Globalisation, Growth and Justice

This essay critically evaluates the exhortation to developing economies that they embrace globalisation, considers the consequences of globalisation for equality and discusses the issue of justice in the current global economic order.

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I shall engage with three themes related to the issue of globalisation. First, I shall first critically evaluate the core of the exhortation to the developing economies that they embrace globalisation. I might quickly add that this begs the nagging question of whether globalisation is something countries can adopt and discard at will. Then I shall turn to what I consider the central question in the context of globalisation from the point of view of economic theory, perhaps the most important issue for economists. This concerns the consequence of globalisation for equality. Our conclusions here matter to us in a deep sense for they would qualify the success of our profession. Finally, I turn to the issue of justice in the current global economic order, a relatively neglected but profoundly important issue, and not just for economists.

I
Globalisation as Policy

While the steady progress of the internationally engaged economies of east Asia had long been noticed it was perhaps the collapse of the Berlin Wall that finally isolated those holding out for central planning as a model of economic arrangements. Even though the political significance of this event far exceeded the economic there was no holding back the vanguard of the market revolution so to speak. While the core of the economics profession remained more or less assured of the relative strengths and weaknesses of the market, the historical moment appeared to provide a window of opportunity to the 'policy entrepreneur', a term due to Paul Krugman. The only model worth pursuing any longer, it was said, was one of free markets and open economies. This perspective, if one may call it that, was rapidly adopted by the influential multilateral lending agencies. The stage was set for the embrace of globalisation. The preponderant advice to governments now became one that exhorted the implementation of policies friendly towards the international investor. Two elements may be identified in this package. They revolved around procedures for quick approval of proposals for foreign direct investment (FDI) and the removal of erstwhile business barriers to commercial activity, including notably international trade. I shall deal critically with each of these proposals.

While attracting FDI is indeed useful, it is important to recognise two things. First, we know from history that FDI flows to vibrant economies seemingly living by the adage 'to him that hath will be given'. This is clear from the history of the US economy which has remained the economy receiving the largest FDI flows for perhaps the past 150 years. There is also a kind of contradiction in associating FDI with competition. Actually, given the uncertainty associated with investing in a developing economy, FDI requires high profit margins. High margins actually reflect the absence of competition.

Secondly, historically we would be hard put to think of FDI having contributed to the wider development of a country's economy. Even if FDI did not necessarily depend upon high growth in the destination economies it is of importance to ascertain the commitment of global investors towards local infrastructure, perhaps the one single most crucially absent element in a developing economy. There is of course the case of British capital in the building of the railways on the American continent, both north and south. However, while the figures may have been large by contemporary standards, the US in the mid-1800s was a far less complex economy than India is today, and with a far lower backlog of poverty. Thus, by taking the economic history of the United States as the prototype, the developmental role of foreign capital it appears can be exaggerated.

The one economy held out as an example of the role of FDI is China, and unfavourable comparisons between India and China on this account are commonplace. This, however, stems from an inadequate appreciation of the nature of recent economic development of China. FDI begins to emerge as a major factor in the Chinese economy only in the 1990s, perhaps a full decade and a half after the beginning of the liberalisation of the Chinese economic regime. Moreover, by then China had demonstrated quite extraordinary rates of growth of her agriculture, rates so high that the estimates have been queried.

But the feature of the Chinese economy that tends to get overlooked most is that it is an economy with very high rates of domestic investment. Investment as a share of national income is estimated at approximately 40 per cent of GDP. This is very high by current and historical standards anywhere. In India it is barely over 20 per cent presently. This must leave us to ponder the promise that FDI will flood India soon as we have an investor-friendly rule book. While no reasonable economist could have an objection to making the investment regime more friendly for potential investors, perhaps something more than altering the policy regime is necessary to ramp up investment in an economy.

In all of this there is too much emphasis on investment or factor accumulation – a strange throwback to debates on growth in the former Soviet Union. But what of productivity growth? Perhaps FDI is needed for higher productivity growth? Technology and newer ways of organisation certainly are inputs into raising productivity, and these are seen as byproducts of FDI. But these are not the only inputs into productivity growth, nor are new technology and newer ways of organisation solely dependent upon FDI.

The argument about FDI is really only a subset of the larger argument that openness is good for growth. Here the strategy, I mean the strategy of argumentation, has been to point to the extraordinary success of the east Asian economics, the so-called Asian Tigers. It is indeed correct that these economies have leveraged globalisation with extraordinary success. They are, at least by today, relatively open economies both in terms of policy stance – employing a low tariff rate – and in terms of the share of trade in GDP. However, by my very reference to these two indicators of openness, i e, tariffs levels and trade intensity, I have touched upon a contentious issue in the discourse on development strategy. A debate exists that revolves around the appropriate disentanglement of cause and effect. It has been pointed out that to say that exports are good for an economy in the sense that they raise the level of output is trivial. After all, we may recall from our first course in macroeconomics the national income identity Y = C+I+G+X-M. So, that exports are a good thing is not contentious. The real question is whether openness defined as low tariffs is a sufficient condition for bringing about an increase in exports. Apart from our knowledge that some of the principal east Asian economies – notably South Korea – had first pursued a policy of import substitution – presumably behind a tariff barrier – we have little ground in economic theory to believe that a policy of low tariffs and nothing else can do the trick. Indeed, and again from our knowledge of the history of east Asia, there is every reason to believe that active 'export promotion' may be needed, even though this proposal is anathema in some influential international policy circles. Succesful late industrialisers have, through an industrial policy, aligned interest-rate subsidy with export targets to ensure incentives for compliance and judiciously worked the exchange rate mechanism to maintain competitiveness. Of course, the challenge, however, is to ensure that interventions aimed at export promotion are not captured by vested interests, which has unfortunately been the record of so much of state intervention in India.

II
Globalisation as Process

It may be argued that for serious economists all that I have said so far, though not without interest, is but peripheral to the central issue of globalisation. So what is the central issue then? It is that of convergence. What is this convergence being spoken of? A popular version of the convergence hypothesis is that poor nations will steadily approach the income levels of the rich, currently the industrialised ones. This implicitly means a higher growth rate for the poorer economies. But while the convergence hypothesis predicts a faster growth of the poorer countries why must there be convergence in the first place one might ask? There must be, is the answer, for as factor prices are equalised with globalisation – seen here as the integration of economies – so must become per capita incomes across the world.

Note then that the convergence hypothesis predicts three interrelated outcomes: faster growth of poorer countries, declining world poverty and, above all, declining income inequality. Given the extraordinary differences in income between countries currently, perhaps only a relative equalisation of incomes is being predicted. Strict 'catch up', or poorer countries becoming as rich as the richest ones is simply a useful myth to organise the work of economists.

Let us now look at the state of the current international debate on the trends in poverty and income distribution as the global economy has become progressively integrated. The strongest claims on the trend in these two variables have emanated from the World Bank (even though at times from researchers based there but writing in their personal capacity). This is not surprising, for the Bank has a monopoly on the related data, supplied to it and to it alone by the national governments that form its membership. It is a strength and weakness. It is a strength of course in that any report on poverty and inequality issued by the Bank is based on actual estimates, however arrived at. It is a weakness in that rival sets of estimates are not easily found. Since the World Bank is a major player on the world stage and has a stake in the international debate on economic policy a conflict of interest surely arises. What do the numbers show us anyway? In a recent report[1] on globalisation the institution has cited work by its researchers showing that between 1980 and 1998 the number of poor in the world have come down by 200 million. While 200 million is a very large number indeed it is yet not prepossessing when seen on a world scale. However, what invests the finding with significance is that this trend in the number of poor is seen to be one of the very few instances of reduction in poverty in close to two centuries. The Bank puts this down to the greater integration of the world economy since 1980, the period representing the most recent bout of globalisation.

Some scepticism regarding the finality of these estimates has been voiced[2] by Robert Wade of the London School of Economics. While not providing alternative estimates himself, Wade has pointed out that these estimates are contingent upon the definition of the poverty line and the methodology used, being based on household surveys. While not proposing outright rejection of the Bank's claim of a lower number of persons in absolute poverty as the world has become more globalised since 1980, Wade recommends agnosticism. Wade has also contrasted this finding of a decline in poverty with the estimated constancy in the number of the poor – defined, as is the Bank's practice, as those living on less than one dollar a day – between 1987 and 1998 reported in the Bank's *World Economic Indicators 2001*, published only a little earlier in 2002. It is of some significance that two separate publications in the same year by the world's pre-eminent multilateral financial institution report contradictory findings on the trend in poverty during period since 1980. This points to the tenuousness of our knowledge on the matter.

By now the issue of the conflicting estimates from the World Bank has been addressed by one of the world's leading poverty researchers. Angus Deaton of Princeton is able[3] to reconcile the two announcements in terms of a lag in the emergence of fresh information on poverty trends, and concludes that global poverty has actually declined since 1980. Further, in his view, this is not surprising once one takes into account the very significant decline in poverty following faster growth in China and India where most of the world's poor reside. Deaton does, however, caution against pronouncing with exactitude on the numbers given the nature of the data base.

Finally, and even though the World Bank's estimates of poverty reported here are of absolute numbers of poor, Wade has flagged the practice of evaluating trends in poverty on the basis of the headcount ratio. This measures the ratio of the absolute member of poor to the total population. As the total population grows, this measure must show a decline in poverty even if the number of the poor is constant. Thus a declining headcount ratio cannot by itself signal anything definitive about the impact

growth or faster growth lead to more exports, in turn enabling higher imports, and all of this showing up as a high trade-to-GDP ratio? To cite the latter possibility is not just to throw a spanner in the works of conventional economic reasoning, we can actually propose a mechanism that links prior growth to external success. Increasing your market share requires your goods to become more competitive in world markets. From Verdoorn's Law we know that with faster growth of output we may expect higher productivity growth. Productivity increase reduces costs, making exportable goods more competitive. Nicholas Kaldor was prone[7] to highlighting this sequence of events, which in turn would lead to our questioning of an automatic link between prior openness and economic expansion. Indeed we could conceive of an economy's expansion being in turn reflected in a higher trade to GDP ratio, often celebrated as 'openness' and misconstrued to be the cause of the expansion.

III
Globalisation as Justice

Thus far I have spoken exclusively on the trends in growth, poverty and inequality in the era of globalisation. An international debate has focused on the question of whether the world economy has improved in terms of these indicators. An implicit approach here appears to be that if there is an improvement in these indicators then we may conclude that all is well with globalisation. It would pay us to reflect on whether this is a credible approach. As always, Amartya Sen has enabled[8] us to ask the right question. It is whether the arrangements underlying the current phase of globalisation are just? Therefore, to simply state that there is both growth and less poverty is not good enough. For instance, we may wish to know how the increased growth has been shared. Now the question of justice emerges directly. Of course, we had considered the trend in inequality at the very outset. But no concrete idea of justice had intruded there, or did so only to a very limited extent. We had been interested in the inequality between nations for that is a central prediction of mainstream economics. Recall that convergence means precisely that. However, this is positive economics, so to speak; there is no evaluation in it, and we cannot duck this exercise altogether.

In a brief passage here I shall raise two matters. First, I shall point to the appropriate domain when we speak of justice in the context of globalisation. Secondly, I point to a fundamental lack of justice under the current global economic order. Not only do I flag a certain failure of current practice, but I also point out that it is a departure from the arrangement even in recent history. This, I consider, will provide a useful perspective for it challenges the idea that the current pattern of globalisation is the only one possible, a suggestion inherent in the use of the term 'inevitable' that is so often encountered in current discourse. It is proper for sure, however, that the issue of justice be brought into discussions of globalisation. When addressing this issue we are immediately confronted by the anomaly that global justice is mostly identified with international equity. As Sen has pointed out, however, these are not the same, and as notions differ both in terms of their constitutive context and in terms of their policy implications. The contrast between global and international equity bring to the fore two issues. These are the *domain* of social justice and the concept of a *person*.

As regards the domain of justice, the question is whether justice is applied only to individuals within nations with anything of cross-border significance being seen as relations between nations. As regards the concept of the person we may wish to ponder whether a person's identity is contained by nationality, giving this aspect priority over any other identity that he or she might adopt. What are some of these other identities? Well, these may be based on the person's profession, political beliefs, religion, gender or sexual orientation. Are all of these to be resolutely ignored in favour of nationality? Once we acknowledge that individuals have plural affiliations, as Sen terms it, we see that international relations are a hopelessly inadequate basis for arriving at global justice or equity. As citizens of India we may choose to subscribe to global religions. As citizens of Singapore we may choose to lead what our leaders see as non-Asian lifestyles. An English labourer may empathise more with the rights of Indian workers than with the concerns of British multinationals, as many did in the 1940s when Gandhi explained to them the rationale of his swadeshi movement. A concept of justice based on a parity between the world's nations as enshrined in the concept of sovereignty cannot handle these issues. Global equity means something far wider than the international equity that gets focused upon in world fora today. It must address interpersonal equity among the people of the world.

I now turn to a strictly economic relation and point out that global justice is yet to be achieved, in fact is unattainable, under the present regime of globalisation which is based on international relations. I refer to a central relation in economics, that between capital and labour. In attempting to evaluate the extent of justice adhering to the rules governing their interaction in the current world order we are in need of a theory of justice. While there may be more than one, I am sufficiently persuaded by the Rawlsian notion of 'justice as fairness' to work with it.

For Rawls, fairness for a group of persons involves rules and guiding principles of social organisation that treat equally every individual's interests, concerns and liberties. Rawls is able to persuade us of his conception of justice by suggesting that this is the most likely outcome of a cooperative exercise of arriving at principles of self-governance by individuals gathered in the 'original position', an imagined state of primordial equality. Central to this exercise is the so-called 'veil of ignorance' which ensures that not knowing what exactly they will be, in selecting social rules they will not be influenced by a vested interest in their actual position in the imagined society.

Rawls then proceeds to the identification of particular principles of justice. The first principle enshrines the 'priority of liberty' and prescribes maximal liberty for each person subject to similar liberty for all. The second principle deals with equity and efficiency in the distribution of opportunities. It includes the 'Difference Principle'. The Difference Principle recommends that alternative social arrangements be judged in the terms of the difference they make to the holding of 'primary goods', which are some kind of general-purpose resources including self-respect, by the worst-off in society. This privileging of the worst-off renders the Rawlsian allocation rule 'lexicographic maximin'.

We are now sufficiently well-armed to appreciate that the current world economic order, in respect of the rules governing the relation between capital and labour, is far from just in a Rawlsian sense. Not only is capital mobile across borders but its mobility as FDI inflow into the developing countries has been aggrandised as being central to their development. As I have argued, the idea is debatable, but this need not hold us back at this stage. We only need to remain aware that nothing like a similar

freedom operates for labour. Entry restriction is rife with respect to unskilled labour. Compared to the barriers to immigration, capital today is spoilt for choice in terms of the earth's geography. The rules governing the movement of capital and labour are therefore asymmetric. This is so despite the case that some economies may be starved of labour resources as much as others need capital. Not just the territories of white colonisation during 19th century but also the economy of the UK as late as the 1950s and 1960s benefited immensely from immigration. In fact, the UK has benefited from outflow in the mid-19th and inflow in the mid-20th centuries, respectively. Labour outflow keeps up the wage rate in basin of emigration. Though it must keep down the wage rate at the point of entry this need not always be disadvantageous to labour, for wherever there may be indivisibilities in the use of labour, immigration will actually help maintain employment levels when it enables production. This is the sense in which immigration is likely to have aided economic expansion of the US in the late 19th and early 20th centuries when it rose to become the world's leading economy.

The asymmetry between the respective rules for capital and labour demonstrates how in a globalising world economy justice means something other than international equity or equity between nations. While the absence of immigration opportunities for Indian labour protects the wage rate of American workers the mobility available to American capital ensures that the employment of the latter cannot be guaranteed. When capital moves just across the border to Mexico to take advantage of lower wages, lax environmental regulation and often lower taxes it is as if US jobs are being exported. Were labour free to move at will Mexican wages would be equalised with American ones, and capital would be left without an incentive to look outside of the US economy. This example makes it clear to us that not all issues in the context of globalisation revolve with the narrow compass of international relations and national sovereignty. The domain of justice, or the terrain over which justice must be brought to bear, is broader and more complex than what is focused upon in the United Nations, often seen as the arbiter of global justice which, abetted by the instrumental reasoning of the cold war era, was erroneously identified with international equity. Many tend to see the restriction on the migration of labour to the US coexisting with the freedom to US-based capital to flow out as an issue of international equity. But they are wrong. There is actually a formal parity between nations here, for neither can American labour move internationally as Indian and American capital can and do. Only there is no parity between capital and labour. Clearly US workers are left worse off. This also partially explains the presence of the American Federation of Labour in the so-called 'anti-globalisation' protests in the US in 2001. To return to some nuts and bolts economics, when the mobility of a factor is restricted its elasticity of demand rises. Thus under globalisation even a small increase in the US wage rate could lead US-based capital to relocate to Mexico. This leaves labour vulnerable, and insecure, in a way that it would not be were both labour and capital equally mobile.

It is this regime of asymmetric rules between capital and labour that gives capital so much power globally today, and it is this arrangement that has earned the description 'corporate globalisation', indicating that what we are witnessing is less than true globalisation. This is the appropriate stage for me to clarify that neither theoretically nor in fact is this form of globalisation the only alternative. Historically the world has seen an equally free movement of capital and labour, notably prior to 1914. Indeed many have pointed out that the world was much more globalised then than it is today. Passports were unheard of before the first world war. Since then the world has settled into a regime where immigration is not always welcome, and even if it is, entry is only on the host country's terms. It is the case though that since the 1980s the US has permitted the migration of highly skilled labour, culminating in the influx of IT professionals in the 1990s, a feature that we in India are by now familiar with. But all this is a minuscule proportion of the world stock of labour, and does not even begin to take away from the feature that currently labour's mobility is curtailed while capital mobility is rife.

Conclusion

I conclude with some observations about India and the world in recent years. In the process I shall attempt to convey that the economic constraints that bind its economy are very likely internal ones rather than anything external. The current bout of globalisation is unlikely to affect her fortunes dramatically either way. A useful indicator upon which to peg one's evaluation is poverty. If July 1991 may be treated as the beginning of an increasing integration of India with the world economy it would then be pertinent for us to ask what has come of poverty since then. Perhaps the most authoritative recent study on the issue is the one by Deaton and Dreze[9] published late last year. They have concluded on the basis of their own and extant estimates that poverty decline in the 1990s proceeded more or less in line with earlier trends. They have also briefly examined other development indicators relating to health and education, and found that most indicators continued to improve in the 1990s. On the whole, they conclude that there is no support for sweeping claims that the 1990s have been a period of either "unprecedented improvement" or "widespread impoverishment". This is about as clear a message as one is likely to get on the impact of globalisation on the Indian economy as a whole, as opposed to segments of it that are highly integrated with the rest of the world. The simple matter is that most Indians have either very low incomes or very low skills to be affected by globalisation either way. Low incomes imply that imports don't swamp domestic markets thus protecting workers somewhat. Low skills imply that Indian workers cannot, under present arrangements, take advantage of greater integration of the Indian economy with the rest of the world. Clearly, integration brings threats and opportunities. In the context then, low buying power wards off the threat to Indian producers from multinationals while low skills leave opportunities unutilised.

The relative importance of economic policy for India's economic welfare with or without globalisation may be understood by looking at the record of growth in India in the last 50 years of the 20th century. It may be the case that the rate of growth of the economy is higher since 1991, but it would be wrong to attribute this entirely to globalisation. An even higher rate of acceleration had occurred in the early 1980s when the external sector had yet been liberalised very little. In any case, none of this can match the acceleration in the economy wide rate of growth after Indian independence when those responsible for her economic policy had, for better or for worse, consciously turned the country away from the rest of the world. Recall that per capita income was more or less constant in the first half of the 20th century when India

had [illegible]ned under colonial rule. The resurg[illegible]in the economy under the leadersh[illegible]Jawaharlal Nehru can hardly be put d[illegible]to merely closing the country's bord[illegible]On the other hand, it has everything[illegible]o with the bold thrust to expand the e[illegible]my. It remains clear that, with or w[illegible]t globalisation, India's perfor-man[illegible]l largely depend upon the policies [illegible]ed.

Wh[illegible]er may be one's reservations rega[illegible]fairness in the current economic order[illegible]ere a national interest may be ident[illegible], there is no doubt that the gathe[illegible]ntegration of the world economy – ter[illegible]globalisation and exaggerated[10] for its[illegible]ness – is actually an opportunity for In[illegible]o assume a leadership role in the world[illegible] has been remarked, the world can do[illegible]hing to marginalise India, a vast regio[illegible]h great potential, a feature only partly[illegible]cted in the narrowly economistic statist[illegible]at it is the world's fifth largest econo[illegible]n PPP terms. However, she could margi[illegible]e herself by not engaging with the res[illegible] the world. EPW

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Notes

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1 See World Bank (2002: Figure 3 and discussion on p 7).
2 See Wade (2002).
3 See Deaton (2002).
4 See Wade (2002) pp 9-10; edited for continuity.
5 See Bhalla (2003) p 79.
6 See Castells (2000), p 109.
7 See Kaldor (1970).
8 See Sen (1999).
9 Deaton and Dreze (2002).
10 See Nayyar (1995).

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