Economic Globalization and Institutions of Global Governance

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ABSTRACT

Economic globalization is reducing the significance of state boundaries. We have a global economy but lack the institutions necessary for a global polity. Unilateral action by a would-be hegemon is untenable in the long term and hence there is a need to discuss our institutions of global governance. The benefits and costs of globalization have been distributed asymmetrically, placing poor people in poor countries at a disadvantage, especially as regards the free movement of low-skilled labour and the creation of intellectual property rights. The World Trade Organization, a target of the critics of globalization, should be seen as a welcome extension of the rule of law to the international arena and a counterweight to unilateralism. More generally, global economic liberalism should be balanced by institutions which provide global public goods and international mechanisms to finance them. All of this implies a further weakening of state sovereignty and a need to ensure that global institutions are democratic and can be held accountable to people worldwide for their performance.

INTRODUCTION

The eighteenth century presented humankind with two visions, namely, a vision of economic prosperity based on free markets and a vision of ‘liberty, equality and fraternity’ based on democratic political institutions. The ‘first industrial revolution’ in England was the forerunner of material prosperity,1 while the French Revolution raised the banner of a liberal polity and society. For nearly two centuries after the English and French revolutions, the struggle to construct a liberal political and economic system occurred within the boundaries of independent states. Despite the internationalism of ‘free traders’ and parts of the socialist movement, political and economic

An early version of this article was circulated as Griffin (2001). It can also be read on: http://www.umass.edu/peri/pdfs/WP26.pdf. An expanded version benefited from comments by participants in the PERI symposium and particularly from J. Mohan Rao’s ‘Commentary’ (Rao, 2001). The expanded version was presented at a conference on ‘Rich and Poor: Current Development Research and Its Condition in Sweden’, Lund University (January 2003) and then revised again, in the light of helpful comments from the referees, for publication in Development and Change. The conference version can be read at: http://www.sasnet.lu.se/researchf.html.

1. The allusion is to Peter Mathias, The First Industrial Nation (Mathias, 1969).
liberalism, perhaps paradoxically, were closely bound up with nationalism. The implicit assumption was that it was possible to have ‘liberalism in one country’.2

Today that assumption is being challenged by the forces of economic globalization. State boundaries are gradually becoming less important as large and rapidly growing flows of trade, investment, technology, finance capital, labour and ideas create an integrated world economy. Our political institutions, however, have lagged behind. We have a global economy but not a global polity and hence our ability to ‘govern the market’ and ourselves is weakened.3

Not everyone is dissatisfied with the present state of affairs. Powerful countries such as the United States and large transnational corporations tend to favour the status quo and oppose extending democratic ideals beyond the borders of existing states. Many critics of economic globalization strongly object to the loss of control implied by globalization and respond to the absence of democratic global institutions by advocating a return to economic nationalism.4 Other critics, including myself, wish to extend the benefits of economic globalization and to create institutions of global governance which are far more democratic than the existing collection of international agencies.

If one is serious about democracy in the global order, at a minimum this implies respect for the views of the majority, together with self-restraint by the powerful. Unfortunately, the US, the world’s most powerful country, has disregarded this most elementary requirement of a democratic global environment. Senator William Fulbright of Arkansas warned us of this a generation ago when he spoke of the ‘arrogance of power’ and the need to have ‘a decent respect for the opinions of mankind’. The US has failed to heed his warnings and concerns. Instead, in recent years, as in Senator Fulbright’s time, the US has resorted frequently to unilateral action and has treated with contempt the opinions of other countries.

Let us consider eight examples of occasions when the US has chosen to disregard the views of the majority of other nations. First, the US government has refused to pay its full dues to a number of international organizations. The United Nations has received the most attention in the press, but the US is also behind in payments to the International Monetary Fund, the World Bank, the Organization of American States, and a number of other international organizations. In other words, the US is a delinquent contributor. Second, it has refused to join the great majority of other countries in creating an International Criminal Court. The treaty creating the court was signed by 138 countries and ratified by 66, but instead of ratifying the

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2. Stalin, similarly, believed in ‘socialism in one country’, in contrast to Trotsky.
4. For a collection of papers critical of globalization from many different points of view, see Broad (2002).
treaty, the US has nullified its signature. This is the first time ever that a country has voided its signature on an international treaty. Third, on two occasions the US has unilaterally withdrawn from major UN specialized agencies: the first was the United Nations Educational, Scientific and Cultural Organization (UNESCO), which it agreed to rejoin only in 2002, eighteen years after leaving it in 1984, and the second was the International Labour Organization (ILO), which it rejoined some years ago.

Fourth, the US has refused to ratify the international agreement on 'greenhouse gases' and join in a global effort to reduce transnational pollution. Fifth, it has refused to join 130 other countries in a treaty banning the use of land mines. Sixth, it has refused to implement the chemical weapons convention, on the grounds that it will not allow inspections on US territory. Inspection of other people’s territory is rightly regarded as essential in order to ensure compliance with the convention, but inspection of US territory is regarded as unacceptable. Seventh, the US has refused to ratify the comprehensive Nuclear Test Ban Treaty.

Lastly, and most recently, having failed at the United Nations to obtain authorization for military action against Iraq, the US and a 'coalition of the willing' pre-emptively invaded Iraq with the intention of replacing the regime with one that was more to their liking. The unilateral aggression against Iraq is likely to be much more than just the first war of the twenty-first century. It is likely to be a turning point in international political and economic relations. The outcome of the war and its aftermath will indicate the direction we will follow for the foreseeable future. We will learn whether the US succeeds in weakening the constraints regulating its international conduct, establishes a global hegemony and openly engages in a new form of imperialism\(^5\) or, alternatively, whether the costs of global unilateralism are seen to greatly exceed the benefits to the US and hence renewed impetus is given to collective action and the search for more democratic institutions of global governance.

Quite apart from the perception of US policy-makers of the costs and benefits of unilateral action, there is the question of the ability of the US to sustain global domination even if it wishes to do so. Long term economic trends suggest that the power of the US relative to the rest of the world is in steady decline. US hegemony may prove to be rather fleeting. True, US military expenditure and US exports of weapons are almost as large as the rest of the world combined, but the significance of this is questionable because, as I will argue below, the instruments of violence are cheap to make or buy, are widely dispersed and no longer monopolized by territorial states, and hence have become democratized. Fundamental demographic and economic forces are eroding the dominance of the US. Thus the share of the US population in the world total is falling; the share of the US in the

\(^5\) For a discussion of the ‘old’ imperialism see Griffin and Gurley (1985).
world’s stock of productive capital is declining; the shares of the US in world output and income and world trade are also declining. Almost every indicator is pointing downwards: the war in Iraq may turn out to be a sign of US weakness rather than strength.

Time will tell, sooner rather than later, but in any case, unilateralist behaviour of the types listed above is incompatible with creating a democratic order at the global level. It undermines world security, it inhibits the extension of the rule of law to the global level and it weakens the capacity for collective action to address pressing global problems. Within the narrow compass of economics, it is becoming increasingly evident that global economic governance requires a set of supranational institutions that are able to deal collectively with a range of transnational issues. International trade obviously is one of these issues, but finance, global liquidity, labour migration, technology transfers, intellectual property rights and environmental issues must also be addressed. For these purposes, what is needed is a combination of reform of existing international institutions and the creation of new supranational institutions.

**ASYMMETRIC GLOBALIZATION**

Globalization is leading to greater economic integration, but at the same time there are two important areas in which the world is becoming more restrictive and more protectionist. I want to highlight these. The first is restriction on the movement of low-skilled labour; the second is the creation of ‘intellectual property rights’ that restrict the flow of knowledge, ideas and technology. These protectionist restrictions ensure that the benefits of globalization are distributed inequitably, within an asymmetric structure of global governance that favours the rich and the powerful while placing the poor and the weak at a considerable disadvantage. The solution, I believe, is greater liberalization, not less, and this in turn requires more democratic decision-making at the global level.

Even in trade and commerce, an area where there has been a considerable degree of liberalization, the benefits of globalization have been distributed inequitably. The reason is continuing discrimination against products of particular importance to low income countries. The process of liberalization has generally occurred much more slowly in the cases of foodstuffs, textiles, clothing, and footwear and leather products.6 That is, even in the areas

6. The average tariff in developed countries on all imported manufactured goods is 4.1 per cent. However, on textiles the average tariff is 7.8 per cent, rising to 13.7 per cent on footwear and 14.5 per cent on clothing (see UNCTAD, 2002: 130, Table 4.2). The average tariff faced by developing countries on exports of agricultural products is about 15.1 per cent in developed countries and 18.3 per cent in developing countries (see Hertel et al., 2002: 116, Table 1).
where globalization has advanced most rapidly, there has been an asymmetrical relationship. The poor have been put at the end of the queue.

Protectionist forces recently have been in the ascendancy in the US. Tariffs have been imposed on timber imported from Canada, contrary to the spirit (and perhaps the law) of the North American Free Trade Agreement (NAFTA). Tariffs of up to 30 per cent have been imposed on imported steel, in violation of agreements under the World Trade Organization (WTO). In 2001 alone, the US launched seventy-nine anti-dumping investigations, with a view to restricting imports from low-cost producers. The proposed anti-dumping measures are a response to price competition from abroad. They are, in effect, a denial of liberalization and competition, the very foundation of an efficient market economy, and are incompatible with an equitable global economy. Finally, last year in 2002, the US succumbed to pressure from the farm lobby and massively increased subsidies to the agricultural sector. This represented a reversal of previous policy to reduce farm subsidies, makes it difficult to sustain the campaign to reduce farm subsidies in Europe and Japan, and contradicts the US commitment to reduce farm subsidies and open its markets in the round of trade liberalization negotiations initiated in Doha, Qatar in 2001. One has the impression that the US government might agree to block out sunlight in order to please the domestic energy lobby.7

Let us turn now to the case of labour mobility, particularly to the mobility of low-skilled labour. My view is that we ought to be moving towards a world of open borders. This is part of my theme that greater globalization, not less, is desirable. Freer movement of labour would be advantageous for two reasons. First, standard economic theory implies that greater mobility of labour is a ‘positive sum game’ from which everyone could benefit (see Griffin, 1997). Second, even if one does not accept this, even if it is thought that a world of open borders would significantly harm certain groups in the rich countries, we ought to do it anyway. Not only would more open borders lead to greater efficiency in resource allocation, raising global income, it would also improve the distribution of world income by disproportionately raising the incomes of low-skilled workers in developing countries.

The distribution of world income is grotesquely unequal. Globalization has resulted in increased inequality in most countries, particularly in China and in the transition economies of the former Soviet bloc. Inter-country inequality, however, has shown a more complex pattern. Bob Sutcliffe recently has reviewed and compared all the available studies and his own estimates appear to be the most reliable. He first presents estimates of inter-country inequality, taking into account differences in per capita income (measured in purchasing power parity terms) but not the distribution of

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7. The allusion is to Frédéric Bastiat, *Economic Sophisms*; see Heilbroner (1953: 170–2).
income within countries. Between 1980 and 1998 the Gini coefficient rose only slightly, namely, from 55.5 to 56.4 (Sutcliffe, 2002: 27, Table 7, line 8). However, if China is excluded from the sample, the Gini coefficient rises sharply from 53.2 to 58.2 (ibid.: 27, Table 7, line 9). In other words, it was the rapid increase in average incomes in China (and to a lesser extent in India) which explains the relative stability of inter-country income inequality.

Sutcliffe also presents estimates of global income inequality, which take into account not only differences in average income among countries but also the distribution of income within countries. Here the outcome is more encouraging: between 1980 and 2000 the Gini coefficient for global inequality declined from 66.7 to 62.7 (ibid.: 32, Table 9, line 6). Even so, only one country (Sierra Leone with a Gini coefficient of 62.9) has a higher Gini coefficient than the world as a whole. In no other country, not even in South Africa (59.3) or Brazil (60.7), does the country coefficient actually exceed the global Gini coefficient.8 Greater freedom of movement would help to reduce this global inequality and hence open borders ought to be high on the agenda of those who advocate greater democracy in the world economic order. Even those who are sceptical of global democracy but who support economic globalization should favour more open borders because if global inequality were to increase further, there is a danger that there will be a general retreat from liberalization, as happened after the First World War (Williamson, 1997).

Moreover, better systems of communication and lower costs of transport have made international borders more porous even if not completely open. States find it increasingly difficult to control their frontiers and as a result illegal migration on a large scale is now commonplace. Neither the Rio Grande nor metal fences have prevented millions of illegal migrants from entering the United States from Mexico. The tunnel under the English Channel has made it easier for undocumented workers to get into Britain. And the Adriatic Sea has been a feeble barrier to Albanians wishing to enter Italy. Attempts to control international migration have transformed poor workers into illegal workers, to the benefit of no one.

Let us now turn to patents and trademarks, the second area where I believe we are moving in the wrong direction towards more protection. We now glamorize the old terms ‘patents’ and ‘trademarks’ with the phrase ‘intellectual property rights’ and enormous efforts are being make by lawyers and the companies that employ them to establish ownership of ideas. Much is at stake since the ‘intellectual property rights’ bestowed by governments on selected individuals and institutions give them monopoly privileges which can be exceptionally valuable. We ought to be moving in the opposite direction, toward making knowledge a free good, and not creating

8. The World Bank publishes data on the distribution of income for 110 countries; see World Bank (2003: 236–7, Table 2).
property rights in knowledge. Today we have reached an absurd situation where it is possible to obtain a trademark on one’s name. An example that recently attracted attention in the press was the attempt by the singer Madonna to obtain a trademark on her name, notwithstanding the long-established prior use. Even words of slang in relatively common usage have been registered as a trademark and subsequently licensed for commercial purposes. For example, the phrases ‘three-peat’ and ‘3-peat’ have been registered by Riles and Co. in the United States.9

The situation is far more serious as regards patents on technology, as opposed to trademarks on names. Here we need to do several things rather urgently. An institution already exists through which we could do them, if it were reformed — namely, the World Intellectual Property Organization (WIPO). In general terms what needs to be done is to raise the standards for patentability, that is, to make it more difficult for enterprises and inventors to obtain patents. Firstly, it should be made impossible for firms to obtain patents for minor product differentiations, a strategy that is increasingly being pursued by large multinational corporations. Secondly, we should make it impossible for firms to acquire defensive patent portfolios, whereby they take out large numbers of patents as a way to throttle competition and inhibit innovative behaviour by would-be competitors. Thirdly, firms should be prevented from engaging in other anti-competitive strategies, such as initiating patent litigation against smaller companies as a way to increase the costs of entry into an industry. Fourthly, an international convention is needed which ensures that researchers will have free, open access to patented information, so that new research and innovation are not impeded by patent monopolies.10 These things could be done in the short and medium run. In the longer term, the entire patent system should be reconsidered, so that the global public interest is more fully taken into account before monopoly power is bestowed on firms or individuals.11

The duration of copyright and patent privileges has been increased steadily and the range of items covered has been broadened. Universities now

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9. Meaning three times (from ‘repeat’).
10. Universities, however, may not be able to have it both ways, simultaneously seeking to use the ‘intellectual property’ of others free of patent protection while obtaining patent rights on their own research discoveries to enhance revenue. For a discussion of this issue see Eisenberg (2003).
11. For a discussion of the effects of recent changes in the patent law in the United States, see Gallini (2002). It is becoming increasingly recognized that patent legislation does little to help poor countries or poor people and the Commission on Intellectual Property Rights, created by Britain’s Department for International Development, argued that developing countries should not in general commit themselves to systems of intellectual property rights promoted in developed countries unless they are clearly beneficial to their needs. For discussions of the Commission’s report, see The Economist (2002), and Science (2002).
routinely retain patent rights and obtain revenues from licensing arrangements. The extension of patents to biotechnology raises a number of issues that are only beginning to be examined. Perhaps even more important, the duration of patent and copyright protection is much longer than can be justified by the need to provide an incentive to creative activity. Copyright protection in the United States, for instance, is longer than the life expectancy of the artist, writer or creator and hence provides monopoly rents to the heirs of deceased inventors long after the incentive effect on creativity has ceased to operate. US copyright protection has been increased in stages from 28 years, to 75 years and most recently to the author’s life plus an additional 70 years after the author’s death. In the case of anonymous works (such as films) the duration of copyright is 95 years from publication or 120 years from creation, whichever is shorter. The function of copyright legislation clearly has shifted from stimulating innovative works to protecting the income generating power of intellectual property.

THE WORLD TRADE ORGANIZATION

These, then, are areas in which the world is becoming more illiberal and where critics of globalization are right to demand change. Let us turn now to the World Trade Organization, the international institution that has received the brunt of criticism by those hostile to globalization. There is an irony here because historically progressive people and those wishing to assist developing countries have been in favour of creating a strong international agency that would address a broad range of issues concerned with international trade. Those wishing to maintain the status quo and countries keen to prevent any erosion of their sovereignty have generally been opposed to global institutions which could regulate trade for the common good. Yet we now witness demonstrations against the WTO in Seattle and elsewhere by those who claim to speak for the poor, the weak and the disadvantaged.

In the 1940s, when the Bretton Woods institutions were founded, progressives urged the creation of what was then to be called an International Trade Organization (ITO), with the purpose of completing what is now called the international financial architecture. That is to say, there would be a World Bank that would be responsible for supplying capital to countries undergoing post-war reconstruction or post-independence development, an International Monetary Fund that would be responsible for providing finance to countries that encountered short-term balance of payments difficulties, and an International Trade Organization that would create and enforce equitable ‘rules of the game’ in the sphere of trade and which progressives hoped would prevent the United States from maintaining the dominance of world commerce that it enjoyed in the immediate aftermath of World War II.
The US vetoed the idea. In fact, trade issues were discussed not at Bretton Woods, New Hampshire, but in Havana, Cuba. The ITO, in effect, was pushed to the periphery with the hope that it would be forgotten. Indeed in the end, instead of the ITO, the world had to be satisfied with the General Agreement on Tariffs and Trade (GATT) which, as is well known, was biased from its inception in favour of the trading interests of the rich countries. In fact, most of the poor countries did not participate in GATT discussions in a meaningful way.

The developing countries were highly dissatisfied with this arrangement, and after agitation over a number of years, they were fobbed off with the United Nations Conference on Trade and Development (UNCTAD), of which Raul Prebisch was the original head. UNCTAD was deliberately made a weak and non-permanent body. It has been an important source of information and analysis and its life has been renewed periodically, but in terms of global economic policy, it has never been more than a talking-shop.

Given this historical context, the creation of the WTO should be regarded as a considerable advance. Unlike UNCTAD, where there is not even a mechanism for reaching global agreements on trade and trade-related issues, and unlike GATT, where there was no mechanism for enforcing agreements once they had been hammered out, the WTO possesses both of these characteristics. It is organized in a way that permits serious and systematic negotiations and, moreover, it contains a mechanism (albeit a rather weak one) for enforcing legally binding agreements. These advances should be welcomed.

Internationalists in particular should applaud the extension of the rule of law to the international arena, rather than relying on the traditional formula of ‘might makes right’. As we have seen, selective unilateralism has increased since the end of the Cold War and this threatens to exacerbate global inequalities as well as to increase political tensions. The WTO can help to counteract this because it contains some provisions for compensation in cases where a country violates an agreement and thereby inflicts harm on others. It is true that this compensation mechanism is narrow, and the process of adjudication is so cumbersome that it can drag on for several years. Nonetheless, I think it is a step forward that the global community has agreed, in principle, that mechanisms of compensation are desirable.

Unfortunately, the United States has not hesitated to disregard the dispute resolution procedures of the WTO when it has suited its interests, and has sought in other ways to get round its commitments. Perhaps the most common tactic is to invoke ‘anti-dumping’ measures, of which there are more than 300 currently in force. A great deal more needs to be done, therefore, to create a rule-based system of global economic governance as it applies to international trade, but at least we have taken a small step in the right direction.
Let us consider, next, another area of contention. It is my view that our institutions of global economic governance should be expected to practise specialization and a division of labour. That is, each institution should be responsible for a specific area of activity and considerable effort should be made to prevent overlapping jurisdiction and the resulting turf warfare, muddles and lack of accountability. The reason for this is not just that clarity of responsibility is conducive to efficiency, but also because confusion about responsibilities favours the rich and powerful countries that can play one organization against another in a process of divide-and-rule. In other words, duplication of function works to the disadvantage of low income countries in general and particularly to the disadvantage of small low income countries operating with tight budgets. Small countries should be able to contest an issue in one forum only and not be forced to incur the expense of doing so repeatedly in a number of fora.

This principle is relevant to two specific areas of current debate. In my view, it is almost never sensible to use trade policy instruments in an attempt to protect the environment or raise labour standards (see Griffin, 2000). Indeed, the imposition of trade sanctions to correct environmental externalities or to discourage undesired labour practices such as child labour is more likely to lower global well-being — and hurt the poor in the process — than to raise it.

Environmental externalities should be tackled at their source, which is usually at the point of production, and occasionally at the point of consumption, but rarely at the point of exchange. Consider, as an example, our conventions on whaling. Efforts to protect the whale have revolved not around prohibiting foreign trade in whale meat, but in prohibiting the production of whale meat. That has been the job of the International Whaling Commission, and the IWC has been quite successful. This is a model of how environmental externalities should be corrected, rather than trying to do so through trade restrictions negotiated at the WTO.

Similarly, the correct principle to apply in the case of labour standards is that undesirable labour practices should be modified in all industries where the undesirable practice occurs, and not just in those industries which happen to be exporting their product. To take an extreme example, slavery is intolerable whether the slaves are used for housework (a non-traded service) or to produce sugar for export. If one objects to slavery, as surely everyone does, eliminating it is not the responsibility of the WTO; it is the responsibility of the International Labour Organization (ILO). The same principle should be applied when it comes to a ban on the exploitation of child labour.

Likewise, if there are objections to certain environmental externalities that have transnational implications, that is the responsibility of the United Nations Environmental Programme (UNEP) rather than the responsibility of the WTO. If UNEP is unable to discharge this responsibility, as is indeed
the case, then we should reform UNEP rather than reassign some of its tasks to other agencies. This is, of course, the way things are done nationally. The United States, for instance, does not ask the Department of Commerce to deal with environmental and labour issues. Those are the responsibilities of the Environmental Protection Agency and the Department of Labor, respectively. The recent attempts to debate environmental and labour issues at the WTO harms poor countries by forcing them to bear the costs of negotiation in multiple venues (Geneva, Seattle, Washington, Doha, etc.) and strengthens the suspicion of developing countries that protectionist motives determine the tactics of the developed countries.

GLOBAL COLLECTIVE CONSUMPTION GOODS

Globalization has been based on the doctrine of economic liberalism, notably free trade and the free movement of capital, but we are running up against the limits of liberalism and encountering an inadequacy of global collective or public goods. Market processes will not overcome this problem; collective action will be necessary (see Olsen, 1965, 1973).

In most countries, the majority of public goods are supplied by the state, that is, by national, provincial or local government. At the global level, however, we lack adequate institutions of global governance with the authority and enforcement power to provide public goods. Instead we have anarchy and consequently weak incentives to supply public goods and strong incentives to ‘free ride’ and renege on international agreements. What is needed is institutional innovation that combines jurisdictional authority in the provision of global collective goods with democratic decision-making which gives that authority political legitimacy.

We live in a world where military weapons are cheap and readily available. Individual states no longer have a monopoly over the instruments of violence within their borders; the means of violence, in effect, have become democratized and globalized. There are lots of Davids that can take on and defeat Goliath, or at least make him miserable, and hence the need has increased for the most basic global public good of all — security, conflict resolution and peace. Like law and order within a state, global peace is a public good (Mendez, 1999). And like law and order within a state, global peace should be subsidized and placed under international leadership, not left to an individual state to act as policeman of the world, or even to a coalition of states. It is time to return to the 1995 proposal of United

12. The formal analysis of public goods was first published by Paul Samuelson (1954). This paper characterized ‘collective consumption goods’ as goods which were not used up or depleted in the process of consumption and from the consumption of which others could not be excluded. It was shown that the market would result in an under-supply of public goods. The analysis of public goods was extended to the global level in Kaul, Grunberg and Stern (1999). Also see Kaul, Conceição, Le Goulven and Mendoza (2003).
Nations Secretary-General Boutros-Ghali that UN ‘peace enforcement’ units be created, and that these military units have weapons and the authority to use them.

Acceptance of the Boutros-Ghali proposal would of course have major implications for the United Nations and the global distribution of political power. It would also represent a major step forward in providing the global public good of peace. It would force the world to face the issue of financial reform in the United Nations, to confront the free rider problem and to assign to a global institution limited powers to tax. Indeed, increasing the supply of global public goods will be virtually impossible if there is no secure means to finance them, and that implies a system of global taxation.

None of this is likely to be acceptable unless the great majority of people in the world believe that peace enforcement and the taxation necessary to secure global peace are legitimate. Legitimacy, in turn, will require a much larger role than is at present the case for democratic decision-making in institutions of global governance. Much of the opposition to globalization, I believe, arises from the fact that ordinary people have little control over the global forces that increasingly shape their lives. At the national level, democratic institutions can temper market forces, maintain social order, supply public goods and bestow legitimacy on the rules which enforce the implicit social contract. Analogous institutions will have to be created, step-by-step, at the global level.

Many people oppose globalization not only because there are no democratic institutions to regulate it, but also because the global system that is being created is seen to be inequitable. Global inequalities in the distribution of income, wealth, power and influence are enormous and the spread of rapid and cheap global communications has increased the awareness of hundreds of millions of people of widespread injustice and the unfairness of the global economic and political system. Increasingly it is recognized that equity is a global public good and that the lack of equity undermines global security and makes global co-operation more difficult (Rao, 1999). In other words, global equity has both intrinsic and instrumental value.

Peace and equity can be considered to be ‘primary global public goods’ and democratic institutions of global governance are necessary to ensure an adequate supply of these goods. Other global public goods — including an open trading system, global financial stability and a lender of last resort, a free global labour market, and a healthy global natural environment —

13. The allusion is to ‘primary social goods’ introduced by John Rawls (1971).
14. Some environmental issues are truly global, such as preservation of biodiversity, management of fish stocks in the deep oceans, prevention of global warming and climate change, maintaining an intact ozone shield, preventing outer space from becoming a waste sink. Other environmental issues are transnational without necessarily being global and perhaps can best be dealt with at the regional level, for example, acid rain, pollution of international rivers (the Rhine), lakes (the Caspian Sea) and coastal waters.
can more easily be provided when the primary goods are in place. The same is true of more ordinary global public goods such as knowledge (see Stiglitz, 1999) and health. I have already mentioned that the proliferation of intellectual property rights can hamper the application of useful knowledge.\footnote{Much of the increase in average incomes, particularly in the developed countries, is due to technical change and a resulting increase in total factor productivity. Free markets, as is well known, underprovide technology and knowledge in general, both public goods. Intellectual property rights, by increasing the cost of acquiring knowledge, can inhibit both the production of technology in developing countries and the transfer of technology to developing countries. The consequences are that the distribution of global income is shifted in favour of developed countries and the rate of growth of income in developing countries is reduced.}

A more positive example of what can be done is the large network of international agricultural research institutes that has been created and distributed around the world, including the International Rice Research Institute in the Philippines (IRRI) and the Centre for the Improvement of Maize and Wheat in Mexico (CMMYT). These research institutes provide a number of public goods, including the creation of new knowledge such as higher yielding varieties of plants, the storage and systematic classification of widely dispersed existing knowledge (as in seed banks), and the development of new research technologies based, for instance, on their germplasm collections. These institutions were financed largely by philanthropical foundations rather than governments and international agencies.

Globalization is reflected, too, in the growing interdependence in the field of health (see Chen et al., 1999). Just as communicable diseases justify government intervention at the national level to protect public health, so too does the spread of infectious diseases internationally justify global collective action. The list of globally important infectious diseases is long and growing and includes HIV/AIDS, sexually transmitted disease, influenza, cholera, plague, anthrax, and foot and mouth disease in animals, and most recently, SARS. Beyond this, it has been argued that globalization can spread patterns of behaviour which contribute to non-communicable diseases (ibid.). Examples include the growing use of drugs such as heroin and cocaine and the rapid rise in the consumption of tobacco in lower income countries and the consequent increase in lung cancer, respiratory ailments and heart disease.

In summary, globalization is creating a demand for global public goods. A liberal global economic system cannot satisfy this demand because market forces tend to produce sub-optimal levels of public goods. Hence collective action is needed. The present system of sovereign states, however, is incapable of supplying global public goods. This can only be done by institutions of global governance. This, in turn, requires that states relinquish some of their sovereignty to global institutions and that these new institutions be organized on democratic principles in order to ensure their legitimacy and wide acceptance.
Whether we like it or not, state ‘sovereignty is no longer absolute, but conditional’ (Sideri, 1999). Impersonal global economic forces are eroding the ability of states to control events inside their territory and active intervention by outside parties, as in Kosovo, has established the principle that human rights supersede, or at least qualify, the sovereign rights of states. Indeed ‘the war in Kosovo represents the last blow to the concept of national sovereignty’ and the idea that what a state does inside its borders is its own business (ibid.). The question, then, is where do we go from here? My answer is, first, that globalization should be deepened to ensure that the benefits are more evenly distributed and, second, that democracy should be extended to the global level to ensure that economic forces serve public purposes and the interests of the entire population of the world.

TOWARD GLOBAL DEMOCRACY

Our ultimate objective should be to apply at the global level the same principles of equity and efficiency that we advocate at the country level. This implies giving the people a voice in international institutions; that is, it requires representative democracy at the global level. We are very far indeed from that situation today. The Bretton Woods institutions — the World Bank and the IMF — are more akin to a plutocracy, since votes on their boards of directors are weighted by financial contributions. The Security Council of the United Nations represents rule by the strong, or more accurately, rule by those countries that happened to be on the winning side at the end of World War II. Most of the specialized agencies of the United Nations operate on the principle of one country, one vote, which means that a small country like Botswana with two million people has the same influence as India with a billion people. An exception to the one country, one vote principle is the ILO, which has a tripartite governing structure where countries, trade unions (mostly representing large urban industries) and management (mostly representing multinational corporations) have an equal voice. In none of our existing international institutions, however, is the principle of one person, one vote applied. People who have no voice within our existing institutions have no alternative but to take to the streets to protest. Democracy would bring the people inside the tent and give them a voice within democratic institutions. This is the direction in which the European Community is moving.16 So it is not entirely Utopian to think in terms of one person, one vote in supranational institutions.

16. Members of the European Parliament (MEPs) are chosen from each state through a democratic electoral process. The European Parliament, however, is a rather weak legislative body and there is much discussion as to how best to strengthen it in order to give the people of Europe a stronger voice.
Today our international affairs, including our global economic affairs, are largely governed or regulated either through the unilateral action of the United States, the dominant, self-declared ‘indispensable’ country, or through coercion by a coalition of the rich countries. The alternative to the status quo is a rule-based system of governance, backed by the creation of a body of international law and enforcement mechanisms that ensure that the rule of law does indeed prevail.

Finally, we need to construct a rational ‘architecture’ of international economic institutions. This would mean scrapping those institutions that no longer serve a useful purpose, strengthening those that are currently too weak to act independently of the most powerful countries, and creating new institutions where experience indicates that there is a pressing need for them. Let us consider three cases to illustrate the point.

As an example of an institution that no longer serves a useful purpose, consider the World Bank. According to Article 1 of the Articles of Agreement that established the World Bank, the original purpose of the institution was ‘to promote private foreign investment’. This made sense at the end of World War II because global capital markets had ceased to function and there was an enormous need for capital in countries which had been severely damaged during the war and in the newly independent ex-colonial countries. The bank promoted private foreign investment primarily by financing physical infrastructure projects. When global capital markets recovered, the bank changed its emphasis from infrastructure projects to lending for general development, such as agriculture, health and education. That is, the bank became a foreign aid agency with the purpose of promoting economic development. This second purpose also was overtaken by events. First, private foreign capital soon exceeded public foreign aid. By 1999, foreign direct investment in low and middle income countries was five times larger than official development assistance. Second, foreign aid itself began to decline. In 2000, official development assistance was only 0.22 per cent of the gross national income of donor countries, as compared to the UN aid target of 0.7 per cent. Moreover, between 1995 and 2000, foreign aid declined in real terms by 8.8 per cent (World Bank, 2002: 358, Table 6.9). Foreign aid, as we know it, is disappearing rapidly.17

The World Bank thus has been forced to re-invent itself yet again and its most recent stated purpose is to provide policy advice to developing countries, using aid as an ‘incentive’ to countries to accept its advice. The World Bank, in other words, has become an advocate: of liberalization, of structural adjustment, of ‘shock therapy’ in transition economies, of privatization of state owned enterprises and social services such as health and education, and of market-friendly policies in general. ‘Despite its small and declining share of global capital flows, it has acquired tremendous

17. This was anticipated over a decade ago: see Griffin (1991).
leverage as an ideological institution’ (Rao, 2001: 8). This, predictably, has produced a backlash. Some believe the World Bank should be closed, arguing that fifty years is enough. Others believe the bank should take its own advice and become privatized. The President and others at the World Bank, however, increasingly think of themselves as a Knowledge Bank (Stiglitz, 1999: 319), that is, as a producer and depository of wisdom. Whether this latest re-invention of purpose will be more durable than the earlier ones remains to be seen.

None of this implies that there is no longer a need to transfer resources to poor countries, but old-style foreign aid is nearly obsolete. It should be replaced, I believe, by a tax and transfer mechanism under which funds would be raised by a compulsory, progressive tax on the GNPs of rich countries and distributed automatically to poor countries, with the amount received varying inversely with a country’s per capita income.18 Such a scheme, somewhat analogous to the spirit which underlies the welfare state in many progressive countries, would represent a radical departure from the way the global economy is currently managed.

The International Monetary Fund is an example of an institution that is too weak to act independently and urgently needs strengthening. It does not have the authority to set the ‘rules of the game’ in international financial affairs and hence can do relatively little to prevent global financial instability. When an outbreak of instability does occur and contagion threatens the entire system, the funds available to the IMF for lending to member countries are far too small. The IMF in recent years has been forced to organize consortia of countries on a case-by-case basis to provide funds to countries which encounter severe financial difficulties. This undermines the authority of the IMF, gives countries which are members of a consortium the power to determine the volume of assistance and, above all, gives the consortium members considerable political leverage in recipient countries. It is noteworthy that IMF ‘conditionality’ has departed from conventional short-term policies to correct balance of payments problems and now embraces long-term development policies. We thus have a paradox, namely, that as IMF lending declines, the power of the IMF to influence policies in recipient countries seems to increase.19

The IMF is able neither to act as a lender of last resort to the central banks of individual countries nor is it able to increase global liquidity when the needs of the global economy so require. These are functions which central banks in individual countries routinely perform, yet there is no equivalent institution at the global level. The European Community has led the way by creating the European Central Bank to serve the euro-area. The next step is to transform the IMF into a genuine World Central Bank.

18. For details of a tax and transfer scheme, see Griffin and McKinley (1996).
The most obvious area where entirely new institutions are needed is the judicial system. The International Court of Justice in The Hague, created after World War I, has played a very limited role in extending the rule of law to global affairs. Several countries, including the United States, have refused to recognize its authority and the types of cases it can consider have been heavily circumscribed. Tentative steps, mostly of an ad hoc nature, have been taken to bring to justice those who have violated international law. This is particularly true in cases of war crimes and genocide, but much more needs to be done to create a system of permanent international courts for the enforcement of civil and criminal law. Until this is done, anarchy will continue to prevail and there will be resistance to globalization.

CONCLUDING SUMMARY

In this article, I have argued that some of the problems attributed to economic globalization arise because globalization has been asymmetrical (in terms of trade liberalization) and incomplete (notably in the failure to liberalize the global labour market). The consequence has been a very unequal distribution of the benefits of globalization and the perpetuation of great inequality in the global distribution of income. With the benefit of hindsight it is clear that the sequence of economic reforms has been far from optimal and developing countries in particular have been placed in a disadvantageous position. It is not surprising that this has led to widespread protest.

Institutional weaknesses have also been a major source of problems. Our institutions of global governance were not designed to manage a closely integrated and rapidly expanding global economic system. We have global markets but we lack global institutions to govern those markets. The institutions that exist are unrepresentative, many people do not have a full voice in them, and they fail to conform to democratic ideals. Moreover, the structure of global governance is full of holes. There is woefully inadequate provision for supplying global public goods and there is no provision for financing them in a regular way. Foreign aid programmes are drying and have yet to be replaced by a tax-and-transfer scheme that would benefit the poorest countries and those that are marginalized by the process of globalization. Lastly, as part of the process of reforming and expanding our institutions of global governance, we need to invent mechanisms that will enable global institutions to be held accountable to people worldwide for their performance.

REFERENCES


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The Editors of Development and Change anticipate that this article will stimulate a debate around the important issues which it raises. They are expecting a number of short responses to the article, which will be published in forthcoming issues of the journal.