Social Justice in the Global Economy

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The International Institute for Labour Studies is specially grateful to Professor Pranab Bardhan, who delivered the lectures. The lectures are testimony to Professor Bardhan's willingness to test new frontiers, to explore controversial issues with an open mind, and to the consistent endeavour to place the results of academic research at the service of human welfare and social justice.

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Preface

The ILO Social Policy Lectures are endowed by the ILO's Nobel Peace Prize, and dedicated to the memory of David A. Morse, the first post-war Director-General of the organization. Their aim is to stimulate interest among students of social policy and to encourage greater dialogue between the academic community and policy makers. They are held, by rotation, in major universities of different regions of the world. This year, 2000, the lectures were held at the University of the Western Cape (UWC) in South Africa, on the occasion of its 40th anniversary.

The theme of the lectures, Social Justice in the Global Economy, is of particular importance to Africa and the world here at the outset of the 21st century. Globalization has generated new economic opportunities and prosperity, and gives promise of unprecedented increases in productivity. It has also widened and deepened the process of participatory politics by enhancing communication and thereby amplifying public opinion. At the same time, it has seen an increase in inequalities between - and within - countries. Unemployment and under-employment are growing in magnitude, polarising societies and disrupting the lives of individuals and families. Employment, where it exists, grows increasingly precarious. These trends threaten social cohesion and undermine the foundations of the world of work.

The crises in Russia, in Brazil and in Asia in the last decade have tempered excessive optimism about the automatic efficacy of markets. There is now greater recognition of the need for policies to optimise the outcomes of globalization. Much has been learnt about market fundamentals. Can it be used to improve the fundamentals of people's lives?

There is today a global deficit of decent work. This, in turn, is the result of a series of critical shortfalls in the emerging global economy. Firstly, there is a shortfall in the opportunities being created for productive work itself. The employment dimension needs to be built into development and financial policies at both the national and international levels. Secondly, there is a shortfall, not only of work, but of work that is considered decent by ordinary people in all countries. There is a need for policies bringing human values and aspirations into the daily reality of the working lives of people. Finally, there is a global shortfall of social protection. Social and economic institutions and resources that traditionally have protected people from the vicissitudes of illness, destitution and old age are eroding. Unless this gap is bridged, there will be deepening misery and insecurity, and public resistance to structural change and economic reform will harden.

The ILO's "decent work" agenda is an attempt to address this global deficit. It seeks to integrate social policy with economic development: to make employment and the enhancement of human capabilities the centre of all economic and financial policies. This calls for new development strategies, and new statistics to capture the economic value of social capital. It goes beyond the old debates of the state versus the market, or regulation versus deregulation, to new partnerships of the state, the market and civil society, which are economically sustainable and socially acceptable.

Professor Pranab Bardhan of the University of California at Berkeley has made a pioneering contribution to the political economy of development and to the study of the link between social dynamics and economic growth. The lectures contained in this volume analyse many of the key inter-relationships involved: the effects of globalization on the working poor; the new roles of governments and civil society; the trade-offs between efficiency and equity; and the problems of policy formulation and governance in a global economy.

The ILO hopes that these lectures will stimulate debate to strengthen the commitment to improve the human condition of work, and contribute to public policies that can realise this goal.

Padmanabha Gopinath
Director, International Institute for Labour Studies

Foreword

The University of the Western Cape was greatly privileged to be awarded the 2000 ILO Social Policy Lectures. Aside from their ceremonial value - always an important consideration in university life - the occasion of their delivery and this publication affirmed the university's international linkages and reaffirmed its standing within the international community. But as those who attended the lectures or read this book will quickly realise, there is far more involved in this series of lectures since they grapple with the most vexing questions of our age.

While the words reproduced here capture Pranab Bradhan's thoughts as he delivered the lectures, they cannot immediately hold the significance of the event for the African continent, where the lectures were held for the first time, nor can they immediately highlight the salience of the fact that the lectures were delivered in a country, South Africa, where international labour played an important role in bringing an end to the repressive apartheid system. This publication is the product of Professor Bradhan's lectures and stands, I believe, as testimony to the intellectual weight of partnerships between international organizations and higher education in the global South. In a time in which the power of hegemonic discourses around the power of the market and its averred neutrality are rampant, partnerships such as these represent, as these lectures show, the best of academic discourse in pursuit of social goals that are central to millions upon millions in the South.

For UWC, the occasion of the lectures and this publication represent a further fillip to the work of an institution that was in the forefront of the emancipatory struggle. The university remains fundamentally committed to the ideals and the vibrancy that inspired it those long years ago, but also to bring both to the cause and course of emancipation requires new debates on the salient issues of our times. The link between higher education and the needs of the community remains very close to the ideals of this university, but the question of the viability and sustainability of these goals are increasingly open to question. Time and again during the lectures, the issue of public choice trade-offs emerged: higher education daily confronts these choices. In South Africa, as the budgets of the tertiary education sector are increasingly squeezed, the market is offered as a solution. But the importance of choosing the social over the option represented by the market alone remain central to UWC's intellectual mission. Understanding this explains why the university will not disengage from its responsibilities to the community and from its commitment to achieving social justice.

The role of labour and the twin ideals represented by social justice and decent work remain foremost in the minds of working people, both in this country and across the world. As Pranab Bardhan persuasively argues in these pages, achieving these goals will not be easy, but he shows that the surest way to engaging them is to relentlessly overturn shibboleths in searching for new and inventive ways of understanding social justice in a world increasingly dominated by the power of economic discourse. As he does this, he cuts no intellectual corners nor, indeed, does he allow us to take any intellectual or political prisoners. This is work in the finest tradition of critical scholarship presented by an intellectual who represents the very best of what the South has to offer in global scholarship.

As few came away from the lectures, few will come away from these pages, without an idea of how daunting the struggle for social justice will be in the years that lie ahead, but few will doubt the power which both words and ideas still represent in the early 21st century.

Peter Vale
Vice-Rector (Academic Affairs)
University of the Western Cape
South Africa

Lecture One

Effects of International Trade and Capital Mobility on the Working Poor

My topic involves social justice, which obviously is the guiding principle of the International Labour Organization (ILO) and, of course, the guiding principle of South Africa's historic struggle. I am also aware of the historical role played by the University of the Western Cape in the struggle for freedom and dignity, in South Africa's long night's journey into the day. In this series of three lectures, I will be interpreting social justice in a particular sense, especially given that it can be interpreted in various ways.

The particular sense that I will use is one of poverty alleviation for the working poor, and when I say "the working poor" I include those in both the formal and informal sectors, the informal sector in many of the developing countries being much larger than the formal sector. The working poor, of course, include the unemployed and the under-employed; they include the workers (like those at home) who work hard, but are not counted among the so-called gainfully employed labour force. They also include those who sometimes work, but should not, namely children. I am going to talk about child labour in the last of these lectures.

All around in the world today many advocates of social justice are in some state of despair. Some of them fear that social justice is a lost cause in a global economy. I think the best way to fight fear is to confront it, but at the same time to take prudent and cautious action. I will try to analyse in these three lectures some of the opportunities and insecurities caused by globalization, and will try to show how a great deal of social justice remains within our grasp, even within the very real external constraints posed by globalization.

What does one mean by globalization? It has become a buzzword. To different people it means different things. Last November, many activists were "sleepless in Seattle" (to borrow the name of a popular Hollywood film), protesting against globalization. But even there, different groups were actually protesting against different things. Some were against corporate capitalism. Some were against market integration and consumer culture. Some were protesting against "unfair trade", by which they meant cheap imports from poor countries. Some environmental activists were against modernisation or development itself and called it globalization. Some of them overlooked that these so-called evils - capitalism, markets, consumerism or even development - could thrive even without globalization. Of course, it is a legitimate question to ask what the appropriate pattern of development should be or whether capitalism is good or bad, but in these lectures my focus will not be on those larger issues, but on globalization in the sense merely of international economic integration - and in particular, openness to foreign trade and investment.

I also want to make it clear that by investment or capital flows, I shall concentrate on long-term, not so much short-term, capital flows. In recent financial crises, whether in Mexico, Russia or East Asia, much of the turbulence was caused, at least initially, by over-exposure to foreign currency-denominated short-term debts. These, everybody now recognises, are particularly crisis-prone financial instruments. In most cases, there was too little discipline in borrowing before the crises and too much discipline afterwards. Most liberal economists today, except for a few zealots here and there (more there than here), now believe in the need for some form of control over short-term capital flows, though there are differences in the specific form such control should take. There are also doubts about the implementability of some forms of control - for example, doubts have been raised about the tax on foreign transactions which, in economics circles, is called the Tobin tax. There have also been successful experiments with controls on foreign transactions of different kinds, though not with the Tobin tax. Experiments in Chile and Malaysia are notable, and these have some lessons that should be studied, although I should note that the Chileans have now discontinued their controls. Most people also agree on the need for monitoring and regulation of the asset and liability structures of financial institutions.

But let me go back to the long-term issues of international economic integration. Much of the folk wisdom and media punditry give us the impression that today we are facing globalization on an unprecedented scale. This is so because all around us we see a communication revolution going on. Distances are shrinking at a very fast rate. While driving recently in California, I spotted a bumper sticker on the car ahead that said "geography is history". But many economic historians actually tell us that, by most indicators, trade and capital markets are no more globalised today than they were at the end of the 19th century.1 Of course, communication costs have fallen drastically. Today, a twenty-something currency trader can switch billions of dollars with the click of a mouse at his desktop, and so on. Yet, the indicators of long-term market integration (like ratios of trade or long-term capital flows to GDP) are not higher today than they were at the end of the 19th century, even though they are higher today compared to the immediate post-Second World War period.

There are, however, at least two qualitative differences between globalization now and at the end of the 19th century. There are others that I will touch on later, but let me mention in passing just these two. One is that, compared to the end of the 19th century when international trade was concentrated in generic products (one country sold, say, wheat and bought textiles), today a country quite often imports as well as exports the same product, whether it is cars or computer parts. Economists call this intra-industry trade. The implication this has for our present purpose is that it makes the traded commodities much more substitutable, and therefore the competition is much more intense today, which has some implications for the demand for labour that I'll touch on later.

The second major difference is that, although the 19th century saw a large amount of capital mobility as we see today, international factor mobility was much more symmetric, labour being as internationally mobile then as capital. The 19th century saw not merely the great European migrations to the United States, Australia, New Zealand and so on. It also saw large migrations from poor countries, including China, and my own country, India. Those days one did not even need a passport to go from one country to another. Despite all the talk of globalization, citizens of most countries, even today, and even in the most advanced countries, like the United States, invest overwhelming proportions of their savings within their own country. Most countries have an overwhelmingly large non-traded sector.

Even within a country, if one takes, say, an individual state within the United States (a country that is highly integrated economically in terms of movement of goods and capital), most of that state's economy is in the non-tradeables. In fact, I recently saw some statistics for the state of Massachusetts, a perfectly open economy in terms of trade and capital mobility. Only 30 percent of total employment is in goods that can be considered as tradeables with other states. In the international markets, even in tradeable goods, price arbitrage and convergence take place very, very slowly. In financial markets, even with all the integration in the most advanced economies, real interest rates are not equal among them. So one should not exaggerate the extent of globalization that has happened.

Many mainstream economists lose no opportunity for spreading the gospel truth that, (a) openness enhances economic growth, and (b) economic growth always reduces poverty. Actually, both are doubtful propositions. On openness enhancing economic growth, there is now a considerable amount of careful work which shows that across countries there is not much of a relationship between openness and the economic growth rate.2 Most of these studies use aggregative cross-country data. But micro-studies within a country also show only ambiguous and mixed evidence on the link between openness and the economic growth rate of a country.3

On the other issue - that of economic growth always reducing poverty - while it is true that if economic growth is sustained for a long time it generally reduces poverty, there exist many cases where the types of growth matter. There are certain types of growth that do not reduce poverty, particularly those types that increase inequality This has often been the case with unequal societies like Brazil, Colombia, Kenya and, of course, South Africa. So one has to look much deeper into individual cases and, moreover, one needs more careful statistical studies. Statistical studies are particularly important for allowing us to control for the impact of other ongoing factors in order for us to establish any reasonable measure of generalisation. However, this is a stage I do not think we have reached yet, even though in the media and popular writings we constantly see bland generalisations on the effects of globalization.

In the rest of my lecture today I will concentrate on four types of effects of openness.

The first will be the effects of openness on productivity or product efficiency. The second is the effects of openness on income distribution. The third is the effects of openness on collective bargaining institutions or labour market institutions. And fourth is the effects of openness on economic security. All these are related, yet I am going to separate them conceptually for my present purpose.

As a preview, let me suggest firstly that the effects are essentially mixed, some go in one direction, some in another. Secondly, we do not yet have that many carefully detailed in-depth studies to give us confident generalisation one way or another.

Let me start first with the effects of openness on productivity or productive efficiency. Why am I interested in efficiency? Well, in my opinion, sustainable social justice needs an efficient economic base. So we cannot ignore questions of efficiency. Here, when we talk about efficiency, international trade theorists usually refer to the results about gains from trade. But more than these static gains, trade and foreign direct investment particularly affect productive efficiency through three types of mechanisms.

One is that international trade makes available to us new and cheaper capital goods and what economists call intermediate products - raw materials, components, spare parts and so on - that may sometimes be more important than capital goods.

Secondly, new ideas. Trade and investment bring exposure to new ideas and techniques used in foreign countries. Thirdly, and equally important, is market discipline - producers who have to compete in the world market have to be on their toes. If we get flabby, if we let our guard down, then we lose in the international competition, and this threat does wonders for productive efficiency.

Let me now express some words of doubt even about these mechanisms. Let's take foreign direct investment. Quite often, foreign direct investment is hailed as a vehicle of technology transfer, and I have no doubt that there are many cases of it improving domestic technology, but one should not exaggerate. For example, very careful recent work now shows that in developing countries, even when sometimes the countries gain from ideas and goods brought in by the multinational company, there is very little spillover of benefits to domestic firms other than the joint ventures in the same industry, contrary to what was thought before.4 Why is this important? Well, this is because we do not want an enclave economy, we want a spreading of the benefits, and in fact many developing countries try to subsidise foreign investment in the hope that once it comes, the benefits will spread all over. Economists are now rethinking the case for such subsidies.

Sometimes what is brought in as new technology is not really new technology, only new brand names. This is particularly true in the case of pharmaceuticals. The pharmaceuticals sector is a highly research-intensive industry, highly protected by patents. Quite often, a patent is taken out for a new drug, but it is actually not a new drug, but a re-combination of the ingredients of an old drug. The companies take out a patent so that it stops competition and, of course, as we all know, they can charge exorbitant prices for these. This brings me to the very important issue of globalization in terms of intellectual property rights in the international economy. As you know, under the Uruguay round there has been an agreement called the TRIPS (Trade Related Intellectual Property Rights) agreement. To be blunt, I think it is a big rip-off for developing countries. In the name of protecting intellectual property rights, literally billions of dollars in monopoly profits are being transferred from poor to rich countries, all this in the name of helping inventions and innovations in rich countries. And we know some of the consequences involve life and death questions, as people in South Africa are very much aware. This became prominent in the debate on drugs for AIDS made by the pharmaceutical multinationals.

There is very little support in mainstream international trade theory5 for charging exorbitant prices for patented drugs in developing countries. The rich countries always tell us that patents and high prices are necessary for foreign inventions. One reason this is not relevant is that for many of these products the major market is in rich countries, and whether developing countries protect with the same degree of zeal or not is not going to matter very much ultimately for the origin of the innovations. Secondly, there are, of course, many cases where the main demand for the drugs is potentially in the poor countries (as in the case of drugs against tropical diseases like malaria). But even in such cases there is no denying the fact that the monopoly pricing through patents is often socially inefficient. There are now interesting suggestions by many economists for an intermediate solution to the problem which keeps the private incentives for innovations alive, and yet society pitches in for the hard-pressed consumers. The idea of international co-operation on malaria vaccine research is a very interesting example in which the drug multinationals, the World Health Organization (WHO) and the local governments are now getting together. The latter will contribute towards guaranteeing the market for the drug multinationals if they come up with a suitable product. I think in the next few years new ways of implementing policies will emerge that are neither the extreme of exorbitant pricing under patenting nor a complete free for all, but ingenious ways of finding intermediate solutions. And as I said, economic theoretical reasoning is not supportive of the old exorbitant pricing under patent protection as the only way of encouraging innovations.

Regarding the second issue of the effects of openness on income distribution, all over the world, certainly in the streets of Seattle and elsewhere, one heard much rhetoric about the effects of globalization on income distribution. But I think there is too much rhetoric on both sides, unsupported by solid objective research. On one side one constantly hears that globalization always hurts the poor, and on the other side one hears from the international trade and financial interests and international organizations that globalization helps the poor. I think it is important to sift through the evidence. An analysis of some of this evidence suggests various pros and cons and, as I said before, some mixed effects. Traditional international trade theory tells us that with expansion of international trade, inequality between skilled labour and unskilled labour would decline in developing countries. Since these countries have a comparative advantage in producing unskilled labour-intensive goods, expansion of trade will benefit the poor unskilled labourers in developing countries. But one can take an alternative theoretical route in which one can arrange the different goods in terms of their skill intensity, with goods that are highly skill-intensive on one end, and goods requiring very low skills on the other end. Think of the whole line going from one end to the other. Now with the expansion of international trade it is possible that some of the goods that are at the low-skill end in rich countries will now be produced in the poor countries. But that does not mean that this is a low-skill commodity in a poor country context. In other words, even though trade is shifting the production from a rich to a poor country, it may still be quite skill-intensive in the poor country context, and it is quite possible that, as a result of this trade expansion in the developing country, the ones who gain are the most skilled workers in the developing country. In fact, some economists have now found empirical evidence - mostly in Latin America (for example, Mexico and Chile) - that instead of wage inequality in a developing country going down as a result of trade, it has gone up.6

There are other explanations for the poor in developing countries not gaining from trade expansion. For example, in traditional theory it is usually assumed that those who contribute to production - what economists call factors of production - are mobile from one occupation to another, but we know that in the real world this is not the case. Now, as soon as one introduces the fact that there is some lack of mobility in factors of production, again one can show why the expansion of trade need not benefit the poor. Take, for example, the case of women who in many African countries are involved in the subsistence food-producing sector. With the expansion of foreign trade, the people who gain are those involved in the commercial export producing sectors that employ mostly men, as is the case in many countries. With regard to those who are in the subsistence food producing sector, a non-traded sector in many cases, their condition will relatively worsen; so it is possible for expansions of trade to worsen gender inequality. On the other hand, if the export industry primarily employs women (as in the garment industry in Bangladesh or Mauritius), they would be able to benefit from expansion of exports. So it really varies from country to country, from sector to sector and from context to context.

Some recent empirical work7 in Morocco, Venezuela, Mexico and C™te d'Ivoire suggest another important effect, or to be precise, non-effect of trade reform. Let me give the example of Morocco. Morocco had a drastic trade reform (I think in mid-1980s) - a very drastic reduction in trade restrictions. Tariffs were substantially reduced and quotas were actually abolished, and now after about 10-15 years we have enough data to analyse the case of Morocco. Many people thought, as a result of this drastic reduction in protection, industrial wages and employment would fall. But the evidence for Morocco (and the other countries) shows that many firms adjusted to falling protection by reducing the excess profits they formerly had. How did they manage to have excess profits earlier? They were generated essentially by domestic monopoly; they were sheltered by protection. The firms adjusted by reducing excess profits rather than cutting down on employment. In fact, in some cases, one can show that with the decline in monopoly power derived from protection, output actually increased, and in some cases employment went up. So the effects of trade reform on employment are sometimes ambiguous.

The employment effects are particularly important to understand in the case of agricultural trade liberalisation. Agriculture in many (not all) developing countries is relatively labour intensive. So expansion of export of agricultural products, particularly those from small farms, should help labour. There is also an indirect effect which helps employment; farmers gaining from trade expansion demand the kind of goods that are more likely to spill over into rural activities that are also labour intensive - for example, construction, personal services, simple manufacturing. Thus, we have both the direct and indirect effect of agricultural trade liberalisation in many contexts (I am not going to say all contexts), which help labour.

Yet we do not see a great deal of this in the real world, and one major reason is that there is not enough globalization as far as agricultural trade is concerned and here the main culprit is developed country protectionism - particularly so in Europe, Japan and the United States. In fact, it is sad that the protest in Seattle deflected attention from this, and derailed the proposal for agricultural trade liberalisation that was being advocated by the so-called Cairns group of countries, of which I believe South Africa is one. I wish the protesters were as vocal against the protectionism of developed countries, particularly the protection of agriculture, textile and garments. Yet developed country protectionism harms the poor of the world much more than all the sweatshops of the developing countries taken together.

There are two other important issues of agricultural trade liberalisation. One (and this is an important African problem) is the case of the state marketing boards that used to channel agricultural trade in many African countries. As a result of the operation of these marketing boards, farmers used to get a small fraction of the border price, of the prices holding in international markets. But after trade liberalisation, the rise in export prices for some of these commodities, in some cases, has not been passed on to producers because marketing channels are not competitive. State marketing boards had declined in importance, but the new traders that came were not competitive: a public monopoly in trading was substituted often by a private monopoly. As a result, the farmers selling their products to these traders remained exploited in some cases. Also, marketing boards or similar parastatal agencies provided credit for the farmers, and with the declining importance of these state agencies, the borrowing arrangements or the credit system available to the farmers declined. So this is an important issue that one has to keep in mind, particularly in Africa.

The second issue is that when trade was restricted in the previous regime, quite often agricultural products were under-priced for various reasons. With trade liberalisation, what immediately happens is that food prices in particular go up as a result of more exports, which causes a big problem for the poor in the country. With agricultural prices rising, the poor (for example, the landless), if they are net consumers (rather than net producers) of these products, are adversely affected, even though some small farmers who are net sellers of agricultural products may gain. The wages of the landless often lag behind prices received by producers. Some of the poor may thus lose from agricultural trade liberalisation. The solution is not to stop agricultural trade. Instead of letting the small farmer suffer with lower prices, the problem can be mitigated by targeted public distribution of food or food stamp programmes, or by food-for-work or public works programmes, rather than stopping trade.

I'd like to now move on to the third set of factors - the effects of openness on collective bargaining institutions. I think it is undeniable that globalization, in the sense of more product market competition, and in the sense of what I call differential mobility of employers versus employees (meaning that employers can switch capital from one country to the other much more easily than labour can move from one country to another), can lead to forces depressing the bargaining power of employed workers. Of the mechanisms through which this happens let me mention one or two. For example, when product market competition goes up, the profit margin for the firm declines, and to the extent that a unionised labour force shares in the surplus with capital (a phenomenon the economists call rent sharing), to that extent both capital and labour would lose from the decline in the firm's monopoly power. But usually labour loses much more than capital - partly because of their differential mobility, as ca pital has more options than labour and particularly unskilled labour.

Economists measure this by measuring what they call the elasticity of demand for labour. The elasticity of demand for labour measures how much of a fall in employment a given wage demand will generate. Some evidence, not very conclusive, shows that this elasticity has increased as a result of product market competition and differential mobility.8 In other words, a given wage demand today leads to a larger fall in employment, which induces both unionised and non-unionised workers to moderate their wage demands. With less rent to share, workers are sometimes less inclined even to join unions. Also, as I have already mentioned, the lower the mobility of workers, the lower their bargaining power is. Skilled labour maintains its bargaining position better because it has somewhat greater mobility. There is also more outsourcing to the informal sector; in many countries, the informal sector is where collective bargaining rights are less protected. Also, new technology often leads to large workplaces being replaced by smaller geographically dispersed units of production. Again, workers are more difficult to organise at smaller dispersed units. So these mechanisms mentioned here have worked to diminish the power of collective bargaining institutions.

While there are these global forces depressing the bargaining power of workers, I can think of at least two qualifying factors. One is that labour can now disrupt a whole chain in the global production process. What do I mean? Today, compared to, say, 30-40 years ago, many items are produced globally, in the sense that if a product has 20 different parts or stages of production they take place in different countries. As a result, labourers in one country producing one very essential part of the process now have some potential power to hold up the process. Think of a situation in which a certain product is to be on sale on the Christmas market in the United States, say in Macy's department store; it has 20 different parts that are being produced in different countries, and there is a deadline for the Christmas market. This increases the hold-up power of labour, but only to some extent. Because producers are aware of it, they take measures that ensure that if something suddenly gets disrupted in one place they can keep their options open - thus pre-empting before this actually happens. But I just want to point this out as a possible factor working toward increased bargaining power for labour.

The second qualifying factor is a much bigger issue, and it has to do with centralisation of bargaining. I have always been struck by one institutional feature of labour markets - why is it that while in many sectors in my country, India, as well as in the country where I stay, the United States, trade unions are by and large decentralised and strongly opposed to openness, while unions in some other countries, like in Scandinavia, where they are very strong and relatively centralised, are in favour of openness (and have been so for many decades). Globalization, as I have already mentioned, can potentially damage workers' interests but centralisation gives you the capacity to cope with it better than where trade unions are fragmented. There are always some winners and losers from globalization, and one can co-ordinate the transfers between them better with centralisation mechanisms. I am using the term centralisation, but it is not quite the right term, because I also used to wonder why it is that the Japanese also tend to co-ordinate their labour demands better, even though they have among the most decentralised unions. In fact, in Japan the unions are often company unions, and still, as with many other things, the Japanese can do everything in a much more co-ordinated fashion than most of us; and so it is in labour bargaining as well. Even though these are company unions, they all get together in what is called the Spring offensive, where they co-ordinate their wage demands in spring. So in general it is important to find out if there are some institutional features that enable some countries to cope with the damaging effects of globalization better. I should hasten to also point out that the specific institutional norms and historical circumstances through which centralised bargaining came to Scandinavia are not easily replicable elsewhere.

The fourth and the last issue is the effect of openness on economic security. Openness quite often brings more insecurities and dislocations, as some sectors gain while others lose. As some communities disintegrate and old social networks get uprooted, new settlements and networks take their shape; some high productivity plants do well in international markets, some low productivity plants get wiped out. Thinking of this aspect of globalization, I am often reminded of a metaphor from nature in the part of the world I am from. I come from the eastern part of the Indian sub-continent, and this is the Bengal Delta, one of the largest deltas in the whole world. Several mighty Himalayan rivers flow furiously through this delta and they disgorge massive amounts of water into the ocean, and in the process they cause a great deal of damage. Sometimes they shift the river course. If one visits some of these mighty rivers, they are of course gorgeous to look at, but one sees enormous devastation. On one bank the furiously flowing water devours the agricultural land, village settlements, and a large number of structures. While this goes on on one bank, on the other bank new land comes up, largely the silting that provides very fertile soil. As this new land appears on the other side of the river, peasants rush to occupy it, for the land is very fertile. So one sees destruction on one side and creation on the other. In a sense, this reminds me of what a famous economist, Joseph Schumpeter, called creative destruction - an important feature of capitalism and certainly a very important feature of global capitalism. I want to comment on this aspect before I end this lecture.

But first let me mention one other aspect of insecurity which bothers many people. Some people worry that globalization brings with it exposure to the fluctuations of international markets. But for several commodities the world market is actually more stable than local ones. Why? Because the world market sometimes allows for more diversification. If one is dependent on one agricultural product that is crucial to the economy, and one depends only on the local market, one is likely to see that in this market prices fluctuate extremely. For example, if there is a sudden weather-related crop damage, it immediately affects the local crop price fully. But if one is open to the world market, crop damage in one country can be compensated by a good crop in another, and this is borne out by those who have looked at the agricultural price fluctuations in the world market. For most commodities in most countries, the fluctuations are less pronounced in the world market than the domestic market.

But let me now go back to the all-important issue that I talked about in terms of insecurity. The primary concern here, of course, is job security, and here I am about to say something that is bound to be controversial. I think it is very important to distinguish between job security and income security. I think social justice demands that all of us, particularly the poor, should be entitled to some form of income security or safety net, and in the case of job dislocations, all employees have the right to an adequate programme of retraining and redeployment. But social justice does not necessarily entitle us to retain any particular job, however inefficiently we perform at this job, or however redundant that particular job now is in the new technological configuration of an open competitive economy. I am quite aware of the social-psychological losses of losing one's job. I am quite aware of the human deprivation stories, but some of it would be ruled out by programmes of income security. Some of these problems arise, the human deprivation stories arise, because there is no income security. I am also aware of the economic argument that working for a long time in the same job brings job-specific skills. Hence, I think the pros and cons should be weighed, but it is not always the case that social justice necessarily entitles us to retain a particular job, even if it does entitle us to income security. Leftist ideas today are often associated with economic stagnation because this distinction between job security and income security is sometimes conflated. Even in the Japanese system, where employment used to be for a lifetime (I refer to the classic case of lifetime employment, which operated until 1990 in Japan), seemingly combining economic security with economic progress, if one studies it carefully one can see what was guaranteed was general economic security for the worker. Yet, employees were constantly shifted from job to job, from task to task, from one part of the company to another. In other words, Japanese capital was guaranteeing some form of economic security to the worker, but not necessarily allowing that worker to hang on to a particular job. Hanging on to a particular job essentially gives us, if I may use an economic expression, an asset that gives one a regular annuity - it is an assured annual stream of income. This concept of a particular job as an asset, I think, has to be examined critically.

In fact, I come from a country where this idea has been taken to quite an extreme. In India, in some cases this asset of one's particular job has even come to be seen as an hereditary asset. If, for example, a steel worker is disabled or dies on the job, there is tremendous pressure from the organised workers that he be replaced by his descendant (his son, for example). This replacement could be an inefficient worker, while

hundreds of more qualified workers could be unemployed outside the factory gate. One is stuck with the inefficient worker once he is hired. In that case, what happens is not just that the company suffers with an inefficient worker. To me, the more important thing is that the unemployed suffer. Why? An employer knows that if he hires a certain person he is going to be stuck with him. He knows beforehand, and therefore he uses capital-intensive technology - even though masses of people are unemployed. The employer is induced to adopt capital-intensive technology, rather than the labour-intensive technology he should adopt where there is a large number of unemployed people. It is not a moral issue, but an economic one. The employer might want to have labour-intensive technology, but is afraid because he would be stuck with some workers whom he cannot adjust. So this particular notion of job security in a particular job is affecting not just the company, but also large numbers of unemployed people outside. In fact, quite often it happens that when this restriction is there, one cannot adjust according to changes in technology or changes in the market. The employer gives up and in India the firm is then called a 'sick' firm and what happens to workers in the sick firm is that the government is then under political pressure to take it over. As a result, in India, the government has become the largest charitable dispensary for sick firms.
That, to me, does not help leftism or the cause of social justice, because it does gross injustice to large numbers of unemployed and under-employed people. I know what I am saying is very unpopular with my friends in different parts of the world who are involved in the labour movements. But if we cannot keep the distinction between the security of a particular job and economic security in general, in the end we will all lose in a global economy or keep the pretence of labour rights only for a tiny privileged group of workers, particularly in the public sector. We also have to pay a lot more attention to the problems of devising policies that encourage more jobs for the unemployed and for those employed in the informal sector - without necessarily endangering the income security of the already employed in the formal sector. Some thinking is going on now about how to do that. How does one encourage more jobs for the unemployed and underemployed as well as those in the informal sector, without endangering formal sector jobs?

One policy suggestion has sometimes been discussed, and I think there should be more discussion about it - the policy of wage subsidy. The idea is that there should be a tripartite agreement among business, labour and government on policies like wage subsidy, as a result of which the employer will be induced (not forced) to employ more people. This should help not just employed workers, but will create more jobs. The question is how are we going to fund this wage subsidy, in all seriousness? There are alternative proposals for it. My simple answer would be - although the problem is complicated and there is no time to go into this - to think of some form of progressive consumption tax (not capital tax because of the problem of capital flights), particularly taxation of luxury consumption. And there are other strategies that people have talked about. In fact, there is a general feeling that union strategies have to be much more inclusive. Many trade unions now recognise that they have to enlist the support of the informal sector and address the problems of this new potential constituency. Otherwise, the strength of the old unions on the basis of the protected minority of those who already have jobs will become eroded over time.
To conclude, in this lecture what I have tried to emphasise is that openness or globalization, in the sense of international economic integration, has mixed effects and cases are not always clearcut or easily generalisable, and they obviously vary from case to case, from country to country, from one historically specific situation to another. Before we indulge in sweeping rhetoric we should look into these complexities. I think there is a lot of scope for research work for those who are interested in this area and this kind of research can then help policy makers. The other thing that I have emphasised is the need for new thinking because we do not yet have clear answers to some of these issues. I think we need new kinds of thinking, sometimes giving up on our old dogmas.

1 See, for example, Alan Taylor,"International capital mobility in history", NBER Working Paper no. 5743, 1999; and A. Glyn and R. Sutcliffe, "Still underwhelmed: Indicators of globalization and their misinterpretation", Review of Radical Political Economy, 1999.
2 See, for example, Ann Harrison and Gordon Hanson, "Who gains from trade reform? Some remaining puzzles", Journal of Development Economics, June 1999; and Francisco Rodriguez and Dani Rodrik, "Trade policy and economic growth: A skeptic's guide to the cross-national evidence", April 1999, unpublished.

3 See, for example, Ann Harrison and Ann Revenga, "The effects of trade policy reform: What do we really know?" NBER Working Paper no. 5225, 1995.
4 See the discussion in Harrison and Hanson, op. cit.
5 For a theoretical discussion of the issues, and other references, see Elhanan Helpman, "Innovation, imitation, and intellectual property rights", Econometrica, November 1993.
6 See the discussion and other references in Harrison and Hanson, op. cit.
7 See Harrison and Revenga, op. cit.
8 For a discussion see Matthew Slaughter, "International trade and labour-demand elasticities", unpublished, 1999; and Dani Rodrik, Has globalization gone too far?, Institute for International Economics, Washington D.C., 1997.

Lecture Two

Efficiency-Equity Trade-offs?

My previous lecture dealt with the effects of international economic integration on four types of issues - productive efficiency, income distribution, collective bargaining institutions and economic security. This lecture deals with the whole question of efficiency-equity trade-offs.

Globalization is about market competition and efficiency. For social justice, in which we all have an interest, to be sustainable it has to be based on a reasonably efficient economy. Productivity is extremely important from the point of view of social justice. As the radical left-wing economist, Emmanuel1 once put it rather bluntly: "if capitalism is hell there exists a still more frightful hell: that of less developed capitalism". It is therefore important that the economy is more productive for us to be able to pursue social justice on a sustained basis. Although some people may not be familiar with the expression "efficiency-equity trade-off", it is in some sense deeply entrenched in public opinion as well as academic thinking.

Public opinion on the right, or even the middle, of the political spectrum insists that if we are to pursue equity or social justice, many of the principles of efficiency will be violated; we should therefore not think too much of equity as it is bound to be very costly. On the left, the idea of a trade-off comes in again - that we want social justice and, yes, that there are costs in terms of efficiency, but these are secondary, our primary goal is social justice and equity, and if there are many costs in terms of efficiency we should be prepared to sacrifice those. But both sides agree on the fundamental proposition that there is a trade-off between efficiency and equity. Some other economists, including myself, are now challenging this. There need not be a trade-off and that's largely the theme of this second lecture.

In talking of efficiency, I remember reading some time ago about a journalist on a Chicago newspaper in the 1890s who once wrote a satirical column on the tycoon John D. Rockefeller. He said that Mr Rockefeller behaves as if he belongs to the Society for the Prevention of Cruelty to Money. When people who belong to the Society for the Prevention of Cruelty to Animals see abuse of animals, they go and rescue and adopt the animals themselves. As for Mr Rockefeller, when he saw inefficient use of money he simply collected the money and adopted it himself - in its own way, a take on the equity-efficiency trade-off. It operates on the principle that if some people are using money inefficiently, one takes the money away from them, gives it to people who may be very rich, but who will use it efficiently. Of course, this trade-off is - I would say - one of the foundation stones of mainstream economics. There is hardly any textbook in economics that does not accept this trade-off. The general idea is that if one wants to redistribute, to provide income support for the poor, to provide social security and introduce other poverty alleviation policies, of course one has to fund these programmes. And the way to raise money usually would be through progressive taxation of various kinds on income or other economic variables, which is going to undermine incentives to work, invest and to innovate.

One American economist, Arthur Okun,2 said that the transfers from the rich to the poor, even when they are desirable, are like transferring water in a leaky bucket - by the time it reaches the poor, much of the water has leaked out, which is inefficient. Instead, as many of the liberal economists suggest, let the economy grow, and if it does some of it will trickle down to poor people. In recent years, one observed a trend of phenomenal growth, until 1997, in East Asia and, in association with that growth, the very large reduction in poverty - particularly in China. Hundreds of millions of people were rescued from poverty by growth, and this is the most important example often cited by liberal economists of the case of growth helping poverty alleviation. I have no doubt that the disincentive effects of some redistributive programmes are quite significant. But to me it is too one-sided a view of the economic mechanisms at work. I think the trade-off between equity and efficiency is often false or at least exaggerated.

In fact, inequality itself has a great number of adverse efficiency consequences. Inequality is bad, not only in terms of social justice, but also of efficiency, and this, as I said earlier, is the focus of this lecture. I am going to give you several examples of this proposition. Some redistributive projects may actually enhance productive efficiency rather than reduce it and, on the issue of trickle-down, quite often in many poor countries it is not enough. In fact, the experience of some countries in Latin America and Africa shows that growth has not always been associated with social justice and significant trickle-down. The East Asian case shows a positive association between growth and poverty reduction, but statistical association is not causation; there are other factors that are also important in the case of East Asia, which may not be operating in some countries in Africa or in Latin America. The traditional debate about equality and redistributive policies pitted one partial and incomplete viewpoint against another. Egalitarians favoured an idealised conception of government intervention, downplaying the incentive problems in the public sector. Their opponents, on the other hand, opposed these interventions in favour of an idealised view of the private economy, overlooking the incentive problems caused by inequality itself in the process of private exchange.

However, recent developments in economic thinking on the role of information, incentives and institutions, and recent developments in the political economy of market and government failures now give us a more balanced framework for analysing the efficiency-equity relationship. Even in some of the by now old branches of economics, the objectives of equity and of efficiency were reconciled through aggregate demand. Take the case of Keynesian economics, where there was support for redistribution to the working class, from the point of view of both equity and efficiency. When resources are redistributed to the working class, they are mainly spent for consumption. This generates higher aggregate demand for consumer goods and thus alleviates the socially inefficient phenomenon of mass unemployment. So Keynesian economics also combined efficiency and equity. But the prospects for such a Keynesian demand expansion today in a globalised economy are highly limited - particularly in economies where there is not a great deal of slack or excess capacity, and when capital is internationally mobile. This, for example, was quickly realised by the socialist government in France under President Francois Mitterand in the early 1980s. At first the French government tried to expand in a Keynesian way, but very soon the French currency was under attack. In fact, some other countries that have also tried demand expansionary policies have had their national currencies under attack. In trying to solve the efficiency-equity issue from the demand side in a global economy one thus faces important limitations. It does not mean that one should not try Keynesian policies in situations of slack, in situations where capital is not that mobile, even though there are some clear limitations to this path. In this lecture, my emphasis will be more on the equity-efficiency relationship at the micro-level rather than at the aggregate demand level.

By the micro-level, I mean the level of firms, farms, neighbourhoods and local communities. At these levels there is still a great deal of scope for efficiency-enhancing egalitarian measures, not all of which are precluded by the forces of globalization. I am going to give some examples of this. The first one is obvious - inequality quite often induces more political instability and, of course, things like crime and insecurity of property rights may in turn depress investment and productivity growth. Here is a clear example of inequality hurting productive efficiency. To the extent that employers try to discipline labour with the threat of job loss, high levels of unemployment may be counted as one of the enforcement costs of inequality, even apart from the overt cost of hiring security guards in business or supervisors in the workplace. In general, a large fraction of an economy's productive potential is used up in enforcing the rules of the game that perpetuate inequality. This is the first point, and a fairly obvious one.

My second point may be even more important. At the micro-level, a pervasive factor is that of inequality obstructing the evolution of institutions that enhance productivity or correct the market failures that particularly affect the poor. By market failures I have especially in mind those that constantly face the working poor, revolving around failures in credit markets and insurance markets.

I would like to spend some time talking about the credit market. If one asks an economist why the credit market does not work for the poor, the answer from an economic theory point of view is that, even if the poor could come up with a good project (or what looks like a good project), the lender quite often is worried about the risk of default and therefore is not willing to lend money. It is quite possible that what looks like a good project at the beginning may not work out as expected; or the borrower may just be pretending and may just take the money and run. But even if the borrower invests in the project, the project might be a failure either because the borrower did not assess the risks properly or did not work hard or had sheer bad luck. But in any of these cases the lender is going to lose money because he or she cannot attach the borrower's property if the latter is very poor. That stops the lender from lending. This, of course, causes severe problems for the borrower. Even if this borrower is a hard-working fellow, even if the project is good, there is no easy way for him or her to convince the lender about that. The lender usually insists on collateral for his loan operation, as a way of what economists would call ensuring credible commitment of good faith and hard work on the part of the borrower. If I have my collateral locked up with the lender when I borrow money, then I will put in my best effort so that the project succeeds and I do not lose my collateral. So both sides then see this as a signal of credible commitment.

Obviously, the problem is that most poor people do not have collaterisable wealth, and as a result many potentially viable projects are not financed, and the poor remain trapped in poverty. The escape routes out of poverty remain blocked because of the absence of collaterisable wealth. I think this is a simple, but an extremely important, aspect of why it is difficult to do much about the working poor - quite often credit is a fundamental constraint. Redistributive policies that expand access to credit therefore can be of enormous help to the poor, enabling them, for example, to invest in education as a way of climbing out of poverty. If they are small farmers or artisans, they could be more economically viable with credit allowing them to enlarge their scale of production, to take up more high-return, high-risk projects or occupational choices that formerly were out of their reach, and in general to avoid constrained myopic policies that condemn them to poverty. In this way, redistributive credit policies can increase a society's aggregate potential for productive investment, innovation and human resource development. Economic theorists are now grappling with the mechanisms through which this works, with the aim of formalising the idea. But I do think the idea is fairly obvious. What is less obvious is the issue of policy.

Many developing countries are aware of this problem and governments have tried to subsidise credit. Unfortunately, in many developing countries these programmes have had only mixed success. Let me give some examples from the Indian sub-continent. I think the very large policy experiments that have been carried out there have some lessons that apply to all developing countries trying to do something in terms of credit for the working poor. India, for example, has had probably the world's largest asset formation policy through subsidised credit for the rural poor. It is called IRDP (the Integrated Rural Development Programme), in which the government runs a massive programme of giving credit to the rural poor, for them to buy productive assets, like a draught animal for agriculture or an irrigation pump, and so on. This system has been in operation now for more than 20 years, and looking back at this experience one sees it only as a mixed success. There are many cases in which the credit is largely misappropriated by non-target groups - rich and middle-income people - who divert this credit away from the people who deserve it - the rural poor. Moreover, when the government agencies try to distribute credit, the whole credit process becomes politicised. In the case of India, once the credit is given through nationalised banks or other state agencies, the borrowers think that ultimately they can try to manipulate the political process to get around loan repayment. In fact, Indian politicians are sometimes under tremendous pressure, especially at election time, to go out and announce that the farmers do not have to repay their loans. In other words, the political process is hijacked to generate massive exemptions or debt relief. The general point is that when it is done particularly through a centralised state, credit policy gets enmeshed in issues of political rent seeking, in which the incentives to repay or even to invest wisely are seriously harmed. This is the reason many people in the last couple of decades have started thinking about other mechanisms of delivering credit to the poor.

Drawing on another, probably even better known, example from the Indian sub-continent, there is the case of the Grameen Bank in Bangladesh. Essentially, the idea was not for the state to monitor the debt repayment; that function has been delegated to small groups of borrowers themselves. The case of Grameen Bank is now well known, and it is now being reproduced as a blueprint in many other countries (including in poor neighbourhoods of rich countries). It is no longer an experiment in Bangladesh, where it is now a very large operation improving the lives of millions of people. What is the essential mechanism? Here, the state or outside agencies are involved in providing finance and a subsidy, but they are imaginatively utilising a local network. Quite often the bank gives the money to very small groups of women, sometimes groups of only five or six, the idea being that if one of the borrowers is attempting for whatever reason to default, the whole group of five or six is then made liable. This is joint liability for loans, inducing peer monitoring. They monitor one another, ensuring that one is not being slack or misusing the money, and so on, which has worked in the Grameen case. What neighbours who know one another can do relatively easily would be very difficult to do from a distance through a centralised bureaucracy. Utilising local information and local networks can thus be a more effective substitute for state agencies in credit delivery.

A third example, again from the Indian sub-continent, also illustrates a different principle. The Grameen Bank principle is a case where potential government failure is superseded by a community mechanism. But my third example is one where one needs the government or some other outside agency to solve a problem that arises at the community level, again in connection with credit. This example relates to the case of the Self-Employed Women's Association (SEWA) in Gujarat, India, which is now quite well known for trying to help self-employed women with credit and mobilising their savings, not in agriculture, but mostly in small non-agricultural activities. After a while, the SEWA organisers found that the borrowing women sometimes could not repay the loans, despite their best intentions and their hard work - sometimes it was sheer bad luck and all kinds of risks. In many instances it was found that when either the woman herself or, more often, somebody else in the family falls ill, she has difficulty in repaying the loan. In other words, health risk is an important factor in their ability to repay. When SEWA organisers saw this happening quite often, they wanted to insure against the health risks; and it is this link between a credit market and the insurance market that I want to emphasise at this point.

For in surance purposes, one needs to diversify the risks, which is why SEWA had to go outside its own community, to the Life Insurance Corporation of India, a nationalised institution run by the state. So here is a case in which a problem arises in a community, which could not be solved within that community, and so the community organization turned to the state, and together they worked out an arrangement in which the health risks for the borrowing women were covered by the state-run corporation.

I have thus cited three examples, all from the Indian sub continent, an area I know a little better than other parts of the world. Each illustrates a different principle, and essentially shows that we have to go beyond the usual polarities. Each co-ordinating mechanism of society - the state, the market, the community - fails in some ways, yet each one has some unique advantages that we can try to combine to co-ordinate our way out of the failures. These three examples also illustrate many of the issues relating to credit and, as have I said before, credit is a fundamental instrument for escape from poverty for the working poor.

Another fundamental issue in escape from poverty is education, extremely important in South Africa, also in my own country, India, and in many other developing countries. As in the case of credit, so in the case of education; the current education system is in very bad shape for serving the needs of the poor. And here again, there is much to do, and we cannot use globalization as a convenient scapegoat for why we cannot get on with the important development tasks that lie ahead. In fact, quite often, the reason that things do not work, as in the case of credit, is because of government failures and community failures, which are essentially domestic failures. If government and communities can work together on these issues, there are many things that can be done, even within the very significant global constraints. And if such collaboration takes place to effectively deliver education to the poor, the latter may have the opportunity to harness the benefits of globalization after all.

Education (and health) are examples of what economists call positive externalities - the positive effects of doing something for some people spill over to benefit others: in particular, doing something for the poor helps the rich as well. Positive externalities also arise in the context of gender-specific poverty alleviation policies. Better education for women, for example, is often associated with better education, nutrition and health of children, particularly daughters. I understand that studies show that in the recent expansion of the social pension programme in South Africa, pensions received by maternal grandmothers had a large impact in improving their granddaughters' health. In Bangladesh and elsewhere, better opportunities of outside work for young women, particularly in the globalised garment industry, have led to socially more beneficial fertility behaviour, through, say, raising the age of marriage. Such externalities make gender equity and productive efficiency go hand-in-hand.

Then there are important dynamic externalities that can arise from community- or neighbourhood-specific characteristics. These may refer to physical infrastructure (like roads, communication, irrigation and power systems), improving the productivity of private investment or, in the neighbourhood case, adult human-capital endowments of neighbours influence the educational investment decisions of the young. In the inner city neighbourhoods of the United States many sociologists have found that a young male's propensity to drop out of school depends very much on the role models among the adults in the neighbourhood, not just on his own family background. If there are other adults in the neighbourhood who have been educated, who value education, quite often this discourages dropouts. So, in a sense, this is a neighbourhood externality. It is thus important to acknowledge how the neighbourhood can act as a poverty trap, and poverty alleviation policies and strategies therefore need to address themselves not just to the individual, or to the family, but also to others in the neighbourhood. Neighbourhood effects are also important in rural areas in many developing countries. The largest brain drain in the world is not from the poor country to the rich country, it is from the poor rural areas to the metropolitan cities within developing countries, and in a sense here the rural neighbourhood effects are extremely important.

Another very important efficiency-enhancing redistributive policy - in this case, asset redistribution, which enhances efficiency. This is particularly the case where agriculture is a significant part of the economy. What is of key importance here is land reform. Land reform is an instance where equity and efficiency very often go together. In traditional, small-scale agriculture, where the use of lumpy inputs (such as farm machinery) is limited, the economies of large-scale production are not that important, and the small farm can get labour at a lower social cost than the large farm can. It therefore has a labour cost advantage, but no disadvantage in terms of economies of scale. Quite often, the data show that the small farms are more productive than large ones. Of course, the large farmer is likely to have better access to production credit, to information and marketing networks and to the capacity to insure against risks. If these services - credit, insurance and marketing - are made available to the small farmer, land redistribution can boost agricultural productivity. Similarly, tenancy reforms where large tracts of the land are given to tenants by re-arranging property rights in favour of the actual cultivator of the land, or by providing security of tenure (so that the tenant cannot be easily evicted), can also improve production incentives. Some international agencies are now trying to promote what they call market-assisted land reforms. Here we can link land reform with the credit reform issue that I talked about earlier. The idea is that in some situations the big farmer may be interested in selling to the more productive small farmer and moving to other occupations like industry, finance or trade. But the potential buyer, the small farmer, does not have the money or the credit to buy the land, even if the seller is willing to sell at an appropriate price. In such situations what has been called market-assisted land reform tries to raise credit from international (and domestic) agencies to facilitate the process.

My next point is on issues of bargaining. Let me first talk about the economic theory literature and then I'll talk of practical applications. In economic theory, it is increasingly being recognised that inequality may cause bargaining failures which are costly to the economy. Fall-back options among bargainers are often widely divergent, and in such situations theory suggests - and there are practical corroborations of it - that bargaining is more likely to break down as actors cannot agree on and pre-commit to a division of the gains from co-operation. Inequality may also heighten information asymmetries between bargainers leading to costly delays or stalemates.

Let me now come to a practical example of bargaining, which involves labour unions. Here, contrary to many conservative economists, I believe that unions are important for productivity. A labour union to me is an organization that potentially can combine both efficiency and equity (although it doesn't always happen this way). The equity part is obvious; unions are the main agent for improving labour's conditions, for ensuring there is decent work, ensuring that work is humane, being a watchdog for abuse of labour rights, being a watchdog for safety measures and so on - I think enlightened capitalists do understand this.

Let me give the example of Japan. If one looks at the Japanese work organization, or analyse conditions on the Japanese shop floor, one will see it is much less hierarchical than in the United States and many developing countries; this more egalitarian workplace in the Japanese factory system is not merely equitable, it has also been very efficient. A less hierarchical work organization has led to more solidarity, more loyalty of the workers and less turnover, which is a very important difference between the Japanese and the American workplace. Studies show, for example, that in the United States most of the innovations come from the research and development department, and these are then applied in the factory floor. In Japan, a very large part of the innovations have come from workers' own suggestions; workers find out that in the old methods of production there are obvious things they could improve on. In a more egalitarian workplace, there is much more solidarity, much more interchange of information and tacit knowledge between employers and employees in terms of improving production methods. This is something quite distinct from the American

system and many of the American labour economists now notice it. Here is a situation where I think an egalitarian workplace or an egalitarian way of organising work improves productivity and obviously combines equity and efficiency. And in developing countries generally one of the major problems is a high labour turnover, which I think unions can reduce, inducing workers to acquire firm-specific skills that ultimately also help employers and the cause of efficiency.

However, I should also note that in the public sector in some developing countries, to a large extent, unions also shelter inefficiency and slackness, protecting lazy or inefficient workers. These things, therefore, should not be generalised about too much. It is useful to point out that in some cases equity and efficiency can go together. It does not mean that we can let our guard down in cases where unions are sheltering inefficiency, of which I can cite some. I think we have to quite explicitly point out that we have to distinguish between the good and the bad role unions play. It also means that union strategies have to change and, as I mentioned in my previous lecture, union strategies have to be much more concerned about income security than job security. Policies have to be more inclusive, particularly of the informal sector, since many of the policies that benefit the formal sector may be at the expense of the informal sector. Union strategies have to be very much concerned about this because most of the workers in developing countries are in the informal sector. In my previous lecture I also spoke of possible policies of wage subsidies that might create more jobs without necessarily damaging those in the formal sector. I am also very much in favour of an international co-ordination of labour bargaining as much as possible in the context of globalization. At the same time, I think it is very important not to gloss over the difficulties. Unfortunately, contrary to the slogan, workers of the world do not unite. There is a serious divergence of interests among workers, particularly between those in developed and developing countries, which one should be very aware of, and try to tackle in regional and international co-ordination of union activities.

On the matter of work organization let me go a step further. I have already spoken about the Japanese work organization, but generally I support more co-operative forms of work organization, in which workers own firms, share profits or participate in management. These are clearly not only more equitable, but also more efficient, especially since they reduce the need for expensive supervision. They can replace a large part of unproductive supervision by peer monitoring. I have already given an example from a completely different field - the case of the Grameen Bank - where peer monitoring is taking the place of monitoring by outsiders. Similar benefits apply to the industrial workplace as well. Of course, workers' organizations face problems in the capital market as well as the insurance market, because when workers own a firm they have to raise the capital, face the risks, and that is where issues of credit and insurance market failures spoken of earlier come in.

Let me just very briefly mention two or three other points, which again are examples of combining equity and efficiency.

The first is that (and this is an obvious point) inequality may discourage the evolution of efficiency-enhancing behavioural norms - such as trust, a predisposition to co-operate in conflictual situations and incentive to find low cost solutions to co-ordination failures. Quite often in economic life, as in social life, we face various kinds of co-ordination failures, and if there is relative equality people find it easier to get their act together in overcoming these failures. My next point has to do with something that is related, which has to do with management of what are known as local commons.

In many developing countries, the livelihoods of the rural poor depend crucially on the local commons. Here, examples relate particularly to common environmental resources - forestry, fishery, irrigation water, grazing lands and so on. Most of the time when one thinks of the environment, one thinks of larger global issues, like global warming, ozone depletion and so on. For the poor an immediate, vital and very large-scale issue is the depletion and degradation of local environmental resources. Quite often we go to one of two extremes in the matter of management of local environmental resources. Let me give you an example from forestry. In many developing countries the forests are nationalised; the government owns the forests. The forest bureaucracy runs the forests and does a very bad job of it, and in fact forest officials are quite often corrupt and essentially serve the interests of timber merchants and other rich people, who exploit the resources of the forest commercially. This is the one extreme - the case of some kind of centralised bureaucracy managing environmental resources. The other extreme is to commercialise the whole thing, to privatise it. As a result, large numbers of poor people have been left out of the commercialisation process, regardless of the fact that for generations they have been the traditional users of these resources. And now that private ownership has sufficiently alienated them from access to these resources, poor communities now become irresponsible users - they are forced to steal and destroy some of the environmental resources.

So I think both extremes of either nationalisation or privatisation have caused enormous damage to local environmental resources in many poor countries, and here it is very important to think in terms of local community management. But why am I emphasising this in the context of equity-efficiency trade-off? It is because equity may have an effect on the tendency to co-operate in the matter of community management or conservation of common resources. I myself have done some work in South India on how inequality (say, in land distribution) affects farmers' co-operation in the allocation of irrigation water. A student of mine has done similar work in central Mexico, again in water management.3 The results that we got essentially suggest that an underlying equality, both social and economic, among the users of the resource helps in solving problems of commons management, and thus it is an example of equity and productive efficiency going together.

Another example, this time not from the rural local commons, relates to urban residential commons. In the United States (I am sure this is true in some cities in South Africa too) there are big public housing projects in the inner cities where the poor, many of whom go without work for lengthy periods, are concentrated. Quite often, these public housing projects have essentially become dens of crime, drugs and so on. Here again, the neighbourhood effects that I have alluded to earlier become very important. There now exist some examples of residential neighbourhoods where the poor have been helped to own either little plots of land or small flats, and once they have been given credit and other help to own them, they take much better care of the common areas in these neighbourhoods. There are many common facilities and utilities that require co-operation among the owner-users for maintenance and promotion. Small ownership and equality among these small owners help in this matter. As in the case of preserving the forest for villagers who use it for subsistence, similarly in urban residential neighbourhoods where the commons need to be taken care of (and their degradation by crime and drug dealing jointly prevented) by relative equality among stakeholders.

The same issue of equity and efficiency arises in the decentralisation of government, my last example. In many developing countries, it is now generally recognised that centralised bureaucracies cannot resolve many issues, and neither can they deliver many public services. And it is now increasingly realised, by economists, public administrators and policy

makers, that one has to devolve power to local agencies to deliver the local public goods - education, healthcare, water supply and so on. But here the issue of complementarity between equity and efficiency arises again. In general, it is observed that in local communities where there is much inequality - social or economic - the local agencies or local governments are captured by vested interests, by those who essentially divert public resources for their own good. In contrast, where there is more equality, particularly where there has been more land reform, there are many examples from developing countries that self-governing institutions perform much better, and democratic decentralisation provides more effective delivery of public services to the poor.

One beneficial byproduct of land reform, underemphasised in the usual economic analysis, is that such reform, by changing the local political structure in the village, gives more voice to the poor and induces them to get involved in local self-governing institutions and management of the local commons. In other words, land reform or similar asset redistributive reform makes the poor themselves stakeholders in the system, so they take an interest in a system they were formerly excluded from. They take an interest in the local self-governing institutions, which is good for the delivery of public services and management of this local commons.

In general, a major lesson of the economics literature looking into the issues of imperfect information (my example of credit was in the context of imperfect information and various kinds of costs of enforcement), and in general when information is costly and asymmetrical, is that the usual separability of equity and efficiency assumed by mainstream economists breaks down. Under these circumstances, the terms and conditions of various economic arrangements that directly affect the efficiency of resource allocation crucially depend on who owns what and who is empowered to make which decisions. Generally, redistribution of property rights, if aligned with redistributing control among those who will be using this property, will improve efficiency. These micro-level redistributions at the level of firms, farms and local communities do not lead to large-scale capital flights, and are not seriously threatened by globalization.

1 See A. Emmanuel, Inappropriate or underdeveloped technology? John Wiley, New York, 1982.

2 See A. Okun, Equality and efficiency: The big trade-off, Brookings Institution Press, Washington, 1975.

3 See P. Bardhan, "Irrigation and co-operation: An empirical analysis of 48 irrigation communities in South India", Economic Development and Cultural Change, July 2000; J. Dayton-Johnson, "The determinants of collective action on the local commons: A model with evidence from Mexico", Journal of Development Economics, June 2000.

Lecture Three
Governance and Policy Issues

My second lecture dealt primarily with efficiency-equity relations. I tried to show that if we are interested in equity and social justice and, to make it sustainable, a productive economy, there are many things that can be done, and we need not be constrained by globalization in achieving them. In fact, if on some of those issues raised in that lecture policies have failed in many developing countries, we have mostly ourselves to blame, and not globalization. In this lecture I'm going to talk primarily about governance-type issues, and particularly on some international rules.

The main issue of governance in a global economy is the loss of monetary and fiscal options for the nation state and subservience to rules sometimes made by the international trade and financial interests. One extreme case of severely constrained monetary and fiscal policies (particularly the former) is that of Argentina, which has voluntarily abdicated its monetary policy and, as a result, often tolerates a very high rate of unemployment. As you know, Argentina's currency is anchored to the United States dollar, so in a sense Alan Greenspan, Federal Reserve Chairman in the United States, effectively determines the monetary policy of Argentina. Similarly, there are other countries, say, the countries in the European Union, that are voluntarily surrendering some of their monetary and fiscal options to stabilise the currency through the European Monetary Union. New York Times journalist Tom Friedman, in a recent book, The Lexus and the Olive Tree, has described this phenomenon as that of countries putting on the "golden straitjacket" for the sake of participating in the benefits of the global economy. Of course, in such situations the scope for taxing capital is generally regarded as severely limited by the threat of capital flight. In fact, capital itself doesn't have to flee the country; quite often accounting practices, through strategic bookkeeping adjustments allow the base for capital taxes to migrate even when capital itself does not.

While these limitations are serious, one should not exaggerate their effects. Most countries collect only a small part of their revenues from capital taxation, even when economies are very closed. In any case, there are strong arguments for funding redistributive policies through progressive consumption taxes rather than taxes on capital and labour. Of course, there is a need for tax co-ordination across countries, and there is some evidence that capital taxation is declining and also converging across countries. But again, one should not overstate this; even in the highly integrated European Union corporate tax rates have substantially converged not to 0 percent, as some people anticipated, but to about 35 percent.

Similarly, despite all the financial integration among OECD (Organization for Economic Co-operation and Development) countries there are huge differences in capital tax rates between the United States and, say, Germany or France. Even within the United States, with free mobility of capital and goods across the states, there persists a great deal of variability in state tax rates; even neighbouring states in the United States have maintained very different levels of social protection. I think the important thing to realise here is that capital does not necessarily flow to low-tax countries or low-tax regions. If a country or a region spends the tax money to improve its public infrastructure, it helps private investment. So one can have a situation in which there is high tax and high public goods provision as well as one where taxes are low, and public services are low, and capital need not choose the latter over the former.

Thus global constraints, particularly those imposed by capital mobility, should not be exaggerated. Serious obstacles to redistributive policies are often domestic. In the past, in the 1960s and 1970s, scholars and writers belonging to the so-called dependency school pointed to the crushing effect of neo-colonialism and how the tentacles of the international economy blocked escape from underdevelopment. In this way, I believe, they demonised the international forces and effectively diverted attention away from domestic vested interests, which were powerful enough to block progress even without international help. This school faded in significance when several countries, some of them ex-colonies, vigorously participated in the international economy and had phenomenal rates of economic growth, particularly in East Asia. Today, one again hears about a kind of demonisation of the global economy strangulating our national policies. But this time, more often than not, the expositors of such arguments belong as much to the right wing of the political spectrum as to the left. These thinkers, writers and policy makers on the right warn us against adopting redistributive social policies or labour-friendly policies, pointing to the threat of capital flight or of losing in the international competitiveness game. Globalization can thus be used as an excuse for inaction on the redistributive front. But, as I have argued in the second lecture, there are many policies that can, in fact, improve both productive efficiency and social justice and thus help us enhance our competitiveness in the global economy.

Let me now go beyond monetary and fiscal policy constraints. There are other global constraints, for example, the ones that take the form of international regulations and standards. Let me discuss in this context the important issue of international labour standards. In fact, there is presently a big move on the part of some rich countries to link international labour standards with international trade rules (as part of a "social clause" to be incorporated in the regulations of WTO, the World Trade Organization). Already this is being adopted in bilateral negotiations. Last May, United States President Bill Clinton signed the African Growth And Opportunity Act, which offers African countries trade preferences in the United States, provided those countries conform to certain international labour standards, an approach that I believe is generally misguided, possibly causing harm to many poor people.

I think there is general agreement by all concerned that we should prohibit forced or slave labour, minimise hazardous or unsafe working conditions, and adopt freedom of association and the right to bargain collectively. There is a general consensus on these core labour standards. There is, however, less agreement on prohibiting other kinds of labour - for example, child labour, which is not slave labour or semi-slave labour, nor are the occupations necessarily unsafe. There is even less agreement on the adoption of a minimum "living wage" or avoiding "sweatshop" conditions. In fact, the African Growth And Opportunity Act of the US insists on acceptable conditions of minimum wages, hours and other work conditions, about which there is quite a bit of disagreement. Well-meaning humanitarians and not-so-well-meaning protectionists from developed countries want to ban the products of "sweatshops", or those produced with workers paid less than what they consider to be a "living wage". They call this "unfair trade", but implementation of such a living wage in the formal sector is sure to drive most workers to crowd the informal sector, and thus depress the wages there even below their current low levels. It is clear that in many of the poor countries today workers' wages are well below what would be considered a living wage in OECD countries, and in some sense almost the whole of the economy in a poor country is really a sweatshop. To deny trade on these grounds would be to push such a country further into poverty.

On the general question of the desirability of actually implementing international labour standards, I believe the proper answers are much more complex and context-dependent than many of my activist friends recognise. I will give examples from the case of child labour. Let us all agree that we want to remove or reduce the incidence of child labour in poor countries. We want the children to be in the schools instead. Let us all agree on this goal. But I believe that taking mainly a legal or regulatory approach to achieve that goal is wrong. With the exception of some very abusive or callous parents, most parents, even from the poorest families, would prefer to withdraw their children from work if they could afford it. So the main approach should be to try to create conditions that enable parents to send their children to school. There are many ways of creating such conditions - for example, trying to improve the wages and productivity of adult workers so that they do not have to send the children out to contribute to the family income. Or, for example, one can try to make existing schools more attractive for the children - to make schools better and more accessible to them through better transport, provision of meals in schools as well as more scholarships. In Mexico they have a programme - under PROGRESA - of paying a subsidy to the mother conditional on her child's school attendance.

A study1 of 1 600 households in C™te d'Ivoire shows that in rural areas, instead of suddenly stopping all child labour, one can smooth the transition by adopting flexible part-time hours for child work before or after school. In other words, as long as it is not unsafe or hazardous work that should be banned, in the transitional process work need not be a substitute for going to school. In my own country, India, the number of children working is quite large, but the number of children who are neither working nor going to school is many times larger than the children who are working. Therefore, one has to investigate the various reasons for, and constraints against, these children who do not work but still do not attend school.

Girls quite often do not attend school as they have to take care of their siblings while their mother is working. Sometimes children attend school, but then drop out since they do not find the schools attractive or what they are taught does not interest them. The conditions of the school are quite dismal and they drop out, and this is a general problem in many poor countries. In such situations, one has to think of and devise other ways of inducing these children to go to school. For example, in the case of girls looking after siblings, an obvious solution would be to think of a good number of day-care centres. In the other cases that I mentioned, obviously the answer lies in how to make schools more attractive for these children. It does not lie in banning child labour and forgetting about the rest of it, nor in taking a legal or regulatory approach. In fact, there are many well-meaning customers in rich countries who are in favour of banning child-produced products. Once a product is banned its price will go up in the importing country. Obviously, this means the consumers are prepared to pay more for higher labour standards. If this is the case, could they not be persuaded to raise funds earmarked for improving schools, for more and better schooling for child workers from poor families? The issue is how to co-ordinate that kind of activism.

Simply banning child labour and not taking these other kinds of measures is highly irresponsible, and I think immoral, as it may worsen the conditions of the children, pushing them to starvation or, in some cases, child prostitution. In general, the arguments for linking international labour standards to threats of trade sanctions are rather weak, contrary to what loud proponents of introducing the "social clause" in WTO rulings think. Most child labour in poor countries is in the non-traded sector. For example, in India only about 5 percent of child labour is in the export sector. WTO sanctions, which are being pressed by many developed countries, will push these children into the non-traded sector where those sanctions do not apply, and there their conditions may be worse. The same argument applies to the popular consumer movement in rich countries, for product labelling, so that consumers have the option to look for the "fair trade" label or "produced without child labour" label on imported goods. It is a very popular movement. In fact, in Britain there is now a whole NGO movement in the business of "naming and shaming" shops selling products that do not have these labels. Little do these NGOs know what harm they will be doing to many poor countries by this movement; it will only punish the victims and push them into worse conditions in the non-traded sector. There is also a serious monitoring problem - somebody needs to monitor these labels. Stories abound (some in half-jest) of children in some poor countries stitching labels on garments that say those garments are produced without child labour. But the monitoring problem is just a secondary one compared to the much larger issue that I have already pointed out.

In general, I think there is need for co-ordinated action, particularly among developing countries. Some people think that transnational companies are attracted to countries just for their poor labour standards. There is very little systematic evidence for that. Multinationals go to poor countries not primarily because of poor labour standards. In fact, labour standards in the multinational companies, by and large, are somewhat better than in the domestically run factories. It does not mean that the working conditions are good. They are dismal in many factories, domestic or foreign. What is important is co-ordination in improving the work conditions. Let me give you an example of co-ordination, ie co-ordination between government, NGOs and business. Let me cite the example of the international companies that produce soccer balls. Many of the soccer balls are produced in one town in Pakistan, Sialkot, where for many years the stitching of the soccer balls was done by children, and many NGOs have been active against the use of child labour there. But they have now come up with an excellent idea, based on innovative co-ordination. What emerged from negotiations between the main sporting goods companies, NGOs, the ILO, UNICEF, and the local government (in Pakistan) is now known as the Partners' Agreement to Eliminate Child Labour in the Soccer Ball Industry in Pakistan. Under the agreement, sporting goods companies are to give scholarships to children who wish to attend school. But the agreement involves all sporting goods companies concerned, so that no company is undercut by other companies when the soccer ball price increases as a result of the agreement. One needs co-ordination among all these sporting goods companies as well as government and international agencies - after all, schooling facilities, and other facilities, will be provided by them, and one needs co-ordination with the NGO sector, which will be acting as watchdogs. After about three or four years, despite some problems with this agreement, the idea remains basically sound. I think in general this idea of tripartite agreements between government, NGOs and business is one way of resolving or mitigating this kind of problem, and the ILO can play a constructive role in this, providing some leadership in bringing the parties together.

Similar co-ordination problems arise in connection with other international standards. Take the case of international environmental standards. First of all, there is a general impression that multinational companies tend to go to countries where the environmental standards are lax. Again, there is not much systematic evidence for that. As in the case of a labour standard, the primary need is for co-ordinated action, which is essential for halting the possibility of one firm undercutting another. One particular multinational firm may be willing to accept an environmental standard, which, of course, is going to raise the price, but they want to make sure that they are not undercut by another company, and hence the need for more co-ordination among the companies involved. Many of the natural resource products, which may deplete the environment through overuse, are products with what economists call low price elasticity of demand in the international markets, meaning that if the price goes up demand is not going to fall by much. That being the case, there is a good argument in favour of co-ordination among different countries in this matter.

Take a situation in which three or four developing countries basically sell the same natural resource-intensive product and have to conform to the international environmental standard. Each country's costs will go up on adoption of the standard, but if they make a general agreement they can solve the undercutting problem. But there is a problem if it is a product for which a price rise is going to lead to a serious decline in demand in the international market. Based on empirical evidence, what I am suggesting is that for many of the natural resource-intensive products, demand is price-inelastic and developing countries should get together to make use of this. Poor countries may co-ordinate the price rises, which may be necessary for the adoption of higher environmental standards.

Trade liberalisation, without the simultaneous adoption of domestic regulations on the use of environmental resources, can magnify environmental degradation. What many protesting NGOs have in mind is that if trade is just opened up, without the necessary domestic regulations, it may well lead to environmental degradation. What I am suggesting is there are ways out in which one need not close down the open economy, provided one follows the domestic regulations plus the international co-ordination and tripartite-type agreements I spoke of. The best policies are more often than not domestic. For example, in India, irrigation water is provided even to the richest farmers at a throw-away price. Thus, in large parts of the country, the water-tables are going down because there is over-extraction of ground water. This has what economists call negative externalities (my extracting the water is lowering your water-table). And yet one major problem of domestic policy (this is not an international problem) is that the government under various political pressures severely under-prices this very precious environmental resource.

The same thing is happening in Russia in terms of the under-pricing of energy, which leads to over-extraction and environmental degradation. So these are examples of wrong domestic price policies that have led to environmental degradation - and not globalization. An example of wrong property rights policies is timber royalty concessions in Indonesia and the Philippines, which are leading to indiscriminate logging of forests. Of course, this timber may be internationally traded, but the root problem is domestic because those royalty concessions encourage excessive felling. The major loophole that has to be plugged is domestic. I could give many other examples of this kind, but the whole point is that sometimes it is very easy to blame international forces. The international forces are there, the constraints are there, which I have already spoken about, but there is also much that we can do on the domestic front. There is also much we can do in terms of co-ordination internationally.

1 See Christiaan Grootaert, "Child labour in C™te d'Ivoire: Incidence and determinants", in C. Grootaert and H. Patrinos (eds.), The policy analysis of child labour: A comparative study, World Bank, Washington, D.C., 1998.

Conclusion

Let me conclude. Today globalization is not an option but an indisputable fact of life. We cannot say "stop the world, we want to get off". Some countries have tried that, for example, the Democratic People's Republic of Korea, Myanmar and Albania, and they made a mess of their economies. Instead, we should try to harness the forces of globalization to benefit human welfare and try to limit some of their undoubtedly adverse effects. In my first lecture, I analyzed the mixed effects of international economic integration on productive efficiency, income distribution, collective bargaining institutions and economic security. This was from the point of view of the working poor, both in the formal and the informal sectors, and I tried to suggest that there is a need for new thinking. Moreover, I suggested that the rhetoric on both sides of this issue often ignores the various complexities involved.

In my second lecture, I suggested that since social justice must have an efficient economic base to be sustainable, we should be concerned about efficiency, even from the perspective of egalitarians. But in that context, I challenged the idea of an efficiency-equity trade-off, which is a staple of much of public thinking and of mainstream economics. I then went on to spell out various, mostly domestic, ways of achieving social justice without necessarily giving up on efficiency in a global economy. In the third lecture, I mainly discussed the question of global constraints on national governance. I started with monetary and fiscal policies and then examined the feasibility and desirability of international rules relating to labour standards or environmental standards, and there I stressed the need for co-ordination.

Let me end with a plea for accountability at all levels: local, national and global. At national and local levels, it is becoming increasingly apparent that centralized bureaucracies cannot solve many of the problems. Social justice has to be looked at from the ground level, where the poor live. Centralized bureaucracies are often inefficient in delivering local public goods and services to the poor. Democratic decentralization that utilises local information, initiative, and ingenuity is thus extremely important for the poor. But I think we should also talk about accountability at global level. In the supra-national space, developing economies are increasingly at the mercy of unaccountable institutions such as currency traders, country fund managers, credit rating agencies and so on. To voluntarily submit ourselves to external discipline may sometimes be important to check domestic profligacy, wastefulness and short-sighted populist policies. But the acceptance of such discipline, even when necessary, should be the outcome of democratic decision-making in which all major social groups participate, and not be imposed from above.

International NGOs sometimes profess to act as a countervailing force to international trade and financial interests, and I applaud their attempt to counteract many of the unaccountable international institutions. But at the same time, I think it is very important to bear in mind that the international NGOs themselves give rise to a different kind of accountability problem. They speak in the name of the poor when agitating against sweatshops, child labour and non-payment of a "living wage". I have already suggested that in some cases this may be well-intentioned but misguided. But, apart from the substantive issue that their attempts are sometimes counter-productive, actually making their intended beneficiaries worse-off, there is also a procedural issue that I want to talk about now. That is, if the developing country happens to have democratic institutions then one has to think twice about bypassing these institutions and taking upon oneself the authority to speak in the name of the poor.

Of course, in some countries the quality of governance is dismal, even in some democratic developing countries the poor do not have a voice, and I think the international NGOs serve a valuable function in giving the poor some voice. But at other times they are effectively undermining representative institutions. For example, suppose there is a developing country where an irrigation dam is being built. (I am personally against the construction of large dams in many developing countries but the point I am going to make is procedural, not substantive.) Suppose the democratic

government of the country has taken a decision to build the dam. Of course, in any project like this there are costs as well as benefits. The major cost is that many of the indigenous people may be uprooted; they are poor and often the government promises to resettle them elsewhere but ultimately these promises are not kept. It is against the reneging on these promises by governments that we need to act as watchdogs.

But, as I have already said, there are also benefits. Large numbers of farmers who at present do not have irrigation will benefit and many of them may be poor farmers. However, what happens far too often is this: suppose the dam is being partly funded by an international organization, say, the World Bank. Many international NGOs, instead of trying to be a watchdog domestically, rush to Washington through their international networks and lobby with the World Bank or other such international organization to stop the funding. Perhaps the dam should indeed be stopped, but what is contentious here is the procedure through which this is done, where the many beneficiaries are not represented and only the side that is internationally vocal is heard. What I am pleading for is international accountability. There are some domestic democratic institutions in which all sides are represented, maybe not always well represented. We should try to improve those domestic institutions of accountability and not take upon ourselves the authority to speak in the name of the poor without going through the regular mechanisms of accountability institutions.

Finally, social justice has to be ultimately demanded and achieved from below, not from above. What outsiders (by outsiders, I mean not just foreigners, but people outside the poor group, in whose name they speak) can do is to facilitate the formation of institutions of accountability. But we also have to remember the importance of combining accountability with responsibility. Ultimately, if the demand for, and achievement of, social justice has to come from below, the people to whom these institutions are to be accountable have to play their part in terms of responsible behaviour. In this way, the intended beneficiaries ultimately mobilise their own resources, become responsible for their own efforts, learn from their own mistakes, stand on their own feet, and get out of the unproductive pastime of blaming others, local or global.

Biography

Pranab Bardhan has been Professor of Economics at the University of California at Berkeley since 1977. He has been the Chief Editor of the Journal of Development Economics since 1985. Educated at Presidency College, Calcutta and Cambridge University, England, he has also held teaching positions at MIT, Indian Statistical Institute and Delhi School of Economics. He was awarded the Guggenheim Fellowship in 1982 and the Mahalanobis Gold Medal (of the Indian Econometric Society) in 1984. Apart from publishing numerous journal articles in the areas of rural development, agrarian institutions, political economy and international trade, he is the author of seven books and editor of seven others. The books he wrote include Development microeconomics (jointly with Christopher Udry), Oxford University Press, 1999; Land labour and rural poverty, Columbia University Press, 1984; The political economy of development in India, Oxford University Press, 1998; and The role of governance in economic development: A political economy approach, OECD Development Centre, 1997. The books he edited include The economic theory of agrarian institutions, Clarendon Press, 1989; Conversations between economists and anthropologists: Methodological issues in measuring economic change in rural India, Oxford University Press, 1989; and Market socialism: The current debate (jointly with J. Roemer), Oxford University Press, 1993.