pritchett, 1997) has characterized that as "divergence, big time!" On the unique problems of the "bottom billion," see Collier (2007).
13. My point here is similar to one made eloquently and extendedly in Rajan and Zingales (2004). See also Stangler and Litan (2009) and Baumol, Litan, and Schram (2007), who in essence link new entry to diffusion in a "blend" of what they call entrepreneurial capitalism and big-firm capitalism. Upstarts "enter" with innovations and big firms sift, refine, and diffuse them.
14. Everyone accepts border barriers to maintain national security; some extend such arguments to include food security, vaccine security, cultural security, and the security of government revenues (border taxes in some countries are the most efficient way of raising government revenue and are not easily evaded).
15. See previous note.
16. In fact, the result can be a so-called poverty trap, in which a small country remains "stuck" without globalization in an "inferior equilibrium" among the multiple equilibria that are possible. In such cases, opening to global trade may "rescue" a country from its trap. I am indebted to Christopher B. Barrett for reminding me of this. Carter and Barrett (2006, pp. 186-87) nest a brief summary of macroeconomic traps in a much longer empirical, microeconomic treatment of poverty traps.
17. With due allowance for the extra volatility risks that specialization invites, to be offset by suitable diversification across core competencies.
18 . IBM's current Chairman and Chief Executive Officer, for example, is quite explicit that he wants his employees' citizenship and culture to be first-and-foremost *corporate*, not national, not ethnic. See "Globalization's offspring" (2007), and "Hungry tiger, danc-

ing elephant" (2007).

19. The first three "modes" involve travel across borders by service suppliers (e.g., corporate establishment abroad), by service demanders (e.g., tourism), and services provided (e.g., electronically) without physical travel.
20. Adverse selection and moral hazard are unavoidable consequences of markets with asymmetric, unverifiable information, and are sometimes fatal to those markets (i.e., withering them away). The first is the incentive for those with secrets to hide, e.g., "this car is bad" or "I have a genetic pre-disposition to illness," to elect (select) to participate in (used-car, health-insurance) markets while others stay away because of the resulting high cost and low quality of available insurance. The second is the incentive for those who have paid to avoid risk in a market—i.e., paid for insurance, or paid for hedging—to relax their natural tendency (moral responsibility) to avoid risk ("I am already covered"), thereby making risky decisions more likely and risk avoidance more costly for all.
21. Economists use the word *incidence* to describe the exercise of identifying "winners and losers" from any change.
22. There are at least two prominent exceptions. One was popularized recently by the late Paul Samuelson (2004), a Nobel laureate in Economics. When emerging economies grow especially fast in producing the goods and services that rich countries have traditionally exported, the downward pressure on their global prices shrinks the size of rich-country gains from globalization. But not to zero (hurtful globalization). And there is surprisingly little empirical evidence that this has happened in the past two (or more) decades (Edwards & Lawrence, 2010). The second is the possibility of negative global spillovers (externalities) from growth in today's emerging economies that might undermine prosperity in rich countries, most likely in the accentuation of global warming through greenhouse gas emissions and in the exhaustion of nonrenewable resources.
23. More controversial "bads" include addictive, but not-necessarily debilitating, goods and services, e.g., gambling, pornography, and weapons.
24. Corruption, theft, and debilitating drugs all sap institutional and human productivity, the prime channel through which globalization raises global living standards. Workers involved in such predatory transfers generate no output (their true productivity is zero),

and can sap the growth as well as the level of productivity, when their activities bleed away the rewards to producers and owners of innovation and intellectual property.

25. Naim (2005b), summarizing Naim (2005a).
26. It is not well understood that international prudential regulation of finance was *never* among the mandated constitutional functions of the International Fund or the World Bank. Almost no one at their founding foresaw the explosion of financial globalization beginning in the 1980s, and those who watched it explode, like Alan Greenspan and the early Basel Committee participants, were shocked (shocked!) that it was not self policing!

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