

Izlaganje sa znanstvenog skupa

321.7:316.4.052

316.4.052:321.7

Primljeno: 11. veljače 2003.

Freedom and Globalisation

VLADIMIR GLIGOROV

The Vienna Institute for International Economic Studies, Vienna

Summary

Today liberalism (or neoliberalism) is blamed for the growing inequality and poverty in the world as well as for ideological fundamentalism. Since such discussions are wide-ranging, held at universities and in political bodies, the author makes a distinction between liberalism as political philosophy and liberal – or as is now often called neoliberal – practical politics.

According to him, liberty and globalisation do not necessarily provide the best solutions without proper legal foundations, and it is difficult to legally lay them without a democratic procedure of decision-making. Since an international legal system and international democracy will likely not happen in the near future, the choices facing the developed and undeveloped countries are not easy at all. Although liberalization is undoubtedly the only path to freedom, some of the neoliberal ideas have not proved appropriate and feasible. This is not the reason, however, to reject liberalism. On the contrary, this is the reason to continue efforts to bring down the walls dividing people and peoples.

Key words: globalisation, freedom, justice, liberalism, liberalisation, neoliberalism



Mailing adress: Wiener Institut für internationale Wirtschaftsvergleiche, Oppolzergasse 6, A 1010 Wien, Austria. *E-mail:* gligorov@wiiw.at

Introduction

Liberalism has been criticized from the left as well as from the right. These criticisms very often concur: It is not only freedom that is important, but also justice; it is not only the individual that is important, but the society as well; the world market is not the sole criterion; national needs ought to be taken into account as well. Karl Polanyi who, some sixty years ago, offered probably the most damning and extensive criticism of the liberal champions of the globalisation of free trade – people who today would be branded as partisans of the ideology of neoliberalism – wrote that both communism and nazism, or totalitarianism in general, were an answer to the uncontrolled liberalization

and to the “taking the society and not only the commodities to the market” (Polanyi, 1944; Gligorov, 1996). Today liberalism (or neoliberalism) is blamed for the growing inequality and poverty in the world as well as for ideological fundamentalism.

Since such discussions are wide-ranging, held at universities and in political bodies, I suggest we first make a distinction between liberalism as political philosophy and liberal – or as is now often called neoliberal – practical politics. They will be analysed in turn.

Freedom and choice

Liberal political philosophy is committed solely to the idea of freedom.¹ This by all means implies individual freedom, but not necessarily only individual freedom. Namely, it is difficult to have free societies if its members are not free – that is the so-called liberal individualism.² However, some may think that there is no other freedom but individual freedom, while some may say that there are other aspects of freedom (for example national freedoms – as liberal nationalists have claimed – or social freedoms – as some social liberals argue). If freedom is understood as a right – which is debatable – then it is only natural that liberalism upholds the idea of individual rights; however, not every liberalism reduces all rights to individual ones (e.g. collective rights of minorities, the right to self-determination of peoples and nations, and an array of other collective rights). Individual rights, on the other hand, have to protect at least negative liberty (freedom from coercion, freedom of thought, movement, work, ownership of property), but some liberals think it is essential to ensure positive liberty as well (the right to certain, let us say fundamental possessions). In general, liberal political philosophy accepts pluralism, and – as Rawls would say – the idea that reasonable people need not always agree about the meaning and significance of ultimate values. On the contrary, in line with Isaiah Berlin, Rawls thought that pluralism of values is inevitable.

One should not draw the conclusion that liberalism is too liberal. From the analytical point of view, liberal political philosophy is quite exact, by far more exact than any other. Besides being individualistic, it indicates that there is no communism of political ideals. In fact, the analytical contribution of liberalism consists in the fact that it claims it can prove there is a conflict or at least competition among the individual and the social, the private and the public, as well as between freedom and equality, freedom and justice. There is also a conflict between democracy and market, which partly relates to the disparity between the national and the international.

To summarize: unlike the collectivist and some other theories, the liberal political philosophy claims that there must be a choice when political ideals and institutions are concerned. This was undoubtedly obvious to Machiavelli, Hobbes, Hume, Burke, Con-

¹ Lord Acton superbly wrote about that. See, for example, *The History of Freedom in Antiquity* and *The History of Freedom in Christianity* (both can be accessed on the Internet). There is no general consent among liberals as to what it precisely means. Relevant for this is the debate between Hart and Rawls. For Rawls' latest response, see Rawls (2000).

² This is not the same as methodological individualism, which will be dealt with later.

stant, Kant, and Mill, to mention just a few among the most influential authors of the past (as was, of course, to many other major political philosophers, from Plato and Aristotle onwards, who cannot be considered liberals). In contemporary political philosophy there is a precise analytical framework that enables thorough analyses of the issues of the compatibility of political ideals, institutions, ends and means. This framework was largely designed by Arrow, Harsanyi, Sen, Kolm, Rawls, and Nozick (not all of them liberals).³

Analyses are necessary since liberal political philosophy does not stop at the promotion of individual and other liberties but asserts that there are liberal answers to the fundamental questions explored by political philosophy, such as what is justice, what is implied by inequality, the features of different ways of decision-making, which political regimes are stable, how to avoid international conflicts, what can be known about politics at all, i.e. which is the cognitive range of political philosophy.

In order to illustrate my point, let me give you an example. Liberals do not stop at saying that it is best for prices to be set on the market but, just like all other economists, they analyse the processes of price formation as well as the features of market prices. The same applies for example to the influence of the relationship between freedom and free action on the welfare of an individual, on the fairness of distribution and the progress of economy and society. In other words, it is one thing to say “let’s leave it to the market” and quite another to say that we are not interested in the assumptions and the consequences of that recommendation. The first is characteristic for liberals, while the other – the idea of intellectual responsibility – is not typical for the liberal thought.

Globalisation and democracy

As an example of the necessity of choice let us take a look at the ongoing debate on globalisation and democracy. There is no doubt that globalisation – implying the liberalization of global economy i.e. the expansion of market relations across national borders – clashes with liberalism due to the national and not the international character of the state. This opposition may, in principle, be resolved in two ways: by restricting international trade and international markets and business ties in general or by the internationalization of political institutions.⁴

In order to clarify what I mean, I would like to draw attention to the untenable opinion of some critics of globalisation, for example some Balkan authors. There are those among them who are in favour of the accession of their countries to the EU membership. However, for Croatia or Serbia, for example, joining the European Union would represent almost a complete globalisation of these two small countries and economies: the EU is even now for them almost the entire world, and will be even more so when

³ I wrote about this in detail in Gligorov (1985).

⁴ Rodrik excellently wrote about this (2002b).

they join the EU.⁵ Such Europeanism of critics of globalisation might be understood if democracy were important to them for example as a regulator of the market competition and a corrector of social inequality, and if the European Union were democratically organized. However, that is not the case yet. Admittance to the EU presupposes the internationalization of all national markets; at least for the time being, very limited democratic control is possible over their operation (there is a somewhat bigger possibility of bureaucratic control). Thus, an opponent of globalisation in, let us say, Croatia or Serbia, should also be an opponent of the integration of those countries into the EU. By the same token, the advocates of free trade should be opposed to the idea of nation-states and in favour of the integration into the European Union. Anyway, it is surprising that some leftist critics of globalisation are at the same time champions of human rights all over the world, although it is clear that protectionism must violate at least some human rights. On the other hand, the rightist advocates of globalisation often demonstrate a weakness for the nation-state, which in this context can only represent a means of interfering into the workings of the market.⁶

In simple words, socialism and globalisation do not go hand in hand, and neither do nationalism and globalisation. These are the dilemmas that the EU is faced with, and the continuation of its entire project depends on how these dilemmas are to be resolved.

Market and equality

Even older than this dilemma is the wrangling about liberty and equality. Liberal political philosophy claims that bigger freedom does not necessarily imply bigger equality and vice versa. Let us take the market as an example. What is its relation to liberty? In that that the market exchange is voluntary and in that sense, free. It should be pointed out here that political philosophy, just like theoretical economy (particularly neoclassical), understands the market as a conventionalized, theoretical construction, and not a particular real institution. However, the assumption of a voluntary exchange applies to all empirical market institutions: if there is no voluntary exchange, there is no market.

This does not mean that all participants in an exchange are equal, and even all those who want to take part in it cannot do that since, of course, they have to have something of value to other people to exchange. They are equally free, but in such a theoretical context this is almost a tautology. In everything else they can be completely different (to an extent they have to be in order for an exchange to take place at all). Theoretically, the market is neutral in relation to the distribution of commodities or everything that is significant for this or that understanding of equality. The real market institutions, however, do not have to be.

Here it is necessary to define the meaning of this neutrality. First, the market is a theoretical abstraction, since every real market is an institution in its own right. Second,

⁵ I wrote in more detail about this and about the theoretical assumptions of the integration in *Delayed Integration*, WIIW Research Report 2000.

⁶ On problems of internationalization of human rights, see Rawls (1998).

the fictitious market is neutral in relation to distribution because – in a way – it assumes it.⁷ Third, the fictitious and the real market can also function if there is absolute equality according to some criterion. For example, even if everybody has an income, they could exchange that income for different sorts of labour or services; or they might buy and sell commodities they have. Of course, it has been shown more than once that free trade goes hand in hand with enormous disparities, for example the existence of involuntary unemployment (as Keynes showed), or with the situation of utmost inequality, or even the situation in which people starve to death en masse, as has been marvellously shown by Peter Hammond.⁸

What applies to the fictitious market does not have to apply to a real market. It may be privately or publicly owned, can have a bigger or smaller number of participants, may be regulated in a variety of ways and may significantly affect the outcome of free exchange. Theoretically, it is assumed that everybody has something to exchange and that nobody has any influence over the prices (plus some other things which are of no significance for the time being). However, in the circumstances of dire poverty, the freedom to trade does not mean much to a person who has nothing to sell and no means to buy something. Also, when the prices can be fixed in many ways, the distribution is predetermined. In such a context, it is difficult to draw a fine line between voluntariness and coercion, as Nozick recognized.⁹ In a way, Hegel also showed that there are elements of voluntariness, i.e. free choice, even in a person's consent to slavery.

This does not mean that theoretically the concept of market is useless (more about this later) or that nothing can be said about how real markets affect the distribution of commodities. On the contrary, much is known about the social role of the market. As the market exchange is voluntary, the market greatly affects social stability. Also, markets' openness offers a bigger chance to people to demonstrate their abilities than is the case with some other social institutions. Besides, since the market rewards hard work and ability, it undoubtedly strengthens social loyalty to at least some aspects of social justice. And finally, trade plays an important role in the spreading of knowledge, both technical and cultural. This last aspect has been noticed by many sociologists who have analysed the social role of competition, particularly the "cooperative" one, typical for

⁷ Whether this assumption can be consistently endorsed is not an issue in economic theory. The criticisms that can be found in Sraffa (1961) used to be very influential.

⁸ See Hammond (1995). This is technically complicated, but it is easy to follow the main idea: Let us suppose that the market is Pareto-optimal (the optimal distribution of goods is the one in which a redistribution cannot make anyone better off without at the same time making somebody worse off). Let us assume that one person has everything and the others nothing. That is the Pareto-optimal condition, even if all the people but that one starve to death, since the position of those poor wretches can be improved only at the expense of the deteriorated position of that fabulously rich person. Keynes' involuntary unemployment, on the other hand, can be understood in several ways, among which the most usual is the one in which the labour market is not flexible enough; consequently, the situation in which the labour supply is bigger than the demand – at the existing level of the wages – is not enough to reduce the price of labour i.e. the wages, so people want to work but there is no work for them, at least not at the prevalent market price. Keynes' involuntary unemployment can also exist when all the prices are flexible, but this is not so important for our purpose.

⁹ See Nozick (1997).

market institutions. The influence of trade on the quality of human capital has been noted by many, especially by Arrow and Lucas in the context of analyzing the significance of learning by experience.

Of course, everything comes at a price. Thus the evolution of market institutions, where previously nonexistent, happens at the expense of the existing institutions. What all this may mean is well-known from the general research on modernization and development. This should not be confused with the problems facing the transitional countries where non-market institutions are being abandoned; these institutions' primary purpose was to thwart the attempts at market-formation or, where the market was well-developed, to eliminate it or at least restrict it. Also, the countries with the controlled market, in which the state tampers with price-fixing – and many so-called developing countries belong to this category – do not have to cope with the same problems as the ones that rely on traditional institutions which, at least partly, are not market institutions. Under all those circumstances, the expansion of the market leads to significant changes, but they are different in the process of modernization from those in the processes of liberalization and transition.¹⁰

In the modernization of traditional societies, one type of social equilibrium is replaced with another. In that process traditional institutions can collapse and anomie may ensue (in Durkheim's words), the state of affairs characterized by the institutional void.¹¹ The situation is different when repressive regimes are being liberalized or totalitarian ones transformed. Through those processes, when successful, economic and political life is normalized, and the position of most people gets improved, at least in that respect. One may talk about creative destruction, to use Schumpeter's term.

Theoretically speaking, there are two types of changes. Development requires the transition from one Pareto-optimum to another, where redistributions can be extremely high, since the number of losers at the beginning may be pretty high, and in some things even higher than the number of winners. Transitions, if carried out properly, almost mean the transition from one Pareto-inferior to another Pareto-superior state, since the number of true losers is significantly smaller than the number of true winners. This does not mean that everyone will profit equally, so social differences may even increase.

In both these cases, we are dealing with dynamic processes that may unfold in a variety of ways with very different – even opposite – outcomes. This is clear when we have a look at what is known about the processes in Africa where the transformation of the traditional society has been going on, or in Latin America where economy – under considerable political pressures – is being liberalized, and in the transitional countries in which socialism is on the wane.

¹⁰ Karl Polanyi discussed this nicely in the above mentioned book when he analysed the impact of industrialization on agrarian societies.

¹¹ In this context there is much talk about the so-called weak states or failed states. I wrote on this in Gligorov (2002).

Liberty and rights

Perhaps now something might be said about the relationship between freedom and rights. To say that a person is free to participate in exchange or to do anything, does not mean that they are entitled to it. For example, the freedom of gainful employment does not imply the right to work. Just as the freedom of purchase does not imply the right to any commodity. However, one should not draw the conclusion that liberals do not want people (and perhaps someone else) to have rights. On the contrary, liberals usually stand for the equality of rights, i.e. that everyone enjoys the same rights. When they say “everyone”, a number of liberals literally think everyone, the universal equality of human rights, i.e. the globalisation of human rights. This also implies the globalisation of freedoms and the globalisation of their protection. This, in turn, implies an international legal system and a network of international organizations that are able to implement it.

Of particular importance is an aspect of the relationship between liberty and rights: the right to work. As has already been said, Keynes pointed to the fact that all those who want to work are not necessarily able to find a job, the state of affairs he called involuntary unemployment. He did not think that there was a right to work but he did think that the state is politically obliged to provide for full employment. Not because otherwise democracy could not be preserved (and particularly not because a party might lose the elections), but because liberals champion liberty and because it is supposed to enable everyone to realize their abilities. If there is involuntary unemployment, then the very idea of liberty may be at risk.

Keynes also analysed the systems with involuntary employment, but not within the framework of free market.¹² This because, for example, moonshining is not something easily understood in the market economy. But, where it exists – and there is a lot of it in the transitional countries, particularly in the Balkans – there is the question of voluntariness, since those who moonshine do not enjoy the same rights as their unemployed counterparts i.e. those in a contractual relation with their employers. This difference is enormously important because it shows that the fact that a freedom does not necessarily imply a right does not mean that authorities are not obliged to provide protection, primarily from illegitimate coercion.

This applies to all market relations. The fact that a market exchange is voluntary does not mean that a person may buy something without paying for it. Neither does it mean that liberals ignore the importance of the legal protection of market relations that are by and large contractual. Thus it cannot be said that non-contractual relations i.e. those that do not envisage for the legal possibility for contract protection are involuntary. That is why liberals champion the rule of law.¹³

¹² Although the idea of involuntary employment is implied in the idea of involuntary unemployment. Because if an involuntarily unemployed person gains income by performing some work or service then either there is no involuntary unemployment here or the person is involuntarily employed.

¹³ Hayek often wrote on the topic of the importance of the rule of law and due to this he may be classified as a neo-Kantian, although this is not an interpretation that I would like to dwell much upon since that subject – the relationship Kant-Hayek – is rather obscure. As to what should the nature of legal system be, that is another issue; it should be noted that Hayek was no advocate of legal constructivism.

Two conclusions about the relationship between liberty and rights can be drawn from this. The first is that to be free does not mean to have a specific right. The second is that liberty must be protected, which is implied by the concept of negative liberty (built into the very fundamentals of the rule of law).

Social justice

The question of social justice should be mentioned in this context. Before highlighting the two aspects of social justice that I find particularly important, it is necessary to mention the findings of major studies by Alesina, Rodrick and others that show the positive impact that a higher degree of social justice may have on economic growth.¹⁴ This is because conflicts cost, and they can be more numerous if social inequality is more pronounced and particularly if not in accordance with what is considered as just in a society. Thus the degree of inequality that a particular society considers just can provide a more lasting social stability which, in turn, if maintained, may ensure a higher degree of liberty and security of people.

Another aspect of social justice is its ambiguous relation to injustice. It is interesting that many who are against the idea of collective accountability nevertheless believe in social (collective) justice.¹⁵ A conclusion may be drawn from this: they think that – after all – there is something called collective responsibility (for example, for the exploitation of workers and employees in general) or they think that social justice is not used to correct an injustice. In my opinion, the second interpretation is the one championed by some liberals. This is social solidarity at work, a certain moral obligation, so to say. If this is true, it is only appropriate to ask why such an obligation would not be honoured voluntarily? It could be said that morality, unfortunately, is not powerful enough to allow for that, what is undoubtedly true when one sees how little is done to assist the poor in undeveloped countries.

Ensuing from this is the second aspect of social justice: this is not a collective justice that would have to correct a collective injustice, but a requirement that the society imposes on those individuals who have not harmed anyone. This demand may plausibly be imposed only by means of a democratic procedure that gives legitimacy to the decision of the majority to control the degree of social inequality. This indeed means tampering with individual liberty. This also means that social justice restricts liberty, albeit in a democratic way. However, that does not run counter to liberal political philosophy (although it may run – and rightly so – counter to a concrete liberal economic policy). Be-

¹⁴ See for example Alesina/Rodrik (1994). In this article it is claimed that the level of equality is tied to the economic growth in democratic states. This raises the question of the relationship between economic growth and democracy. For the time being there is no consensus on what kind of conclusions the research data point to. One of the arguments in favour of the positive relationship between democracy and economic growth is that authoritarian regimes prove to be unstable in the long run and that the crises that inevitably break out in them are much more expensive than the tendency of democracies to curtail certain economic freedoms.

¹⁵ This is primarily the case among communists and socialists, though it is not alien to social liberals and liberal democrats as well.

cause, as has already been said, the tension between the individual and the social, the private and the public, lies in the very foundations of liberal thought. Liberals are on the side of freedom, but the majority in a society need not be liberal, in which case the price that democracy (national or international) exacts in order to preserve liberty may be acceptable and even the smallest possible.

This does not mean that liberals think the issues of justice and fairness are purely political. On the contrary, liberal political philosophy has greatly contributed to the fact that the problem of fair distribution can be precisely analysed. For example, Nozick claimed that any distribution based on free exchange (or, equally, any distribution that does not violate any laws forbidding theft, injury, and alike) is just. However, this does not solve all the issues in the domain of courts, for example, so that an entire new area of law and economy has been developed in order to define more precisely what a just distribution is, e.g. when this definition is a bone of contention.¹⁶

Nozick's interpretation should not be confused with the opinion that the analysis of the concept of justice ought to be relinquished altogether; likewise, it is not true that the fact that exchanges are free means that an inquiry into the underlying causes and its consequences should be given up altogether. If this were so, then economic and other political sciences would become obsolete. Regardless of whether it is thought that the idea of social justice is meaningful or not, there is no doubt that any system of taxation is based on an understanding of a fair distribution of the burden of public spending. Even where there is only one tax rate – which is very rare – it is clear that those who have more also pay more for more or less same public services, at least in democratic societies.

Two liberal theories, Nozick's and Rawls', could be related here. It is one thing to say that people ought to pay taxes voluntarily, and entirely another to define which distribution is fair when taxes are enforced. James Buchanan wrote extensively on this topic.¹⁷ Where there is political coercion, there is the problem of social justice. Which is its precise content, is another question.

Theory of justice

John Rawls has made justice once again the central concept of political philosophy. The idea of justice that he analyses is by all means social. He must be given credit for pointing to the fact that every justice is in a way social, although his understanding of justice has met with serious criticism. Nevertheless, two aspects of justice highlighted by him cannot be bypassed in any version of liberal thought.

Social justice is an essential part of the system or the constitution of liberty because it should enable everyone to live the way they want, i.e. to realize the abilities they have been endowed with in the way and the combination that suits them best. This does not mean that society is obliged to put into practice a set of positive freedoms, which has

¹⁶ See Posner (1981; 1999). For a fine review of this topic, see Kaplow/Shavell (2002).

¹⁷ See Buchanan/Tullock (1961); Buchanan (1975).

been pointed out by Hart in his critique – but it nevertheless is a test of liberty in a society. That is why liberals are not indifferent to poverty, misery or unemployment, not because they think that this represents a fair remuneration to people for what they might contribute but, for some reason, have been thwarted from contributing. They only think that the causes of these social inequalities may largely be eliminated together with tyranny, dictatorship, discretionary rule, totalitarianism, bullying, and all other forms of the systems of dependency and injustice. Hence the advocacy of the free market, the rule of law and democracy.

Besides, the question of justice comes up because, theoretically, the free exchange does not solve the problems of distribution which, in turn, pop up because every exchange may have several outcomes. Even when prices cannot be fixed, there might be problems with the distribution of goods both within one generation and especially between different generations. These problems exist regardless of the manner in which a system of justice is organized. Even if judges and other mediators were hired to resolve conflicts, as is the case in the countries where the settlements of disputes are breached via lawyers, the issue of justice and fairness remains more or less the same.

This is the reason why the study of justice and fairness has made headway precisely in the area of liberal political philosophy. It should be noted here that even when justice and equality are discussed from the socialist and other non-liberal perspectives, the analytical language used is the one developed by liberalism. The other approaches run into problems at the outset when trying to formulate the problem regardless of how interesting their solutions might be.

Neoliberalism

It might be wise now to turn from the inquiry of liberal political philosophy to liberal politics, or what is now known as neoliberalism. The difference between them is like the difference between the idea of liberty and the process of emancipation or liberalization. For example, free market is one thing while the liberalization of markets is something else. The same goes for privatization, globalisation, democratization. For example, economy based on private ownership is more efficient than any other we know of, but privatization does not necessarily lead to an instantaneous increase in efficiency. The same applies to liberalization. Champions of neoliberalism have at times chosen to ignore this, the fact that Stiglitz rather brutally reminded them of.

What *is* neoliberalism? Regarding its stance on globalisation, the situation is relatively clear. Namely, Williamson codified what he called the Washington consensus on the economic policy for developing countries – what is usually meant when neoliberalism is mentioned in that context.¹⁸ This is an opinion that – to put it simply – macroeconomic stability, liberalization of free trade and privatization result in high rates of eco-

¹⁸ For the original formulation, see Williamson (1990).

conomic growth and an accelerated economic development. There are very well-known critiques of that consensus, most notably the one by the already mentioned Rodrik.¹⁹

This neoliberalism is related to what used to be called supply-side economics. It was (rightly so, in my opinion) based on an assumption that the long-term growth rate of an economy – whether developed or undeveloped – is mostly determined by the institutional and systemic factors, primarily (in the case of successful economies) private ownership, free market and the politics of principles. For economists, just like everything else, this is a contentious issue, but much more momentous are the disputes about how important these factors are for the short-term economic policy in which Keynes' teaching still prevails. It must be borne in mind that Keynes was a liberal and by no means hostile to the free market. However, his views, at least those that can be found in *The General Theory* are not especially useful in understanding globalisation since they exclusively refer to the problems confronting contemporary national states in the circumstances of a restricted operation of the world market, i.e. non-globalised markets.²⁰

Liberalization and social inequalities

Neoliberalism promotes liberalization of trade, both national and international. Analytically speaking, it is true that any level of inequality is possible in free trade. This only means that the market may operate even in the conditions of inequality, undevelopment and poverty. However, this does not mean that the liberalization of real markets cannot mean a bigger degree of equality than some other way of distributing goods. Indeed, research has shown that this is true, for example during the episodes of mass famine. Sen studied them and concluded that in the biggest number of cases mass starvation is caused not by the scarcity of goods but by the collapse of the system of distribution of goods, especially the non-market ones.²¹ Truth to tell, this insight was advanced by the Russian economists of the early 1920s in their analyses of the mass famine caused by the abolition of free trade.

What goes for mass starvation should apply at least to some extent to poverty and deprivation which are indeed more uncommon in economies with free markets. As of lately, there has been a noticeable decrease of poverty and deprivation globally, primarily due to the remarkable improvements in India and China that have been, perhaps only in part – I would say a significant part – caused by the liberalization of economic activity.

Concerning the impact of the liberalization of the world trade on the increase of equality or inequality in the world, there is an undergoing debate about what the data

¹⁹ For a simple review of his critique, see Rodrik (2002a).

²⁰ Of course, Keynes' contribution to the understanding of globalisation was huge thanks to his work preceding *The General Theory*; he also contributed to the creation of the postwar global economic system which was later largely abandoned following the collapse of the system of fixed exchange rates in the first half of the 1970s.

²¹ With his characteristic lucidity and clarity, Sen summarized his ideas on globalisation and inequality in "Ten Theses on Globalization" (2001).

point to.²² However, it is possible that the negative consequences for equality – if there are any – are the result of the obstacles placed by nation-states to the operation of the market, both internal and external. It seems that the data indicate, for example, that the creation of a common and later single market in Europe has resulted not only in an increase in production but also in an increase in equality.²³ But it is also possible, as some other studies show, that selective liberalization leads to an increase in social inequality. From the theoretical point of view, it might turn out that a partial liberalization in the process of transition may worsen the conditions in individual industries and regions and, consequently, for certain groups of people. Practically, certain gradualness cannot be avoided and that is why a much more important question is the sequence of liberalization, e.g. whether the liberalization of trade should precede the liberalization of financial transactions or vice versa.

Here the experience of the former Yugoslavia and the states created by its disintegration might be useful. Although the advocates of liberalization in the former Yugoslavia were criticized by the New Left and the nationalists, who used approximately the same arguments they are using today, it is clear that the little neoliberalism there was greatly contributed both to the industrial efficiency and the equality. Also, it suffices to compare Slovenia, which upon its recognition immediately liberalized its foreign trade, with Croatia (Serbia is an even worse example), that did not. This comparison is good not only as an argument in favour of neoliberalism but may be used for its criticism. Namely, Slovenia had radically and swiftly liberalized its foreign trade, before it liberalized its banking system (now there is a serious lag). Croatia did the opposite. Thus Slovenia, although its output is somewhat smaller than Croatia's, exports about twice as much (and five times more than Serbia), while almost all Croatian banks are owned by foreigners. A similar pattern is noticeable in most Balkan transitional countries, although the experiences of the more developed transitional countries are somewhat more auspicious regarding financial liberalization. It might be concluded that an early liberalization of foreign trade is more important than the liberalization of some financial markets, the opinion that is today, after the Asian crisis of 1997, almost an orthodoxy in international financial institutions though the debate among economists is still (as could be expected) raging (Edison/Klein/Ricci/Sloek, 2002).

World markets and economic policy issues

The need to decide what to liberalize first arises from the fact that national and international markets do not operate under the same circumstances and thus have different consequences. World markets are faced with greater risks because legal protection is much less adequate, while sovereign states may be adversaries and bring all kinds of decisions. And finally, fewer information are available to the participants in the exchange on the world market. A higher level of risk and fewer information especially af-

²² Major works may be found at the World Bank's web site.

²³ At least that is the conclusion one reaches from the works by Dan Ben-David from the University of Tel Aviv. Rodrik challenges these findings as well.

fect the conduct of financial markets, the fact that after the Asian, Russian and now Latin American crises became obvious enough even to the International Monetary Fund (IMF), as their representatives have acknowledged since.

In this context, perhaps it is appropriate to say something about Stiglitz's criticisms directed at the above mentioned IMF.²⁴ Three Stiglitz's objections are perhaps most pivotal and have been adopted by the IMF in one way or another. One refers to its monetary policy. Is it wise to protect the exchange rate with the interest rate? Increasingly, the answer is negative. In my opinion, this is where a mistake was made in Russia.²⁵ According to Stiglitz – and now also to Stanley Fisher – if I understood him correctly, not only in Russia but in many other places as well. The second objection refers to fiscal policy i.e. the attitude to budget deficits. This objection is linked to the first. Because, if you protect the exchange rate, it is not good that the budgetary spending increases faster than the revenues, for the simple reason that a state's heavy borrowing increases the risk that it will be impossible to maintain the exchange rate. Let us suppose that, for some reason, there is a recession in a country. Under normal circumstances, this would trigger off a drop in the interest rates; however, if the exchange rate is fixed, the pressures on it might increase since investments are going down, causing a rise of the interest rates necessary to maintain the required level of investments, which will in turn increase budgetary obligations even if nothing else changes, and the country will have to borrow some more, which means additional pressures on the exchange rate. Under such circumstances, the IMF often demanded that interest rates be increased and public spending reduced. This is unfeasible in a recession. Nevertheless, for a time, the prevailing assumption was that it was necessary to speed up structural reforms by for example closing banks, companies and by bringing down unemployment; in a recession, this might be like putting out fire with gasoline. If I understood correctly, Stanley Fisher agrees with all this now (Fisher, 2001). And finally, the third objection refers to the conditions set by the IMF. This is a broad topic, but there is a growing consensus that the developing countries need to be given a bigger leeway when looking for a strategy that suits them best.²⁶

Inequality and democracy

The market affects the level of social inequality much less than some other institutions. For example, democracy. It is true that the market may function even in undemocratic political circumstances, but there is no democracy without the free market. Democracy is a political mechanism of a redistribution of resources (not solely that) that can be guided by the ideal of greater social equality. Because, if the majority want

²⁴ A brilliant summary of Stiglitz's criticism can be found in his debate with Kenneth Rogoff in the World Bank at the end of June of this year.

²⁵ I wrote about this together with Niklas Sundstrom (1998).

²⁶ For a well-balanced article about a similar problem that the World Bank is faced with, see Einhorn (2001). Detailed criticisms of the IMF and the World Bank can be found in the famous report to the American Congress by Alan Meltzer and Jeffrey Saks. Alan Meltzer also criticized the World Bank's loan policy.

equality, then the rule of the majority is a means to achieve that goal. Of course, the majority need not be loyal to the ideal of equality, regardless of the fact that many take it for granted. It is possible that a bigger wealth will bring about an increase in the value of differences and inequalities. What seems the norm in impoverished countries need not be a goal in more affluent societies. In that sense it is possible that the value of freedom is going to increase and that democracy ceases to primarily be a means of the redistribution of goods. For the time being, however, it seems that at work is – though far from perfect – the so-called Wagner's law that more developed states – all of them democratic – have bigger states. Also, Rodrik showed that wages in democracies are higher than in non-democratic regimes, *ceteris paribus*, it can also mean that development and higher solidarity, e.g. by the legally guaranteed wage floor, go hand in hand.

The recommendations by neoliberals to liberalize trade and to democratize government if economic progress and greater equality are to be achieved are not empirically groundless, regardless of the fact that there is always plenty of room for philosophical and scientific debates. Of course, liberalization and democratization within a state and among states are two different things, so there is reason enough to analyse globalisation separately, since liberalization is faced with entirely different problems in that area. Global democracy is still a very remote possibility, and there is a number of those who think that it is not only implausible but undesirable as well.

Liberalism, nationalism and globalisation

Liberalism and nationalism had not been on the best of terms even before globalisation got in the way. Truth to tell, it was relatively a long time ago. When talking about theories, liberal cosmopolitanism in a way preceded liberal nationalism. Unfortunately, the system that emerged at the time of the so-called first globalisation (between 1814 and World War I) was based on the nation-states and not on the global legal and political institutions. Today, the process of globalisation is once again stopped at national borders and runs into obstacles they put up to the spreading of international law. What does that conflict mean for liberals?

Among the early liberal theories, especially significant is Kant's teaching on cosmopolitanism. He was aware that peace can be established only if a political framework for the universalization of moral principles he promoted is set up. Truth to tell, you do not have to be Kant to see that something is wrong with the system of nation-states and the world order based on the balance of power, because that system implies that wars are going to be waged for the sake of accomplishing national goals and that there will be threats of using force to maintain that balance of power. This is obviously unacceptable, both from the moral and the political point of view. Also, you do not have to be Kant to see that the solution lies in the rule of law. What excludes wars from the national politics can exclude them from the international politics. The problem is only in the political form of such cosmopolitanism (Beck, 2002).

Kant thought that there can be no single unitary state because he believed, just like many other political philosophers, that great countries are inevitably despotic. That is why he thought that a solution might be found in a confederation of free states. Such a

confederation would provide not only for the states but for the individuals as well. It is obvious, therefore, that the solution should be sought in liberal international cosmopolitanism, something that perhaps the European Union is transforming into.

Of course, this presupposes the rejection of nationalism. The problems that nationalism is going to confront have been thoroughly analysed by Lord Acton. According to him, this is a very dangerous demagogy because it is so hard to rationalize national interests. On the inside, it is practically impossible to identify them, and on the outside they are identified solely in the opposition to the interests of another nation. Nationalism has had particularly dire consequences in Europe, and this is embedded in the very idea of the European Union. The Union nowadays represents not only the basis of stability in Europe and the world, but a source of the new principles of international relations and the role of states.

There is a far-reaching debate going on, juxtaposing three kinds of states: pre-modern, modern and post-modern (Cooper, 2002). The first are more usually called the weak states, the second the national states, and the third the supra-national states. This is somewhat simplified, but no doubt it makes for a solid beginning for a more subtle and detailed analysis of the political and economic globalisation. It has been noticed from the start that the key problem is the relationship between the power and the law.²⁷ It has also been correctly noted that this relationship is of utmost significance for the European Union as well. Francis Fukuyama says:

“Europeans think that the bloody history of the first half of the 20th century is a direct consequence of its reliance on the unchecked national sovereignty. The house they have been building for themselves in the European Union since the 1850s is conceived in such a way that all those sovereignties be built into different levels of rules, norms and regulations in order to ensure they do not get out of control.” (Fukuyama, 2002).

Rationality and selfishness

Liberals and neoliberals have been criticized as ideologues of selfishness, inconsistency, and utmost pragmatism which is frequently equated with individualism and rationalism.

First, the selfishness. Critics of individualism often assume that individuals are more selfish than communities, particularly states. This runs counter to the generally available facts. In democratic states, where individuals are sovereign, the transfers from the rich to the poor are more substantial than in non-democratic states, in which individuals are not sovereign. Moreover, where the states and not the individuals are sovereign (in international relations), the transfers from the rich countries to the poor ones occur at a very limited scale and are frequently not motivated by altruism.

Generally speaking, the opinion of liberals about selfishness does not differ from everybody else's opinion. They start from the fact that all the costs and the benefits are individual after all. People should be free to decide for themselves what they want to

²⁷ The topic of the now already influential article by Robert Kagan (2002).

achieve and at what price. Whether they are going to choose to be selfish or generous, is up to them. This is not even an argument against paternalism (opposed by most liberals anyway) if the decision to act out on somebody's advice or demand is voluntary.

The fact that all the benefits and all the costs are eventually individual is sometimes overseen by those whose costs are borne by others. This analytical fact should be separated from its institutionalization. The system of private ownership most probably ties individual costs and benefits, but it is not perfect. Also, theoretically one could imagine a system of taxation that would not break the rule that everybody has to pay their costs, but this is unfeasible in practice. Hence, certain re-distributions occur that violate individual freedoms. This, however, has nothing to do with selfishness or altruism. It might be said, as Hayek claimed, that the democratic society may decide that a certain level of inequality is unacceptable. This does not have to be abominable for liberals.

Let me say a few words about the objection of rationalism. Sometimes liberalism is criticized for almost always assuming that people are rational. This is not a methodological view embraced by all liberals. Hayek, and those he branded as "true liberals", were not rationalists in that sense. Popper, who might be to a point considered a liberal, was a rationalist in the sense that he thought that that was the assumption about human nature that by far is the least prescriptive of all alternative anthropologies that social sciences may rely on. This is important because critics of rationalism often mention emotions and adherence to traditions, something they consider an example of the non-rational if not irrational component of human nature, a sort of the naturalist or collectivist anthropology versus the rationalist one.

Nevertheless, this is most probably just a misunderstanding. The most frequent scientific version of such concepts is functionalism. However, it is founded on the idea of rationality; not the individual rationality but the natural or collective rationality. Hayek himself thought that individuals are not rational in the sense in which the theory requires them to be, but that markets are (Hayek, 1944). This might be open to debate when deciding on accepting methodological individualism, but this is in no way incompatible with rationalism.

There is nothing irrational in emotional responses. On the contrary, emotion-driven actions are most probably more rational (in the sense of instrumental rationality) than those considered calculated. I think that Hume was right. And although Max Weber distinguished between the traditional and the affective actions and the rational ones, he more than anybody showed that religious thinking, for example, just like all religious behaviour, is rational enough.

Another question is whether methodological individualism ought to be adopted. This question goes together with the one on the acceptability of the theoretical construct of the perfect market. Both these methodological views depend solely on their scientific success. If they can explain the facts relevant for social sciences, then these methodological postulates are acceptable. If they are not corroborated by facts, they lose all the meaning. This is not ideology but methodology.

And finally, liberalism is criticized as being pragmatic in the bad sense of the word i.e. that it is duplicitous and Machiavellian. Machiavelli's influence on liberalism – as

well as on political thought in general – has been huge and manifold. He has left his mark on liberalism in two ways. Firstly, as Hume pointed out, Machiavelli thought that politics may be an object of scientific scrutiny. Secondly, as Isaiah Berlin pointed out, Machiavelli showed, often using drastic examples, that choices are inevitable and that there are no free-of-charge goals.

Machiavelli influenced non-liberal political doctrines and even politicians as a prophet or a guru. There are many politicians or would-be politicians who still do not let go of their copy of *The Prince*, from time to time reading some of his insights for advice or guidance. This is what is usually understood by Machiavellianism and what liberals have been persistently writing against.

Conclusion

Liberty and globalisation do not necessarily provide the best solutions without proper legal foundations, and it is difficult to legally lay them without a democratic procedure of decision-making. Since an international legal system and international democracy will likely not happen in the near future, the choices facing the developed and undeveloped countries are not easy at all. Although liberalization is undoubtedly the only path to freedom, some of the neoliberal ideas have not proved appropriate and feasible. This is not the reason, however, to reject liberalism. On the contrary, this is the reason to continue efforts to bring down the walls dividing people and peoples. Although today pessimism is more justified than it was immediately after the collapse of the Berlin wall.

References

- Alesina, A./ Rodrik, D., 1994: Distributive Politics and Economic Growth, *Quarterly Journal of Economics*, May
- Beck, U., 2002: The Silence of Worlds and Political Dynamics in the World Risk Society, *Logos*, (1) 3
- Buchanan, J./ Tullock, R., 1961: *Calculus of Consent*, University of Michigan Press, Ann Arbor
- Buchanan, J., 1975: *The Limits of Liberty*, The University of Chicago Press, Chicago
- Cooper, R. 2002: The Post-Modern State, <http://fpc.org.uk/hotnews/writes>
- Edison, H.J./ Klein, M.W./ Ricci, L./ Sloek, T., 2002: *Capital Account Liberalization and Economic Performance: Survey and Synthesis*, NBER Working Paper 9100, August
- Einhorn, J., 2001: The World Bank's Mission Creep, *Foreign Affairs*, September-October
- Fisher, S., 2001: *The International Financial System: Crises and Reform*, The Robbins Lectures, October
- Fukuyama, F., 2002: Article in *International Herald Tribune*, August 8
- Gligorov, V., 1985: *Politička vrednovanja*, Beograd
- Gligorov, V. 1996: The Great Transformation Revisited, *Balkan Forum*

- Gligorov, V./ Sundstrom N., 1998: Death of Capital Markets in Russia, *WIIW Monthly Report*, July-August
- Gligorov, V., 2002: State in the Balkans, in: Gligorov, V. (ed.), *Balkan Reconstruction*, WIIW, Vienna
- Hayek, F.v., 1944: *Individualism and Economic Order*, London
- Kagan, R., 2002: Power and Weakness, *Policy Review*, June-July
- Kaplow, L./ Shavell, S., 2002: Economic Analysis of Law, in: Auerbach, A.J./ Feldstein, M. (ed.), *Handbook of Public Economics*, Vol. 3, North-Holland/Elsevier, Oxford
- Polanyi, K., 1944: *The Great Transformation*, Rinehart and Co., New York
- Posner, R., 1981: *The Economics of Justice*, Harvard University Press, Harvard
- Posner, R., 1999: *The Problematics of Moral and Legal Theory*, Harvard University Press, Harvard
- Rawls, J., 1998: *The Law of Peoples*, Harvard University Press, Harvard
- Rawls, J., 2000: *Justice as Fairness: A Restatement*, Harvard University Press, 2000.
- Rodrik, D., 2002a: After Neoliberalism, What?, June, <http://ksghome.harvard.edu/~drodrik.academic.ksg/shortpieces.html>
- Rodrik, D., 2002b: *Feasible Globalizations*, July, <http://ksghome.harvard.edu/~drodrik.academic.ksg/shortpieces.html>
- Sen, A., 2001: Ten Theses on Globalization, *NPQ*, Fall
- Sraffa, P., 1961: *Production of Commodities by Means of Commodities*, Cambridge University Press, Cambridge
- Hammond, Peter, 1995: Walrasian Equilibrium without Survival: Existence, Efficiency, and Remedial Policy, in: Bas, K./ Pattanaik, P.K./ Suzumura, K. (ed.), *Development, Welfare and Ethics: A Festschrift for Amartya Sen*, Oxford University Press, Oxford
- Nozick, R., 1997: *Socratic Puzzles*, Harvard University Press, Harvard
- Williamson, J., 1990: What Washington Means by Policy Reform, in: Williamson J. (ed.), *Latin American Adjustment: How Much Has Happened?*, Institute for International Economics, Washington