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GLOBALIZATION AND SOCIAL JUSTICE

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GLOBALIZATION AND SOCIAL JUSTICE*

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Globalization enhances efficiency and economic growth and expands the domain of personal contact and communication. Nonetheless, globalization has also evoked discontent because of claimed social injustice. The relation between globalization and social justice therefore merits attention, in order to identify whether justifications for discontent are present and, if there are reasons for discontent, to establish whether globalization should be blamed.

Keywords: Globalization; social justice; trade liberalization; culture; social insurance; immigration; income distribution; international agencies; national government.

1. Introduction

It is my pleasure to present this public lecture in Singapore on the topic of globalization and social justice. When I studied international trade many years ago in an era of national policies that set barriers to free trade, I often wondered what the consequences would be of true free trade in the world. I was guided in my thinking by the theorems of a venerable tradition of international trade theory that predicted that, some impediments aside, free trade would result in equalized incomes among countries (or factor prices in the language of the models), just as free trade equalized prices of goods in different national markets, subject of course to transportation costs and national differences in wholesale and retail costs that make internationally traded goods delivered for final consumption, in effect, non-traded goods.

The idea of free trade and equalization of factor prices across countries was then quite fanciful. It was also evident that the neoclassical theory of international trade omitted important considerations about the motives of people in government and political objectives. Missing as well was any mention of protection of property rights without which exchange could not take place. That is, consequences of institutions and political economy were missing. The richer countries were similar in factor endowments, preferences and technologies, as well as in institutions of governance. Poorer countries did not participate all that much in international trade, although the theory predicted gains from trade when dissimilar countries trade.

In the second half of the 20th century, trade liberalization occurred in richer countries and integration of national markets took place. Also, countries previously not part of the international trading system began to participate. A phenomenon termed “globalization”

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has been sufficiently significant to come to be noticed by journalists, the public at large, and politicians. As often happens when an economic phenomenon comes to popular notice, new names are invented that differ from the terms used by professional researchers. Rather than integration of national markets, we have the term “globalization” to reflect the idea that we live in a “global village” — where our access to, and knowledge about, people in different parts of the world is as if they were our familiar neighbors in a village. Economic theory predicts that market openness through market access brings efficiency gains and growth. Adam Smith told us how the “invisible hand” of the market results in efficiency, and David Ricardo explained the principle of comparative advantage, which confirms that everybody gains from free trade by having a comparative advantage in something, even if some people are in absolute terms less efficient in producing everything relative to all others. Globalization has provided efficiency and economic growth through integrated national markets. There has been elimination or reduction of arbitrariness of barriers to market exchange that were due to national boundaries and political decisions of policymakers. Yet, globalization is a concern. Evidently, efficiency and economic growth are not the source of the concern, but rather social justice. Or perhaps envy might be involved, since benefits from globalization have not been uniform, as indeed never usually are the benefits of markets.

The theory of international trade predicts distributional consequences of trade liberalization. Although a society as a whole is better off because of free trade, some people gain and some lose. The gainers gain more than the losers lose and so, in principle, everybody could be better off, if income transfers could take place to facilitate the gainers sharing their gains with the losers. The losers are predicted to be people whose incomes derive from supply of a country’s relative scarce factor of production, with gainers supplying the country’s relatively abundant factor. So, in the rich countries, unskilled labor should lose from globalization and, in poorer countries such as China and India, unskilled labor should gain. In the end, matters did not turn out precisely as the theory of international trade predicted. Nonetheless, incomes have been affected by globalization. The ethical question is whether the change in incomes is consistent with social justice. The self-interest that makes globalization a concern is that people care about their livelihoods and incomes. Globalization is therefore a topic of personal interest for people who are self-reliant and work for a living. There is also, however, the broader aspect of social justice. We might be concerned if globalization made the poor in poor countries worse off, or made the poor in rich countries worse off, with no compensation.

In the present era of globalization, we are not witnessing an entirely new phenomenon. Episodes of globalization have occurred throughout the course of history, although often not truly in a global way but rather often associated with large empires. What is new is perhaps our sense of social justice.

Globalization suggests global markets and a global society, but many people remain outside of the domain of globalization, in particular the poor in poor countries. Without an all-weather road connecting the village to the regional market town, whatever lies beyond the regional town marker is of little relevance for the inhabitants of the village. It would also not matter much if there were a road, if property rights could not be protected when people and their produce move on the road. It would make little sense to blame globalization for the lack of economic development in the village. Local rulers can be blamed for the absence
of an all-weather road and perhaps for using their authority to better their own positions rather than to protect the property rights of others. Donors including international agencies such as the World Bank cannot be blamed, since they stand ready to provide the funds that would allow the road to be built. When we consider the consequences of globalization for social justice, we can ask why some people have been excluded from the benefits of market access provided by globalization. If globalization were undesirable, people excluded from globalization should be fortunate. However, they are not.

Much has, of course, been written about globalization. The literature is indeed voluminous. Since globalization is a prominent topic with many consequences, we expect to see many books and papers in learned journals — and perhaps to find different views. The academic writers are principally economists and sociologists. The environment and climate change bring in other disciplines. Cultural aspects draw the attention of the anthropologists. Economists are interested in economic phenomena, but also in social norms and consequences of culture that interest sociologists and anthropologists. The issues raised by globalization transcend the narrow scope of past traditional economics.

A bestselling book, *The World is Flat* by a journalist Tom Friedman, is about globalization. Journalists enjoy the professional advantage of having experience with being entertaining. University researchers tend to be analytical and less flamboyant, and to look for the qualifications to propositions and predictions that might be taken as self-evident in public discussion. People might become impatient with academic researchers because they want to stop and ponder, and to investigate and perhaps question. Not all university researchers are adept at blowing trumpets, particularly their own. The journalists, with their access to the broad public, blow the trumpets once they realize that there is something to herald. Friedman’s popular exposition of globalization is anecdotal and reflects self-surprise or contradiction in the title of the book. Professional researchers are not surprised and see no contradictions. We have no need to declare the earth to be flat. On the differences in perspectives between professional researchers and journalistic surprise, I recommend the review of *The World is Flat* in the March 2007 issue of the *Journal of Economic Literature*, by Edward Leamer who is a professor of economics at UCLA. It is an indication of the attention that the popular exposition in *The World is Flat* has received that the leading book-review journal of the economics profession should choose to invite a review of the book, by perhaps the leading contemporary researcher in empirical international economics. Despite its popularity, I shall set aside *The World is Flat*, but you are invited to look at the book and the very readable review of the book by Edward Leamer.

2. The Discontent with Globalization

One response to globalization is the surprise expressed in popular writings. Another response is discontent. Many people have expressed unease with globalization. The book by Joseph Stiglitz, *Globalization and Its Discontents* published in 2002, is an example. A theme of opposition to globalization proceeds as follows. Although markets with accompanying private property rights that underlie exchange may be efficient and provide the basis for growth, markets are also the source of social injustice because incomes earned in markets and wealth
accumulated are inconsistent with social equality. It is the responsibility of government to temper or restrain the social inequality of markets through public policies of taxation and income redistribution. Globalization hinders the redistributive requests for social justice, by limiting the interventionist and distributional capabilities of governments.

An integrated world capital market in particular allows capital to move to locations where taxes are lower. If capital is mobile and can escape taxes, tax bases come to be limited to the income of immobile labor. Capital therefore cannot be taxed for the benefit of labor, so globalization is socially unjust.

Globalization is therefore claimed to be undesirable, because globalization acts as a restraint on redistribution by government. Globalization is also blamed for being not just an impediment to social justice because of limitations imposed on governments, but also as being the reason for income inequality because of the unfairness of incomes earned in markets.

The arguments that attribute socially unjust income distributions to globalization and that blame globalization for inability of governments to correct the unjust market-determined income distributions are not free of ideology. Adam Smith pointed out that markets provide mutual benefit through voluntary decisions to buy or sell. Karl Marx and his followers proclaimed that markets exploit because power in markets is biased against workers and the poor.

The syllogism is thus that societies require the public finance and public policy of government to ensure social justice; governments are, however, diminished in policy capabilities by globalization; and therefore, globalization creates social injustice. We also have the attendant direct claim that globalization underlies social injustice because international markets determine incomes. The arguments can be taken one step further. If globalization has proceeded so far as to be irreversible, then, for the sake of social justice, the world needs global government.

The discontent with globalization is expressed in demonstrations and in proposals to “contain” globalization. The blame is often directed at international institutions and agencies, primarily the World Trade Organization, the World Bank, and the International Monetary Fund. The discontent has been expressed in quite violent ways in various locations where these organizations have held meetings.

A theme that is less explicitly expressed in the criticisms of globalization is that people’s feelings about their circumstances depend on the circumstances of others. If globalization makes only some better off, even if no one is worse off, then opposition to globalization is based on envy. Here is an example, taken from my textbook on public finance and public policy (Hillman, 2003). Three people initially each have $1,000. In the future, as the consequence of opening of markets and economic growth, one has $1,200, another has $1,500, and another has $1,800. All people are better off — there has been what we call Pareto improvement. However, initial social equality has been lost. National income has increased, per capita income has increased, there has been economic growth, and no one has less. Yet people might nonetheless claim that the change has been undesirable because of the social inequality that has been created.
Two phenomena characterize globalization. One is enhanced ease of communication and access to information. The other is the entry into the world trading system of China, India and the former Communist countries. I turn now to these phenomena.

3. Changes in Communication

Changes in communication have resulted in the near irrelevance of distance and personal location. Many tasks that used to require us leaving our homes can now be accomplished within the home. We can pay bills. We can make hotel and travel bookings. We can find values of financial assets. We can meet people on the internet and “chat” with them. Almost everything we want to know is online. Relationships and marriages can begin with online communication.

The information revolution has been accompanied by a social revolution since personal physical contact or proximity is now no longer necessary for many activities and tasks. The change in need for physical proximity has been accompanied by a new individualism. The information that we obtain on the Internet is the information that we specifically request. When they are outside the personal domain of their homes, people retain a personal domain of their own through headphones that allow them to hear what they precisely wish to hear. The headphones block out communication with others. There is little expectation, it seems, of joy from conversation with others — which suggests that experiences of conversation have been disappointing, or were never attempted. I have wondered how young couples who meet in a loud discotheque gauge their suitability for one another.

Not requiring communication is a paradox of the age of globalization. Informational boundaries are gone and people can set their own boundaries in quests for information, but often do so narrowly. The creation of the own-world is assisted by the mobile phone. It used to be that, when one had dinner with someone, one could be assured of that person’s company and attention. In the age of globalization, one often observes two people together physically in the company of one another but speaking on their separate mobile telephones to other people. Mobile Internet access and mobile email further enhance the narrow individualistic personal domain. By changing opportunities for the conduct of personal and social life, globalization has changed human behavior. In some dimensions, there has been a narrowing rather than a broadening of personal horizons. There is a saying that “no man is an island”, but globalization has allowed people to create their own islands.

Yet, globalization is also a means of transmission of culture that can provide the synthesis for a new universalism. I shall return presently to globalized culture.

An aspect of changes in communication is the knowledge that we have about what others do in faraway places. Child labor is a prime case. Child labor has previously existed in many locations, but out of the sight and therefore attention of the western world. Globalization has brought awareness of child labor. Producer self-interest is also involved. As long as the countries in which there is child labor were outside of the world trading system, producers in richer countries were not concerned that child labor would give foreign competitors a cost advantage. A case made against globalization is that integrated world markets have increased demand for child labor by creating markets for the goods produced using child labor. Markets
are therefore blamed for creating demand for output, and not governments for failing to ensure that children attend school. The criticism that globalization encourages child labor is part of the persistent theme of blaming markets for socially undesirable consequences and not blaming governments in poor countries for failing to fulfill basic public policy responsibilities.

Information about changes to the environment and biological diversity is part of globalization. Opposition to globalization is expressed in a view that international trade and economic growth promote industrialization, which harms the environment — and also that international trade is inimical to biological diversity, since incentives are provided to supply elephant tusks and rhino horns to buyers in foreign markets. Likewise, the criticism is that rainforests are being destroyed because of market demand for timber, and because demand for the produce grown after the forest has been cleared. Markets are blamed and not the political decision makers who do not enact and enforce environmental standards and do not adequately protect wildlife in nature reserves, and perhaps aid the poachers. In an example for other governments, the government of Costa Rica has sold pristine rainforest on condition that the rainforest be preserved. Private individuals or agencies of other governments that buy parts of the rainforest provide a public good or collective benefit to the population of the world at large, and the people of Costa Rica are given an alternative resource to the rainforest.

4. The International Economy

Multilateral international trade agreements in past decades have been the consequence of rounds of negotiation under the auspices of the prior GATT and present WTO. The liberalization of international trade has, in particular, been facilitated through the most-favored-nation (MFN) clause, which requires that market access “concessions” provided to one trading partner in an international trade agreement also be provided to other countries. The MFN clause preempts opportunistic bilateral agreements that diminish the value of previous agreements. If two countries negotiate bilateral tariff reductions of 30%, and if one of the countries then subsequently negotiates a bilateral tariff reduction of 50% with a third country, the value of the preferential market access in the first agreement is diminished for the original trading partner. The MFN ensures that future trade liberalization agreements with other countries do not diminish the value of the market access gained in prior agreements. Although motivated by the need to preempt opportunistic market access agreements that devalue the reciprocity of prior agreements, the MFN clause has been the basis for broad multilateral trade liberalization. Bilateral trade agreements and customs unions and free trade areas have also liberalized trade, and some governments have also unilaterally chosen liberal trade policies.

It is into this liberal trading environment that the second aspect of contemporary globalization has been introduced, through the entry of China, India and the former Communist countries into the international trading system. The global economy has, in consequence, changed because of the changed factor endowments relevant for the world trading system. So long as China was kept isolated from the world economy, and governments in India chose protectionist state-guided development strategies, and the Communist world led by
the USSR conducted planned international trade basically amongst itself, people in China, India and the former Communist countries — and their abilities and their wages — did not matter for global markets. The decisions and events that have brought these countries into the world trading system have changed priors about the relation between international trade and income distribution, and bring us back to the predictions of the theory of international trade.

In the past, governments and people in the rich western societies worried about threats from import competition to industries or sectors of the economy. There were concerns about how free trade would affect employment and incomes in the domestic shoe or textile industry. There was collectivism in the concerns. A large number of people in an industry or sector faced the common circumstances of being “threatened” by imports. In terminology that is effective for public relations and for evoking protective political responses, people could claim that “foreigners” were undermining a country’s economic self-reliance. The collective nature of the threat could, through collective action, result in protectionist policies. A case could also be made under the administrative trade laws that dumping was taking place: when governments agreed to liberalize international trade, protectionist options were retained through administrative protectionist procedures allowed in conjunction with the liberalization agreements. The political decision-making process and the trade laws could therefore be used to implement protection from imports that threatened the industry or the sector. Protectionist quests could be successful because many jobs were at stake and many people were threatened by income losses.

Globalization has diminished the collectivism of the loss. Losses have become particularized or individualized since now individual tasks can be outsourced or moved to cheaper locations. When a task performed by an individual employee can be performed at lower cost elsewhere, either the individual accepts a lower wage or loses his or her job. Threats have therefore become personal for workers in rich countries. Being personal, there is not the scope for collective action as in the past to secure protectionist policies. There is neither the large group of people who might provide political campaign contributions to influence political decisions, and nor are there concentrated large groups of voters who can be politically important and decisive. The individualized threats to jobs have been described as the great unbundling.

Low wages are not in themselves a threat to jobs in rich countries, if the low wages reflect low productivity or if wages are low because property rights are not protected. The unbundling has occurred because of changes that have increased productivity in low-wage countries and because of changes in property rights that have made production in these countries feasible.

In the rich countries, workers with non-traded tasks have often been paid wages that do not seem justified by relative productivity. As non-traded tasks become transformed to be traded, these jobs will either pay lower wages or will be lost in richer countries.

What are the limits to these processes? Production takes place in teams and is subject to coordination costs. The coordination costs can limit unbundling. However, at some point, the coordination of the team can also be moved to a lower-wage location.
Traditional theories of international trade tell us that trade in goods is, in effect, trade in product-embodied factor services. Buying goods from a low-wage country entails buying the low-wage factor services embodied in the goods. Imports from low-wage countries therefore threaten wages in high-wage countries. The converse implication is that, in low-wage countries, the unskilled gain from the increased demand for their services embodied in the low-wage goods sold to high-wage countries. The predicted distributional effect is therefore that the worst off in the world, who are unskilled workers in low-wage countries, gain from free trade. Skilled workers in rich countries are also predicted to gain. The predicted losers from free trade are skilled workers in poor countries and unskilled workers in rich countries. There is an impeccable logic to these predictions, which are based on well-formulated and formalized economic models. If the standard models of international trade are correct, the social injustice of globalization is in rich countries. The reality is that the predictions of the economic models have not been borne out. Skilled workers in poor countries have gained in the era of globalization. The poor in poor countries have not been much helped. The most unequal income distributions tend to be in poor countries to begin with. Income distributions in poor countries have certainly become more unequal as the consequence of globalization.

Yet, increased inequality was not the consequence when the first export-oriented policies were applied in Singapore, Taiwan, Hong Kong and South Korea. In these cases, the predictions of the international trade models appear to have applied. Initial comparative advantage that was based on domestic low-cost labor was eventually replaced by comparative advantage based on skilled labor and an educated population, as economic growth transformed the originally poor countries to middle or high income. In these countries, it was true that a “rising tide lifts all ships”. There has not been a “lifting of all ships” in the era of the present globalization. In richer countries, the difference between the incomes of skilled and unskilled people — or the skill premium — has increased. The reality is that no matter where you live in the world, it is preferable to be skilled. It comes as no surprise that the data suggest that, independently of location, it is better to be skilled and educated than unskilled and uneducated.

What is the source of the differences between the income distribution predictions of the international trade models and the realizations of globalization? We are familiar with the threats to incomes of radiologists in high-income countries: electronic files can be sent and read anywhere and be evaluated and returned. Surgery, in particular micro-surgery, can be performed with patient and surgeon continents apart. It is only trust through personal relationships that preempts the globalization of these and similar tasks. The only jobs absolutely safe from outsourcing are those that require physical contact and that require substantiation of trust through physical proximity. A waiter or waitress and a chef is in a safe position. A taxi driver is quite safe. Perhaps teachers and lecturers should feel unsafe. In principle, anyone anywhere in the world could be beamed onto a screen and we could all sit and listen.

There remains, however, a difference between live people and people on screens. The human factor is still with us. People flock and pay high prices to see entertainers live when videos of the entertainers can be seen for a fraction of the price of admission to a “live” event. There is, of course, a social aspect to collective presence.
I am not threatened by globalization in my capacity as a researcher. My primary responsibilities as a professor of economics are to read what others have written about a topic, to look at data, to think and to identify and formulate questions of research interest. Globalization has been very helpful in this respect. Some decades ago, it would have been very disadvantageous not to be located at a leading center of scholarship at one of a small number of the world’s universities. Now, access to information through the Internet, the immediacy of email, and the reduction in price of telecommunications make physical location in Israel or Singapore not as disadvantageous for a researcher as it once would have been.

If location no longer matters that much, then what does matter is being skilled and educated, and being able to provide services that are in demand from people who also can be located anywhere. Because of globalization, skilled and educated people face more competition. However, globalization also increases the personal demand for their services. People whose services require physical proximity do not have their jobs threatened, but nor has globalization increased the domain of the demand for their services.

If skilled people in rich countries face increased competition through globalization, why has the skill premium in rich countries increased? Increased competition through globalization should decrease incomes of skilled people in rich countries. Technological change and innovation appear to have made skilled people in rich countries more productive. Theories of economic growth stress the increased productiveness when skilled people work and interact with other skilled people, which makes having many skilled people as in rich countries beneficial.

Still, globalization makes some people better off and not others. Because of the increased inequality, some people want to stop globalization. In particular, globalization has eroded privilege. The privilege was that a person who is unskilled and uneducated could expect to be personally richer than a similar person in a poor country. The privilege is gone if a global labor market determines incomes, as when wages in rich countries respond to the embodiment of low-wage labor in imports.

Globalization has affected investment. Firms can choose where to produce, and whether to export or produce locally. International mergers and cross-border portfolio diversification have diminished the association of a firm with a nationality. Ownership of firms has become internationally diverse through the decline in transactions costs of having an internationally diversified investment portfolio. Substantial international migration has changed the face of many countries. There are also substantial numbers of illegal immigrants, in particular in countries where people who wish to work can be self-reliant. There is, of course, no point in being an illegal immigrant in a welfare state as found in Europe, if the illegality prevents access to the benefits of the welfare state.

5. Information and Culture

Economic issues are central to globalization, but so is the information revolution, which has transmitted western culture globally. I mean by culture basic axioms of presumption in behavior, including how one dresses, how one relates to other people, and how one thinks — and what one expects of others. There is a global youth culture predicated on common
affection for entertainers and common predilection of dress, and common emulation of hairstyles and the requisites of personal popularity. Ethnocentricity has diminished among the younger generations. The cultural transmission includes food and diet. In some societies where people were traditionally slim, youth obesity has become a problem. The younger generations have had access to western fast food and have become slothful, and are as overweight as their western counterparts. The evidence is available in a survey of economic consequences of obesity by Odelia Rosin (2008). Globalized culture is transported through the themes and identities offered by the multinational corporations for whom the market is global. One multinational purveyor of soft drinks proposes that its product is part of a lifestyle predicated on the rule for behavior that “if it feels good, do it”.

Cultural transmission involves time horizons and behavior that we call hyperbolic discounting, which results in shortsighted decisions that give immediate gratification. The immediate gratification in turn affects attitudes to study. In the United States, foreign students often make up the majority of graduate students in economics and other fields. I recently attended a conference at the University of Cambridge where representatives from British universities did not include one person born in the United Kingdom. Another cultural origin seems to have been necessary for embarking on the risky path of setting out to earn a Ph.D degree, of finding a university position after completion of studies, and of facing the uncertainties of the tenure decision that can be based on evaluation of research not always by discernible objective criteria. Globalization has sustained academic standards in rich countries.

Some two decades ago when I taught for a while as a visiting professor at UCLA in California, I first confronted the random interspersing of the word “like” in the students’ sentences — and indeed, I believe, also in the sentences of some of the younger faculty. I soon realized that comparisons were not always being made when the word “like” was being used, and nor was affection or preference being expressed. At Bar-Ilan University in Israel, which is my home university, the students have in recent years come to use the Hebrew word for “like” in their sentences in the same randomly interspersed way as I observed among the students in California. The random use of the word “like” is spontaneous and not thought out, and has become culturally embedded, and it appears globally so. How did such randomization and confusion in expression come to be transmitted? A new global identity has become expressed through a new global way of talking. There is, I should imagine, little virtue in this method of use of language. Perhaps there is some survival value in the lack of clarity.

The US economist Edward Leamer, to whom I have referred previously, has described globalization as an exchange from which both sides lose. He has observed that “International trade is an exchange that makes both parties worse off. We get their wages and they get our culture.” Why did western culture win? Western culture has not always been ethical or enlightened. Some aspects of western culture have been cruel on a scale of barbarity that we would hope will never recur. Yet, the freedom and perhaps the permissiveness of the West are appealing. In contrast to another culture, for example, women can show their faces in public. Women seen in the company of men of whom the extended family disapproves are not killed by the father or brothers, or their mother. In my own part of the world, in
a neighboring jurisdiction, a mother who asphyxiated her daughter after the daughter had been raped by her brothers explained that “she [the daughter] killed me before I killed her”. In western societies, pre-pubescent girls do not become widows forced to live out their lives forbidden to “remarry” in the collective poverty of others who share the same fate. Governments do not impose fertility limitations and male to female imbalances do not deprive men of monogamous mates. Western culture respects the individual and offers personal freedom, although some would declare that absence of structure and restraint is excessive, with undesirable consequences that include the breakdown of the personal commitments of the institution of the traditional family and the shortening of time horizons. “If it feels good, do it” is not a good strategy for long-term survival. However, the strategy is enticing in the immediacy of the promised benefit. In a cultural contest, we might expect permissiveness to win over restraint — and perhaps over respect and even self-respect.

6. Globalization of Terror

The age of globalization is also an age of global terror. The terrorist organization Al-Qaeda is part of globalization. The terror attacks can take place literally anywhere in the world. The communication that is at the center of globalization is a means of coordination and financing of terrorist activities. Apologists for the terrorists point to undesirable aspects of the spread of western culture and blame the globalization of terror on the phenomenon of globalization itself.

The global objectives of radical Islam are defined by the imperative to reconquer lost land and to conquer new land. No compromise is allowed by radical Islam in achieving the objective of restoring and expanding the domain of Islam. Globalization is thereby the source of a cultural clash rather than synthesis and integration. The mufti of Sydney has explained rape by Muslim men as due to immodest dress of Australian women through the analogy that meat left out must be expected to attract cats. All the political correctness in the world and affirmation of the need to respect other cultures and views will not save us from a deep and inevitable clash of cultures implicit in such views. Globalization has also introduced demographic contestibility. If two populations with different and incompatible cultures have different fertility and the population with the higher fertility declares its collective intent to prevail through the force of numbers, democracy will bring the collapse of itself and no pronouncements about the primacy of the need for sustained democracy will help to sustain democracy and a civil society.

Previous global wars were conflicts between nation-states in which people on each side could identify their national adversaries. The war of radical Islam against all peoples who will not accept Islam is a war within the phenomenon of globalization. People born and educated in a particular country may view the society that has given them freedom, and accepted their parents as immigrants and which gave them education and opportunity, as adversaries. They may commit mass murder of people innocently at work in New York or traveling to work in Jerusalem, London or Madrid. It is part of the resilience of the globalized market economy that the terror did not succeed in destroying investor confidence in asset and foreign-exchange markets. The US and world stock markets rebounded soon
after September 11. In Israel, studies show that the stock market was little affected by the numerous episodes of terror.

7. Social Justice and Exclusion from Globalization

What about people who are excluded from globalization? In China and India, the people excluded are worse off than the people who are included in globalization. Over time, the benefits of globalization are expected to spread in poorer countries, although as everywhere income distribution will remain unequal because people have different abilities and motivation. Nonetheless, poor people in poor countries are excluded from global markets because of limitations due to where they live. High-income societies encourage self-improvement, if only to reduce the future taxes that would have to be paid in welfare states to finance incomes of people who are not self-reliant. In low-income societies, an autocratic ruler may not wish to see the population become better off because economic growth would threaten the ruler — a middle-class will seek transparency and accountability from government. People in poorer countries are therefore often kept poor and excluded from the benefits of education and healthcare, and from the benefits of markets. Jobs — principally unproductive in the government bureaucracy and state sector — are assigned through the privilege of family and tribal connections rather than through merit, which diminishes the incentive to invest in education if one does not belong to a privileged family or tribe. The data show high personal returns to education in poor countries, until corrected for privileged connections.

Without the rule of law to protect property rights, the weak cannot protect their possessions from appropriation by the strong. The conditions are those of what I have called a Nietzschean society. Data correspondingly confirm the ineffectiveness of aid in helping the poor in poor countries. If the poor in poor countries were included in globalization, they would have the benefits of access to markets and to the rule of law — as part of globalization. They would then be less subject to the self-interests of their own political classes. For the poor in poor countries, globalization would advance social justice.

8. Global Government

The logical consequence of globalization can be viewed to be global government. Global government would reintroduce the means to regulate markets and to monitor and correct distribution of income through global public policy. Global government is, of course, not a good idea since, if the whole reflects the sum of the parts, we do not expect a global government to provide social justice. The United Nations is not a model for global government. There has been corruption in high places in the United Nations. Ensuring transparent and accountable world government would be problematical to say the least, if the United Nations were the model. Yet a world government would need to be representative. Would we want voters in neighboring countries to choose who governs us? Will voters in other countries be free to cast their votes as they wish? What will be the attitudes of voters in other countries regarding productive incentives and the protection of property rights? Would global justice be defined as requiring redistribution of income from productive to unproductive people?
9. Migration and the Welfare State

Social justice in a national society is compromised when societies wish to maintain social insurance but non-productive immigrants are attracted by the benefits of government income transfers, and when high-income people and capital can move to avoid high taxation. The immigrants that undermine a society’s social insurance contract are generally from countries not in the domain of globalization. There are further social consequences when the children of immigrants do not integrate and do not become part of productive society.

In the countries of origin of the immigrants, rulers who control the national wealth often prevent people outside of the family and tribal domain from accumulating wealth. Wealth accumulated by others is a threat to the ruler since the best personal investment in the society is to displace the ruler and take the ruler’s power and wealth. The consequence is a society where people are not permitted to improve themselves and where poor people look to the generosity of the privileged rich for gifts and charity.

When the same people move to a western welfare state, transposed norms are confirmed in the willingness of the state (the ruler) to be generous to people who are not productive. We find it difficult to oppose allowing poor people from poor countries the benefits of western wealth. There is a contradiction with the self-image of being generous and caring. Yet, as many have observed, globalization inexorably destroys a society’s social insurance contract. For this reason, and not because of xenophobia or racism, prominent economists in Europe have questioned the compatibility between social justice and immigration of low-skilled or unproductive people. This is, then, another dimension of the conflict between globalization and social justice.

10. Conclusions

The first principle of economics is that life involves tradeoffs. Globalization expands the domain of markets and at the same time limits the discretionary domain of government. The tradeoff is between the efficiency of the global market and the impediments to national governments’ redistributive policies. The neoclassical models of international trade held out a hope for social justice through free trade because the incomes of the low-skilled people in poor countries were predicted to increase — but incomes of low-skilled people in rich countries were at the same time predicted to decline. The question is therefore whether our conception of social justice is global or parochial and local? Whom do we care more about, the worst off in our own national societies or the globally worst off?

Unhappiness with the consequences for globalization arises because globalization has increased the incomes of high-skilled people everywhere. It is not evident that the circumstances of the worst off have improved, in either rich or poor countries. Certainly, the relative positions of the poor and unskilled have deteriorated in both rich and poor countries — and, in rich countries, the welfare state that should protect the poor is threatened by immigration and by tax-base mobility. However, also, it is now high-skilled people in rich countries who face threats to their jobs and incomes through the “unbundling” made possible by the new information technologies and the consequent end of privilege by location.
At the same time, the people excluded from globalization remain trapped by govern-
ment regimes that care little about the social mobility and increased incomes that education
and access to markets can offer. Globalization is not to be blamed for these people’s sorry
circumstances; rather, the blame is with their rulers — or the political culture that prevails
in their society and that will in all likelihood also determine the behavior of the next ruler.
Nor can globalization be blamed for child labor, diminished biodiversity and environmental
degradation that occurs because of the policies of governments in poor countries.

Globalization expands opportunities for people who have the abilities and motivation
to do well in markets. How do we wish to respond to increases in incomes of successful
people?

In a rich welfare state, a dilemma confronts people who believe in global social justice
and also want social protection at home. At the same time, everywhere and not just in the
welfare states, people who thought they were protected against foreign low-wage competi-
tion suddenly find that this is no longer so. At first, trade liberalization exposed traded-goods
industries to foreign low-cost competition, and deindustrialization took place in richer coun-
tries as production moved to the low-cost locations. Then, changes through globalization
exposed to competition people who produce services that previously were non-traded.

To describe options, we can think in terms of the product cycle theory of international
trade, which describes goods (and services) as having an innovation phase, a growth phase,
and a standard phase. High human-capital countries such as Singapore and Israel can focus
on the innovation phase, where low-cost competition is not a threat.

The means whereby the global market affects income have become individualistic and
personal. The stage was reached some time ago of comparative advantage of firms rather than
of countries. In an era of unbundling of tasks, comparative advantage is personal. People do
not like competition directed at their sources of livelihood. Competition brings uncertainty
and anxiety. However, as Hayek made clear, only markets and competition — and economic
freedom — have consistently sustained high incomes for the vast majority of any population.
Globalization is the spread of the conditions that made the West richer than the rest of the
world.

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Appendix. Related Literature

Edward Leamer (2007) provides a discussion of globalization in the course of reviewing
Thomas Friedman’s book, *The Earth is Flat*. Different views on globalization by prominent
economists are provided by Jagdish Bhagwati (2004) and Joseph Stiglitz (2002, 2006). Vani
K. Borooah and Martin Paldam (2007) point to impediments to global democratic govern-
ment. Robert C. Feenstra and Gordon H. Hansen (2003) investigate income-distribution con-
sequences of international reassignment of production. Axel Dreher (2006) reports on how

References


Leamer, EE (2007). A flat world, a level playing field, a small world after all, or none of the above: A review of Thomas L. Friedman’s “The World is Flat”. *Journal of Economic Literature*, 45, 83–126.


