Tailoring globalisation to national needs and well-being: one size never fits all

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Abstract: This paper argues that political-economic trends referred to under the single heading of globalisation have distinct causes and manifestations in different countries. Institutional variables chosen by governments and their constituents play a dominant role in determining the character of those manifestations, few of which are inevitable. The political Left and Right often base their arguments on the common premise that nations have no choice but to adopt the US model of highly mobile investment capital, market-centred provision of most goods, minimal governmental regulation and minimisation of accounting costs. That countries possess considerable degrees of freedom in establishing rules for international flows of labour, capital and goods is insufficiently appreciated by critics and supporters of trade and labour market liberalisation. Variety in political-economic forms achieves institutional diversification on a global scale, providing a multi-dimensional spectrum of benchmarks that help individual countries measure policy performance and update institutional variables accordingly.

Keywords: globalisation; institutions; behavioural economics; Kaldor-Hicks; inevitability.

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1 Introduction

Globalisation typically refers to increasing flows of traded goods, financial capital, information and people across national borders. There are important differences, however, among the definitions in circulation and tacit normative judgements they contain. Preferring descriptive definitions, economists often eschew nuance and simply identify globalisation with increasing time trends in international trade. Popular commentators such as Thomas Friedman, on the other hand, offer visions of globalisation that are explicitly prescriptive as well as descriptive.

Friedman's (2000, p.9) definition of globalisation in *The Lexus and the Olive Tree* is representative of definitions found in a broad range of writings on globalisation:

> "inexorable, integration of markets, nation-states, and technologies", enabling the "individuals, corporations and nation-states to reach around the world farther, faster, deeper, and cheaper than ever before, and in a way that is enabling the world to reach into individuals, corporations and nation-states farther, faster, deeper, and cheaper than ever before."

Friedman's account of this allegedly new economic system is based on a simple set of prescriptive principles favouring private over public provision of goods and services, use of price mechanisms to incentivise behaviour, minimal spending on social programmes, low taxes, and minimal regulation. This view of globalisation is worth investigating because it draws on widely held assumptions across a broad range of ideological positions. From Left to Right, one finds conflicting attitudes and policy preferences emanating from the common prediction that nation states, particularly their institutional differences, will fade in importance as technology advances and a new system of economic incentives governed by a unified set of rules takes hold. The normative component of Friedman's (2000, pp.276–305, pp.437–440) concept of globalisation is made explicit in his pronouncements that European-style social democracy is moribund, that social policy should rely maximally on market mechanisms, and that the only hope for poor people to become better off is by embracing the continuation and expansion of trends embodied in his notion of globalisation.[1]

Friedman's vision of globalisation exemplifies the widespread social Darwinistic faith that decentralised competitive mechanisms will reliably bring about aggregate economic gains. Friedman repeatedly suggests that global competition, especially the experience of losing and looking for jobs in highly dynamic labour markets, creates a beneficial shift in mindset among workers. According to this vision, instability in relationships between workers and employers ultimately makes workers better off, by cultivating optimism, flexibility, openness to difference, and reverence for creative destruction (*i.e.*, having a positive attitude about getting fired). This shift in mindset, Friedman contends, liberates individuals from antiquated institutions, especially national politics, which are positively old-fashioned in the Friedman view, and the generally fragmenting and friction-inducing force of nation states (from the point of view of the global economy).

The wealth of nations ultimately promotes military security, too, Friedman argues, as mutually interdependent global workers and investors come to view the economic cost of war as prohibitively high. Still, Friedman acknowledges that the road toward universal adoption of US-style deregulation since the late 1970s will not always be smooth. Therefore, he advocates use of aggressive military force when resistance threatens global order.

In a critical review of *The Lexus and the Olive Tree*, Krugman (1999b) derisively summarises Friedman's simplistic geopolitical analysis, interpreting Friedman as claiming that:

> "Old-fashioned power politics is becoming increasingly obsolete because it conflicts with the imperatives of global capitalism. We are heading for a world that is basically democratic, because you can't keep 'em down on the farm once they have Internet access, and basically peaceful, because George Soros will pull out his money if you rattle your saber."

Given such scepticism, one might guess that most academic policy analysts and policy makers regard Friedman's normative assessments of globalisation as too simple, or unrepresentative of deeper perspectives found elsewhere in the academic literature. On the contrary, however, Friedman's neoliberal thinking enjoys extraordinarily broad appeal, characterising, a common set of assumptions shared by commentators and academics with a wide variety of political viewpoints. Staunch advocates of economic liberalisation, such as *Financial Times* Editor Martin Wolf (2004), and critics such as Stiglitz (2003) and Krugman (2003) who express concerns over widening inequality, basically agree with Friedman's claim that there is a single phenomenon called globalisation, and that it is a necessary ingredient for expanding well-being. Proponents and critics alike base their arguments on tenets held in common: expansion of trade is good; poor people are usually better off with globalisation than without; and globalisation is a natural endpoint of technological advancement, necessary for achieving gains in aggregate well-being.[2] Similarly revealing in terms of neoliberal values shared broadly across the ideological spectrum are Clinton administration economists Blinder and Yellen (2001), who described the 1990s as the 'fabulous Decade' even though health and education programmes at the centre of the Clinton platform failed to be implemented.

In *The World Is Flat*, Friedman (2005, pp.204–205, p.469) argues that a return to New Deal era government programmes would be silly and, in any case, impossible to sustain given the virtually unstoppable momentum behind globalisation. For Friedman, the fall of the Berlin Wall in November 1989 was the first in a series of 'flatteners' through which the 'globalisation system' came into being. Friedman dates the shift from the Cold War system to the globalisation system as having occurred by year 2000.

In contrast to such commentaries on globalisation predicated on the idea of a monotonically increasing development curve based on the assumption of steady technological innovation, Gilpin (2001) argues that recent increases in transnational flows are more of a return to previously achieved levels of international connectedness rather than something unprecedented and new. Gilpin's *Global Political Economy* describes how the world underwent globalisation in the 18th century, comparing it with the present:

> ". . . as the 21st C. opens, the world is not as well integrated as it was in a number of respects prior to World War I. Trade, investment and financial flows were actually greater in the late 1800s . . . than they are today."

Consistent with Gilpin's view, Krugman (1997) and Quiggin (1999) characterise contemporary writing on recent globalisation as more hyperbole than substance, something of a fad among researchers, consultants and pundits, whose popular attention is disproportionate to the relatively modest share of US GDP accounted for by international trade. Reviewers of Krugman's work have gone further (*e.g.*, Berg, 1997), focusing on the fact that the USA and many other countries allegedly undergoing globalisation continue to have predominantly domestic economies, and that many problems attributed to globalisation are just as easily interpreted as policy failures.

Based on the observation that globalisation refers to a collection of disparate trends with multiple causes, this essay attempts to describe the most important among those differences and show that they are in large part a function of institutional variables under the control of nation states. Institutional variables that shape the kind of manifestations of globalisation that ultimately appear include tax policy, labour laws, workplace and product regulation, the amount of government services provided, and the particular rules by which government services are administered. The strong link between the policies of nation states and different forms of international connectedness implies differentiability of globalisation into multiple history- and policy-specific trends, the opposite of Friedman's view that globalisation is a singular, inevitable trend to which nation states must uniformly assent or else be crushed by competition.

Although Friedman's view of globalisation acknowledges cultural particularity, his overall story describes globalisation as an unstoppable, singular phenomenon. Friedman appreciates local particularity insofar as it reflects a strategy of 'glocalisation', that is, a set of techniques for rationally incorporating those aspects of local tradition that can survive global competition into the new economic order. Friedman dismisses the possibility that institutions deviating from US-style liberalisation of trade, financial and labour markets, can survive in the long run.

The singularity of the global institutional framework that Friedman (2005) envisions is evident in his description of the 'unique character' of the current global economy as being driven primarily by "the newfound power of *individuals* to collaborate and compete globally" (p.10). Friedman (2000) asserts that the new system's "most basic truth" is that "no one is in charge" (p.112).

Neoclassical economists accustomed to arguing from the point of view of consumer sovereignty should easily see as false any claim that one size fits all when it comes to institutional design. Just as there is nothing in economic theory that says people who like apples will lose out to those who prefer oranges, so too there is no *a priori* theoretical grounds for claiming that, say, France, is crazy to trade off some amount of consumption for reduction of uncertainty in labour market outcomes. France's independent approach is interesting to consider, because increased regulation of labour markets there has run counter to trends in most other rich nations. A standard argument against regulating labour markets differently than one's neighbours do is that firms seeking to minimise labour costs will leave, which, *cetaris paribur*, hurts workers as the demand for labour curve shifts inward. Accepting this as a potential problem, we would emphasise instead the possibility that French-style policies, perhaps with capital-export dis-incentives and expanded social insurance, might nevertheless achieve greater levels of well-being by providing an environment for living, working, thinking and innovating that is attractive for bright people while fostering further rounds of domestic growth. Anecdotes from successful businesspeople who choose to leave the USA and return to less dynamic labour markets precisely for their nonpercuniary benefits are common.

2 Why behavioural economics matters in the normative analysis of globalisation

If, as claimed above, neoclassical social-welfare theory leaves open the possibility of countries rationally choosing lower rates of output growth in favour of increased income stability, leisure or reduced environmental harm (Dumas, 1986), what then does behavioural economics have to add? Behavioural economics has been defined as a synonym for "psychology and economics" (Rabin, 1998); as a set of methodologically distinct practices in economics focused on development of multi-disciplinarity and a multi-perspectival 'toolkit' approach to economic analysis (Berg, 2003); and as the rigorously empirical science of bounded rationality, bounded self interest and the institutional implications of those bounds (Schmid, 2004; Bowles, 2004). Chief among the distinguishing characteristics of behavioural economics is its goal of improved empirical realism *vis-à-vis* the standard neoclassical axiomatic framework.

Behavioural economics is important for analysing globalisation because globalisation is intimately tied to human psychology, cultural heterogeneity and institutional form. It is precisely the neglect of cultural heterogeneity, human psychology and the determinative power of institutional variables that motivates us to look to behavioural economics for new insights into globalisation. Representative agent methodology based on extreme assumptions of absolutely homogeneous global preferences (*e.g.*, everyone prefers more consumption to less) clearly serves to buttress Friedman-style globalisation narratives.

Another aspect of neoclassical methodology that loads the normative dice in favour of Friedman-style globalisation is commensurability – the infinite possibilities for trade-offs that are built into economic models anytime one writes down a continuous utility function with non-zero and non-infinite marginal rates of substitution. Such utility functions imply commensurability among all flows that contribute to human well-being.

The loss of one unit of x can always be compensated by additional units of y. Commensurability of inputs in the utility function is necessary to uphold the logic of the Kaldor-Hicks principle, which plays a fundamental role in the arguments of those who defend globalisation in terms of costs and benefits. The Kaldor-Hicks principle states that, even if there are individual losers in a policy shift that increases total surplus, those gains in total surplus can be redistributed to losers to achieve Pareto improvements. Even strong proponents of globalisation acknowledge that there are individual losers. They argue that the benefit of faster GDP growth will, at least eventually, more than offset individual losses due to globalisation. The Kaldor-Hicks principle thus plays a key role in rationalising arguments touting globalistion irrespective of its distributional consequences. The possible breakdown of the Kaldor-Hicks principle is among the most important contributions of behavioural economics to globalisation debates, with its consideration of lexicographic preference structure, process-dependent preferences, and the importance of reference points in ranking probability distributions over risky payoffs.

If there is no mechanism for compensating losers to cover the costs of transitioning to a new institutional framework, then the Kaldor-Hicks principle breaks down. For example, Socrates chose death over exile even though he was entitled to exile as punishment for the crimes he was convicted of under Greek law. He evidently could conceive of no compensation to offset the psychic costs of exile. It is not difficult to imagine scenarios more common than Socrates' in which individuals would rather die than uproot their families and ways of life in order to survive in the 'new global system' envisioned by Friedman.

Process-dependent preferences, as opposed to standard preferences of neoclassical utility theory which assumes that individuals care only about outcomes or payoffs, present a distinct challenge to the Kaldor-Hicks compensation principle. Introducing processes-sensitivity opens the possibility that individuals may not prefer a commodity bundle or lifetime consumption path just because it has larger quantities of all goods and services. Equivalently, a consumer with process-dependent preferences may not prefer to buy the same bundle of goods more cheaply if the process by which cost savings were achieved is distasteful. Another theoretical channel for the possible breakdown of the more-is-better principle that has received great emphasis in the behavioural economics literature is bounded self-interest, sometimes referred to as other-regarding preferences. Inequality-averse preferences, for example, might regard gains in average consumption accompanied by large increases in inequality such as those seen in recent years of global economic growth as less beneficial than is commonly assumed.

In arguing for a special contribution of behavioural economics to globalisation debates, one should acknowledge important critiques of global capitalism from the heterodox economic tradition that appeared long before the arrival of behavioural economics. The heterodox category is actually too broad for purposes of establishing unambiguous normative implications about globalisation, however. In addition to critiques of global capitalism, the heterodox tradition also provides a number of theories that recommend optimism regarding globalisation and its potential for achieving aggregate gains in well-being, ranging from Hayek's Austrian-school defence of *laissez faire* to Leibenstein's notion of X-efficiency. We discuss two prominent points of view illustrating the diversity of the heterodox school.

3 Marx on globalisation still relevant?

Consider Marx's *Capital.* One may rightfully ask whether a book published 138 years ago is relevant for explaining globalisation today. Globalisation is not new, however. As noted earlier, the world underwent globalisation in the 18th century.

It is important to recall that Marx's *Capital* is not about socialism or communism. Scholars of Marx (see Antonio, 2003) view Marx's analysis of capitalism as among his most enduring contributions in terms of relevance to contemporary affairs, especially when compared with his writings on revolution and communism, which are less detailed and cohesive. *Capital* is Marx's history of 18th and 19th century globalisation. Marx's description of the 18th and 19th centuries fits the 21st century to a remarkable extent. Marx observed in the 1850s and 1860s that:

> "the worker becomes an ever cheaper commodity, the more commodities he creates . . . [and] the more does competition extend among workers, the more do their wages shrink together."

The point is controversial. One aspect of the controversy is how to measure 'wages'. Is it proper to look at wages measured only in units of money or consumption and, if so, should one rely on average wages, median wages, or disaggregated statistics such as the earnings of the lowest quintile of the wage distribution? Should income mobility statistics be used together with income data?

Beyond the question of which statistics to use, there is disagreement over the relevant facts as well. Krugman (1997) disputes claims of falling wages by some on the Left, arguing that evidence from the USA shows a transfer of income from low-skill to high-skill labour, but not from labour to capital. By 2005, however, even *The Economist* (2005) wrote of a labour-to-capital transfer in the share of US, Japanese and European GDP:

> "[L]ast year, America's after-tax profits rose to their highest as a proportion of GDP for 75 years; the shares of profit in the euro area and Japan are also close to their highest for at least 25 years. . . .[I]n the G7 economies as a whole, the share of profits in national income has never been higher. The flip side is that labor's share of the cake has never been lower."

Different statistical measures and levels of aggregation explain part of the disagreement between those who worry that globalisation will reduce wages for the most vulnerable workers, and those like Krugman who see gains in real median or average wages as evidence of increasing aggregate well-being. Sociologists refer to broader indexes of well-being (*e.g.*, the social wage) attempting to account for benefits from public goods and government services (Antonio and Bonanno, 2000).

Incentives and choice are key ingredients in most economists' explanations of why more international trade is beneficial even to low-wage workers. One question, for example, rooted in the standard economic approach is whether families of sweatshop labourers would be any better off if there were a rule that prevented the employer from coming to town in the first place. Expanding the choice set of the daughter of a subsistence farmer by offering her a low-wage job cannot maker her worse off, the standard argument goes. Yet desperation, more than weighing of costs and benefits, characterises the labour supply decisions of many participants in the global economy.

One may justifiably question whether such workers' labour supply behaviour is adequately modelled as equating the marginal rate of substitution of money for leisure to the real wage.

Above the lower tail of the global earnings distribution, too, family connections, political forces and language affinities may have greater explanatory power over international migration flows than optimal choice theory with its assumptions about the supply of information and probabilistic rather than Knightian formulations of uncertainty. Behavioural economics provides new theoretical grounds for challenging claims that globalisation necessarily leads to social gains, parodied by Stiglitz (2003) as: "What is good for Goldman Sachs, or Wall Street, is good for America and the world" (pp.xiv–xv, pp.24–26, pp.275–276, p.281).

4 Vulnerable workers

Out-sourcing means that US labour markets are indeed becoming more connected to those of other countries, and the range of jobs that can be out-sourced is expanding, too, including high-skilled white-collar services. For example, in most of the West, surgeons are among the highest-paid professionals. But this may change.

An Indian company, Apollo, runs a chain of 33 hospitals. Surgery at Apollo provides Western quality at one-third the price. A hip replacement at a private British hospital costs $28,000 compared to $9,000 at Apollo. What will this do to surgeons' salaries? What about accountants, lawyers, professors, teachers, psychologists, consultants?

Another relevant example is the first author of this essay who is a recently tenured associate professor. Upon receiving tenure, colleagues expressed congratulations with sentiments such as, "Now you are secure", "Now you can pursue the projects you've always wanted to pursue" or, more bluntly, "They can't fire you now". However, even with such a favourable position in the labour market, desperation does not disappear completely from life planning and risk attitudes. How many tenured professors would bet their family's access to healthcare and pension to start a new business? The threat of healthcare insecurity alone, not to mention the threat of falling into poverty, surely plays a deterrent role in the entrepreneurial aspirations of many middle class workers in rich nations. Yet neoliberals argue that such fears are beneficial, necessary even, for incentivising hard work, inducing greater labour supply and promoting labour productivity.

One wonders whether entrepreneurial activity might grow faster with expanded social insurance guaranteeing lifetime access to basic income support and health services despite higher taxes needed to pay for them. Again, there is nothing in economic theory that rules out preferences ranking high-tax, high-benefit, high-risk-taking economic systems over those with low taxes and many life-course contingencies with positive probabilities of falling into desperation and consequent risk-avoiding behaviour. It would not surprise us if most middle class workers ranked the high-tax socialist system just described ahead of the low-tax and low-benefit global system prescribed by advocates of globalisation.

5 All boats rise – good enough?

Concern that globalisation implies falling wages rests on simple supply-demand analysis: globalisation provides a dramatically expanded international workforce to businesses shopping for cheap labour, shifting the supply curve of labour to the right and decreasing the equilibrium wage. Of course, there is a demand side, too, as well as productivity and technological gains to factor in, which can in principle raise the price of labour even as labour supply shifts outward. As is well known to students who have taken Economics 101, the net effect of demand and supply curves simultaneously shifting outward is an indeterminate change in the wage.

Marx's analysis of globalisation emphasised shifting distributions of wealth, in particular, increasing inequality quite apart from the absolute level of wages. Although growth is not a zero-sum game, the distribution of gains in consumption possibilities matters tremendously for how most participants in high-growth economies perceive their own well-being and the state of the economy. Sen (2002) underscores the need for institutions that allow the poor to receive a 'fair share' of increases in wealth. Sen argues explicitly that gains from globalisation which make the poor marginally better off while vastly enriching the non-poor are neither ethically nor socio-economically desirable, even though, technically, they are Pareto improvements. Insofar as preferences are inequality regarding, it is possible that although everyone enjoys a wage increase, the resulting allocation will not be a Pareto improvement, because some consumers regard wage gains as not worth the increased inequality that accompanies them. This can be expressed formally with utility functions that are increasing in own wage and decreasing in inequality. Given such preferences, the 'all boats rise' premise becomes insufficient for the claim that growth is good. Normative conclusions depend on the details of how boats rise and their relative rates of increase. Sen's strong stand against excessive inequality sets him apart from most economists, including ardent critics of inequality like Krugman, who tend to accept average real-wage gains as a sufficient indicator of improvement in aggregate well-being.

The theory of comparative advantage, that pillar of neoclassical economics taught as an absolute truth to many generations of economics students, claims that free trade is necessarily win-win from the aggregate perspective of each country. But a recent paper by Paul Samuelson (2004) in the *Journal of Economic Perspectives* shows this is not always the case. The USA may be impoverished by free trade with China and India if their productivity gains occur in industries where the USA previously enjoyed the comparative advantage. This seems to describe well the competitive strategies of China and India. According to Samuelson, win-win among nations that trade is not guaranteed. Samuelson's model provides:

> "proof that the United States suffers permanent measurable loss in per capita real income when China enjoys *exogenous* productivity gain in good 1 (America's comparative advantage) large enough to cut some U.S. production"

and observes:

> "in the United States, farming moved from east to west two centuries ago; textiles, shoes and manufacturers moved from New England to the low-wage South early in the last century; Victorian manufacturing hegemony became replaced by Yankee inroads after 1850. Even where the leaders continued

> to progress in absolute growth, their rate of growth tended often to be attenuated by an adverse headwind generated from low-wage competitors and technical imitators."

Enthusiastic proponents of globalisation such as Wolf (2004) predict long-term class divides as a social consequence of globalisation. Wolf, Friedman and others argue that the social costs of US-style institutions are an acceptable price to pay for the benefits of globalisation. Interestingly, social frictions brought about by increasing inequality play an important role in the writings of apologists for globalisation, largely to justify the use of military force when social instability threatens the smooth functioning of the global economy.[3] Ironically, the descriptive content of these proponents' notions of globalisation is not so different from Marx's famous statement that the "history of all society is the history of the class struggle – [between] the owners of capital and the owners of labor power . . .".

A key difference is that, in Marx's vision, the highly unequal distribution of resources does not asymptote to a steady state in which capital holds a fixed advantage over labour. Rather, Marx sees global capitalism resulting in "the continuous polarization of society into very rich and very poor". Absent institutional innovations that moderate inequality, labour's disadvantage has no floor.

6 Heterodox support for globalisation

The USSR was never socialist. It was a tyrannical oligarchy. This leads one to ponder the very narrow range of experience the world has had with genuinely socialist economies. We have few data. Marx never wrote a truly practical blueprint for implementing socialism. He was never able to support himself and his family, let alone build a practical framework for a whole country. But the question remains as to how much experimentation with socialist forms is contained in the historical record to date.

An interesting counterpoint to Marxian critiques of contemporary globalisation are new arguments in favour of globalisation based on heterodox rather than neoclassical economic theory. A prime example of this is Altman (this issue), who argues that rapid growth leads to tight labour markets, bidding up wages and, with it, worker effort, resulting in a virtuous cycle of high output and increasing wage growth.

Altman shows that high growth, together with an institutional framework that supports workers' rights, was a key component of Adam Smith's formula for improving the wealth of nations. According to Altman, Smith was keenly aware of the importance of both the distribution of wealth and the potential for capital owners to collusively hold down wages by using the force of law to gain advantage. An important point is that more than a country's absolute level of income, it is the rate of economic growth that creates upward pressure on wages. Following this logic, Altman argues that the 'growth is good' mantra holds legitimate appeal, even for those whose primary concern is equity rather than efficiency.

The point of convergence between Altman and Smith's views on the one hand, and the claims in this essay on the other, is the determinative role that institutions play. The workers' rights that Altman and Smith see as enabling workers to benefit from high rates of growth are crucial for their arguments. In their formulation, rights of association, to organise, to safe working conditions, to overtime, and possibly to healthcare and vacation could all play an important role. As Altman shows, Smith suggested that laws preventing owners of capital from colluding to hold down wages might also be needed.

Smith acknowledged other limits of the invisible hand. For example, Harpham (2004; forthcoming) points out that Smith saw important caveats to his claims in support of decentralised market outcomes rooted in face-to-face relations and shared emotion. As the sphere of trade extends across international borders, direct interpersonal contact and shared emotions are stretched thinly, and may even disappear completely. One wonders then whether the conditions under which Smith viewed market activity as socially desirable hold in the contemporary global economy.

For example, consider the physical separation that prevents communication between factory workers in China and Wal-Mart shoppers in the USA. Some shoppers in the USA may in fact care about the manufacturing conditions underlying the production of products they buy. Suppose the average Wal-Mart shopper's preferences were such that, based on sympathy for workers, she would prefer to pay 10% more for the same basket of items if it could be produced under more worker-friendly manufacturing conditions. Given the information problems that consumers face in learning about conditions of production one is left to wonder what market mechanism could possibly force the economy to equilibriate at higher prices and improved treatment of labour. Such a shift would be an improvement in efficiency after accounting for the fact that preferences are sensitive to production processes and not just quantities of goods and services consumed. But markets as defined by the current institutional landscape in the USA do not provide a mechanism for achieving that improvement in efficiency.

7 Adopting US institutions in the name of globalisation

According to IRS data reported by Krugman (2002), inflation-adjusted median family income rose 10% from 1979 to 1999 while families in the bottom quintile saw their incomes fall. Krugman observed:

> "We pride ourselves, with considerable justification, on our record of economic growth. But over the last few decades it's remarkable how little of that growth has trickled down to ordinary families. Median family income has risen only about 0.5 percent per year – and as far as we can tell from somewhat unreliable data, just about all of that increase was due to wives working longer hours, with little or no gain in real wages. Furthermore, numbers about income don't reflect the growing riskiness of life for ordinary workers."

Zussman and Zakkai (Raveh, 2005) have shown that in Israel the ratio of incomes in the top 20% to those in the bottom 20% among public sector workers is 4.9 (up from 3.4 just a few years ago), and in the private sector, it is 5.4. In other words, highly paid workers earn five times more than low paid workers. The shift in the USA has been even more dramatic. Krugman (2002) writes:

> "Is it news that C.E.O.'s of large American corporations make a lot of money? Actually, it is. They were always well paid compared with the average worker, but there is simply no comparison between what executives got a generation ago and what they are paid today.. . . Over the past 30 years most people have seen only modest salary increases: the average annual salary in America,

> expressed in 1998 dollars (that is, adjusted for inflation), rose from $32,522 in 1970 to $35,864 in 1999. That's about a 10 percent increase over 29 years – progress, but not much. Over the same period, however, according to Fortune magazine, the average real annual compensation of the top 100 C.E.O.'s went from $1.3 million – 39 times the pay of an average worker – to $37.5 million, more than 1,000 times the pay of ordinary workers."

Globalisation is emptying the middle class in the USA, Israel and Europe, which raises questions about the political and economic consequences of this genuinely radical shift in ownership of resources. Even the Chinese are worried about inequality. According to the *New York Times* (Kahn, 2005), "China's bubbly economy . . . has produced a yawning wealth gap and fueled a surge of unrest . . . officials are gripped by a sense of crisis after several mass riots and thousands of smaller protests. . .". Concerned about growing inequality, Chinese leader Hu Jintao ordered researchers to study how to "build a harmonious society".

The US flavour of capitalism, adopted broadly throughout the world (including Israel) is harsh. It blames the victims. The neoliberal view holds that capitalism's class hierarchy is the product of a meritocratic struggle which rewards individual achievement and punishes free riders. Thus, in the widely held globalisation narrative exemplified by Friedman (2005, pp.375–376), inequality is a legitimate, even pivotal facet of democracy. Friedman says that being middle-class is a 'state of mind', shared by low-wage (even '$2 a day') workers, spurring their drive for success.

Blame-the-victim interpretations of inequality creep into purportedly non-ideological documents such as the United Nations reports cited in Altman (this issue), which assert that increasing inequality is caused by a "lack of growth in the poorest countries". It is not that the rich have failed to achieve broadly shared economic security; rather, it is the poor who have failed to become rich.

Antonio (forthcoming) describes a strand in Friedman's writing which seems to suggest that inequality is beneficial even to those at the bottom of the earnings distribution:

> "Friedman implies that wealth gushes towards the globalisation system's most talented people and delivers substantial rewards to almost all disciplined, motivated, and, at least, moderately skilled people. Friedman points to NBA superstar, basketball player Michael Jordan's eighty-million dollar yearly income. . . .[H]e argues that marginally-skilled, substitute Joe Klein's hefty $270,000 NBA minimum salary was buoyed by Jordan's worldwide popularity and consequent growth of the league's global market. Friedman (2000, pp.306–324) holds that players, such as Klein, know that they benefit enormously from Jordan's success and, thus, do not begrudge his wealth.

Inequality in the this world view is not only fair, it is consistent with democracy, or at least a new form of it, 'shareholder democracy'. Friedman argues that transactions of currency traders amount to 'votes' on the quality of leadership and management of different nations, bringing pressure to bear on leaders and managers around the world in a virtual political marketplace. Thus, 'individuals' (*i.e.*, individuals of means who can mobilise vote-casting finance capital) are connected to politicians and bureaucrats through a connected web of transnational capital and currency flows. One dollar, one vote.

8 Inevitability revisited

Regarding globalisation and the rapidity of hiring and firing as a key characteristic for distinguishing different labour markets, Friedman writes that "there is no alternative" except "to go backward" to a Cuban-style command economy that impoverishes and oppresses everyone. Antonio (forthcoming) connects the call for global acceptance of an inevitable shift towards US-style institutions to Fukuyama's 'end of history' thesis:

> Francis Fukuyama's 'end of history' thesis announced triumphantly a hegemonic, made-in-USA, global political-economic regime and new unipolar world arising in the wake of the collapsing Soviet Bloc. He argued that the US model of liberal democracy, stripped of its post-World War Two era social democratic or welfarist facets, was dominant globally. Fukuyama (1992, p.51; 1989) held that modern peoples can no longer imagine a practical alternative that would "represent a fundamental improvement over our current order" (1992, p.51; 1989). . . . [Fukuyama and Friedman's claims regarding the] 'end of left and right' and 'end of alternatives' and critiques of the new breed of market-oriented, 'third way' politicians (*e.g.*, Clinton, Blair, Schroeder) affirmed [those] claims about zero options.

Table 1 lists institutional, globalisation and well-being indexes that would need to be considered to check claims of globalisation proponents. The inevitability claim would amount to independence in the long run between the institutional variables in Column 1 and the globalisation indexes in Column 2. There is little, if any, evidence of such independence, however. The main reason that globalisation indexes have trended together in recent years is that the policy variables in Column 1 have been adjusted in similar directions, not that those policy variables have lost their effect in the face of an inevitable globalising force.

Table 1 Institutional variables, globalisation indexes and measures of well-being

Institutional variables	*Globalisation indexes*	*Measures of well-being*
Marginal tax on labour income	TRADE/GDP	GDP per capita
Marginal tax on investment income	Exports/GDP	GDP per hour worked
Percentage tax revenue paid by labour	Imports/GDP	Infant mortality rate
Gini index	Capital flow restrictions	Literacy rate
80th percentile/20th percentile income	Percentage of population that uses internet	Life expectancy
99.9th percentile/99.0th percentile income (plutocracy index)	Percentage of population that speaks English	
Percentage of individuals who are millionaires	Percentage of workers who emigrate	
Percentage of workers in a union	Percentage of population who are immigrants	
Penalties for collusion among employers		
Property rights (*e.g.*, the extent that neighbours can control land-use)		
Immigration law		
Work week and overtime rules		

To verify the claim that globalisation is good for well-being, one would need to show positive correlations between the variables in Column 2 and Column 3. The evidence for this, too, would appear less than overwhelming. The theoretical underpinnings are weak, too, as Samuelson's (2004) proof provides a counterexample in which TRADE/GDP rises and GDP per capita falls as a result.

Even though the list is incomplete, the institutional variables listed in Table 1 already allow for a broad range of different forms of globalisation. Interestingly, countries with rather different institutional parameters often have similar levels of well-being as measured by the variables listed in Column 3 of Table 1. By considering a handful of countries such as Denmark, Israel, China and the USA, one observes common trends in Column 2 variables yet widely divergent values of institutional variables in Column 1. This tends to undermine the implicit claim that there is a unique set of institutional variables that optimally promotes globalisation.

Given the multiplicity of feasible and potentially desirable institutional profiles, and the absence of evidence that the US formula will increase well-being when exported to other economies, one wonders why there is widespread enthusiasm for a single formula. Altman (this issue) is optimistic, based on deductive economic logic and empirical evidence in the form of totalitarian states' failures in Eastern Europe, that a consensus in favour of the neoliberal project should follow. The core of Altman's optimism is premised on an institutional framework that gives workers more power than they currently enjoy in many political-economic regimes:

> "[F]reedom from forced and child labor, freedom from discrimination at work, freedom of association, and the right to collective bargaining – have such intrinsic value that they should always be pursued."

It remains far from clear that the neoliberal vision gives meaningful voice to local and national institutions in establishing such an institutional package. Wolf (IMF, 2004), for instance, openly articulates his hostility toward local politics:

> "Only a few lunatics – the localizers – believe that the prosperity of the citizens of existing countries will be enhanced by fragmenting the integrated markets of contemporary national economies into self-sufficient village or manorial economies."

Wolf repeatedly warns against using political processes as opposed to economic incentives to determine the proper mix of institutional variables listed in Table 1.

In contrast, Antonio (forthcoming) expresses hope that future commentators on economic trends will go beyond essentialist rhetoric of inevitability that one finds in popular accounts of globalisation:

> "The burning theoretical and cultural question for those who value liberal-democratic institutions, substantive freedom, and the planet's survival is how to cultivate a more just, democratically embedded, socially regulated, environmentally sustainable capitalism. This means coming to terms with Social Darwinism, addressing environmental limits, reengaging critically postwar versions of democratic socialism, social democracy, and other liberal democratic models, and formulating post-neoliberal visions of democracy and modernisation. . . . Reigniting US political vision and sociological imagination might begin with critical reconstruction, for a globalist era, of what Dewey called the prophetic side of US democracy, which once called out to the world something much more substantial and inspirational than 'political choices . . . reduced to Pepsi and Coke!'"

We concur. The mapping from institutions into globalisation indexes is many-to-one, not one-to-one. The richness of economic life is badly summarised by globalisation indexes. In contrast, well-being measures matter a great deal for a large fraction of people in most societies and are substantively influenced by institutional variables that nations directly control. Given what we know about human preferences, especially those that dislike inequality and are sensitive to processes rather than outcomes alone, it makes more sense to base institutional variables on shared goals concerning well-being rather than globalisation. The story that globalisation indexes have a life of their own and that nation states must let them take their allegedly natural course in order to improve well-being is specious. Such stories serve to rationalise highly unequal allocations of resources by suggesting that they are natural and inevitable. They are neither. A better alternative is context-specific and evidence-based, rather than universal, axiomatic or ideology-based, normative analysis of markets and their role in promoting human well-being.

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Notes

1 Our critical appraisal of globalisation as conceptualised by Friedman draws on Antonio (forthcoming) and Antonio and Bonanno (2000).

2 Although Krugman (1999a) places himself in the pro-trade camp, Krugman (1999b) acknowledges that the costs of globalisation in terms of instability, especially unrestricted capital flows, may outweigh the benefits, and that financial crisis and political restrictions (*i.e.*, institutions) might be needed to reign in globalisation trends that Friedman views as unstoppable.

3 See item 10 in Wolf's (2004) 'ten commandments of globalisation' in which he argues that pro-global nations should reserve the right to 'intervene' to put 'failed states' on a path toward adoption of US-style institutions (*i.e.*, low taxes, low regulation and minimal spending on social programmes).