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What We Talk about When We Talk about Globalization

Happy are those . . . who have, by their own methods, arrived at clear and unshakeable convictions about what to do and what to be that brook no possible doubt. I can only say that those who rest on such comfortable beds of dogma are victims of forms of self-induced myopia, blinkers that may make for contentment, but not for understanding of what it is to be human.

—Isaiah Berlin, "The Pursuit of the Ideal" (1988) in *The Crooked Timber of Humanity* (2013).

Images of despair from the Great Depression in the early 1930s are etched in the American consciousness: shantytowns, farmlands turned into dust bowls, beggars and apple sellers on city streets, vagrants drifting through back roads, and families gathered around the living room radio to listen to a president's reassuring voice. "Remember my forgotten man" went the mournful anthem of a popular 1933 movie, lamenting the desperate plight of jobless doughboys a dozen years after World War I. "You put a rifle in his hand/You sent him far away/You shouted 'Hip-hooray'!/But look at him today."

By contrast, the much fresher pictures and videos of the global financial crisis and Great Recession that began three-quarters of a century later, in 2008, conjure up shattered complacency and black humor over what was supposed to have been permanent if uneven prosperity. The modern depictions of economic distress are padlocked suburban shopping malls and foreclosed homes, shuttered factories and businesses, long lines at job fairs, crumbling working-class neighborhoods in bankrupt cities, sober-suited men and women lugging boxes of belongings from Wall Street offices, and corporate executives on the defensive at congressional committee hearings, where they explain how it all happened. "Robin Hood was right," read one sign at the 2011 Occupy Wall Street protest in Zuccotti Park in lower Manhattan. "If only the war on poverty was a real war, then we would actually be putting money into it," said another.

The images and slogans from both of these turbulent eras have one thing in common: they inspire moral indignation, feelings of betrayal, and a pervasive sense that the misery resulted from failings that were not just economic but ethical in nature. From the improvised tent cities of Occupy Wall Street to the rallies and talk radio and cable television rants by the Tea Party, people caught up in the latest crisis and downturn have focused their criticism not simply on the perpetrators but also on the steps taken by government to alleviate it or rescue those caught up in its tentacles. Critics on the right, the left, and in between all seem to acknowledge that somehow the global economic system, which has become increasingly integrated over the last few decades, is at the root of the suffering. These critics suggest that the system itself has yielded a morally defective and unfair universe in which businesses, workers, consumers, policymakers, international financial institutions, and multinational corporations are all to blame.

But if moral outrage has intensified, it is also, as this book argues, often unfocused and even confused. On the one hand, the system of market economics, which governs most of the world in the era of globalization, has brought the competing interests of labor, capital, business, and countries together into a convergence that has elevated the living standards of hundreds of millions, if not billions, of people worldwide, including some of the world's poorest citizens. On the other hand, globalization has left large numbers of people behind in many countries, particularly advanced countries in the West, and produced disastrous shocks that have thrown millions out of work and vaporized trillions of dollars in assets and savings. The surge of emotions about immigration in the United States, an early debating point among candidates for president, and the flood of refugees and asylum seekers in Europe in 2015 have also driven home the perils and opportunities of globalization.

This book maintains that there is a moral case to be made for globalization. But that case must be based on a greater understanding of how moral imperatives as well as economic interests contend, converge and conflict with each other.

Humans are moral creatures. The impulse to assign moral values to the marketplace is as old as the impulse to assign such values to war and politics. Indeed from ancient times to the present, economists, historians, philosophers, political scientists, and other writers often debate economics in moral terms, whether the subject is the treatment of the poor, the obligations of buyers and sellers or the just distribution of rewards and costs in everyday life. It has long been tempting as well to think about economic forces as representing absolutist moral principles, such as freedom, justice, virtuous behavior, and patriotism. This book argues that such absolutist approaches are unrealistic. What people talk about when they talk about globalization may be centered on moral principles, but a doctrinaire pursuit of such principles in isolation of competing values has an unfortunate and even tragic record historically. In the last 150 years, the "comfortable beds of dogma," as the political philosopher Isaiah Berlin calls them, have led to hatred, persecution, totalitarianism, and war.[1]

The dangers of dogma aside, globalization seems to have brought on a global political movement for a new type of ethically charged economics. Some call it inclusive capitalism; others call it inclusive prosperity. Whatever the label, the goal would seem to be a system in which opportunities are more equal, the distribution of rewards is fairer to those buffeted or left behind, and the preservation of communities and national sovereignty is more respected.

Three types of moral conflicts, or tradeoffs, lie in the universe of any set of economic issues: (1) the conflicts between liberty and justice in society and the marketplace; (2) the conflicts between the need to sustain virtuous behavior and trust (by governments, individuals, and banks) and the need to recognize the realities of the modern global economy; and (3) the conflicts between ensuring economic justice for one's own community and ensuring it for others in the world at large, especially the world's poorest citizens. These three tradeoffs form the basis of this study.

This book ranges over history, philosophy, politics, economics, and social science, with an objective of applying understandable moral principles to the complexities and, for many, the mysteries of the modern global economy. There is no easy way to bring these disciplines together, except by recognizing one fundamental conclusion: the only moral outcome in a conflict of moral principles is compromise—that is, a tradeoff, or what this book refers to collectively as The Great Tradeoff. The purpose of this book is to deepen readers' understanding of *morality in the modern economic world*. Its premise is that only after such recognition can policies be devised that open the doors of opportunity and prosperity while avoiding the trapdoors of blinkered and absolutist thinking. A greater understanding of the moral issues at stake and how they connect with economic imperatives can make the goal of morally based globalization more reachable.

What Is Globalization?

The word *globalization* sprang into common usage in the early 1990s. Its popularity as a term grew in the wake of the collapse of communism and the rapid spread of market capitalism that many saw as a harbinger of a new epoch of prosperity and world harmony. As a catchword used in books and newspapers and favored by market theorists and protesters alike, globalization refers generally to the growing interdependence of the world economy, the cross-fertilization of the world's many cultures, and of course the expansion of cross-border flows in trade, investments, capital, technology, knowledge, culture, and people (immigrants). Although globalization and the ease of cross-border commerce and population shifts have been blamed for the proliferation of terrorism, disease, crime, human trafficking, environmental degradation, loss of biodiversity, and invasions of personal privacy, this study focuses strictly on the economic aspects of worldwide interaction, speeded by the growth of technology and the expanding acceptance of liberalized markets for goods and capital.

The expansion of economic activity throughout the world is not new. Globalization has been under way since the first humans migrated from East Africa some 60,000 years ago. Over subsequent millennia they searched for hospitable places to settle, produce, and exchange goods in places such as Mesopotamia and the Indus, Yangtze, and Yellow River valleys. Each new phase of globalization has been accelerated by important breakthroughs such as the domestication of the horse and the camel, advances in river craft, ocean sailing, the steam engine, telegraph, air travel, and most recently the astonishing leap in information technology. Each new technology has also been disruptive, subversive, or revolutionary. Indeed, in his history of globalization, *Bound Together*, Nayan Chanda draws an analogy between the spread of trade and commerce in antiquity and the transmission of the religions and ethical systems espoused by Buddhism, Judaism, Christianity, and Islam, all embracing some tenets that challenged the established political order.[2]

From antiquity to about 1500, the world straggled along with negligible economic growth, little technological innovation, scant capital resources, and some but not a lot of geographic interaction. War, famine, disease, and the seizure of property by warlords and church and political figures were the norm. With the late Renaissance (1520–1600) and the Enlightenment (1650s to 1780s) came the glimmerings of commercial revolution, business innovation, science, greater education—and higher economic growth, driven by mercantilism. What is generally recognized as the first modern era of globalization was facilitated by a technology revolution—rail, steamship, telegraph—and an explosion of international trade, investment, and immigration. But that epoch of the Industrial Revolution and its Gilded Age complacency crashed in the outbreak of World War I with its massive debts and death. The period 1914–80 (labeled "the short 20th century" by the economist Brad DeLong) was disrupted by World War II, but then that war led to a remarkable recovery, the new rules and norms governing the global economic system established at Bretton Woods, and a series of progressive social welfare steps in many countries.[3]

The most recent phase of globalization began in the late 1970s and early 1980s, a time of growing belief in market economics and conservative economic philosophies. It was symbolized by the election of Ronald Reagan to the presidency in the United States, the rise of Prime Minister Margaret Thatcher in Britain, and the ascendency of Deng Xiaoping to the leadership in China. This period, hastened by the fall of communism in the Soviet Union and Eastern Europe a decade later, saw the adoption of policies that encouraged the expansion of markets, business, and wealth, particularly in poorer countries that followed China's lead in moving away from state-directed economies. Not only did world trade and investment grow at an even faster rate as free markets, rather than the state, were granted control of the "commanding heights" of economies across the globe,[4] but also a new ideological era was introduced, equating these forces with the cause of liberty and freedom. "Communism collapsed, and the mixed economy failed," said Lee Kuan Yew, the founder of modern Singapore. "What else is there?"[5]

The economic results have been impressive. From 1990 to the middle of the first decade of the 21st century, world exports as a percentage of global GDP rose from 19.2 percent to nearly 30 percent (figure 9.2 in chapter 9). US exports as a share of US GDP rose to 9 percent in 2010 (from 4 percent in 1960), and total trade exceeded 20 percent of the US national economy as of 2013 (figure 9.1 in chapter 9). Since the liberalized trade agreements of the

1990s and 2000s, exports and imports have generated more than 38 million US jobs, or one out of five US jobs, according to the Business Roundtable.[6] Annual world merchandise trade has reached $18 trillion,[7] and international capital investments amount to more than $4 trillion a year.[8] From 1990 to 2012, the cumulative amount of foreign direct investment in the world grew more than tenfold, from $1.8 trillion to $23 trillion.[9] As a partial result of this activity, standards of living have risen across the globe and more of the world's citizens have been lifted out of poverty than at any comparable time in history. "We have never seen this kind of rapid and sustained development across so many countries," Jim Yong Kim, president of the World Bank Group, has declared. "We can fairly say that the concept of a development decade that eluded us for 50 years was finally achieved.[10]

The Backlash

It is not as if the growth in economic activity has been without criticism and misgivings. There is nothing new in that. The pursuit of material gain through business or commercial activities has long been denigrated in Western literature, going back to the ancient Greeks. Religious figures, moreover, have leveled a moral critique of money lending and money making that is symbolized well by the story of Jesus chasing the traders and money changers from the temple, Jesus' own declaration in the Beatitudes (Matthew 5:3,5) "blessed are the poor in spirit: for theirs is the kingdom of heaven," and the first epistle of Paul to Timothy, "for the love of money is the root of all evil." The prohibition of usury, or *riba*, has been powerfully fixed in Muslim societies since the Koran was revealed to Mohammed in the 7th century, on the grounds that charging interest is corrupting, unjust, and destructive—although the ban has often been circumvented.[11]

But the economic trends of the past decades have produced an unusual backlash, or at least ambivalence, accelerated by the global economic crisis that began in 2007–08. This hostile or questioning response has raised issues of justice and equity as well as liberty and freedom, discussed in this book.

Americans seem to like worldwide economic integration in theory more than in practice, for example. The Pew Research Center, a respected polling organization, found in 2013 that although the US public had grown tired of their country trying to solve world problems, "support for closer trade and business ties with other nations stands at its highest point in more than a decade." Fully 77 percent believed that such growing trade and business ties with other countries were either very good (23 percent) or somewhat good (54 percent). But the public debate reflects deeper anxieties about, among other things, corporations transferring their investments to locations where labor is cheaper and taxes and regulations are lighter. Wariness of "offshoring" by US companies extends to trade deals such as the North American Free Trade Agreement (NAFTA) and more recently to the prospect of a Trans-Pacific Partnership (TPP) trade deal between the United States and 11 countries in

Asia and the Western Hemisphere.[12] In 2010 another poll found that 69 percent of Americans felt that trade agreements such as NAFTA had cost American jobs.[13]

To be sure, much of the antiglobalization movement overseas is simply anti–United States, anti-West, or anti–multinational corporation. Many people around the world see globalization as an American project, while in the United States many see it as symbolized by Chinese, Japanese, or European acquisition of American companies. The generalized backlash against globalization has also taken on added impetus because of the speed of modern communications, degradation of the environment, global warming, and the visible spread of disease and other phenomena associated with an integrated world economy.

The heightened concern of recent vintage has focused on whether globalization, along with labor-saving technology innovations, has helped suppress the incomes of low-skilled middle-class workers in rich countries and widened the perception of a gulf between the superrich and multinational corporations on the one hand, and everyone else on the other. It would be hard to deny the evidence of the destruction of American jobs, for example—a trend that has contributed to inequality and wage stagnation in rich countries. But critics of globalization go further, charging that it has exploited workers in Asia, weakened environmental and food safety protections in the United States and its trading partners, and permitted megacorporations to reap record profits (10 percent of the US domestic economy in 2014) at the expense of consumers and workers. Hundreds if not thousands of nongovernmental organizations have rallied around the cause of turning back the growing interdependence of the world economy. One of them, the International Forum on Globalization, puts it this way in an all-inclusive indictment that is part of its mission statement: "All over the world, evidence points to the failure of globalization and the so-called 'free trade' policies of the last decade—loss of jobs and livelihoods, displacement of indigenous peoples, massive immigration, rapid environmental devastation and loss of biodiversity, increases in poverty and hunger, and many additional negative effects."[14]

Concerns about the malign effects of the global economy reached an initial peak at the World Trade Organization's Ministerial Conference held in late 1999 in Seattle, where tens of thousands of demonstrators descended on the conferees meeting at the Washington State Convention and Trade Center, overwhelming the police. Demonstrators chained themselves together and blocked intersections, demanding better treatment for the people they asserted had lost their jobs or had seen their environment ravaged by trade. President Bill Clinton sought to empathize with the dissidents, telling the conference that most of them had legitimate grievances. He later recalled that even though the process of globalization could not be reversed, he realized that the protests would impede the work of governments "until we addressed the concerns of those who felt left out and left behind."[15]

For much of the first decade of the 21st century, following the protests of the 1990s, a certain complacency settled in and surrounded the idea of globalization, especially among leadership elites. It was previously widely accepted among economists and political leaders, for example, that the interdependent global economy could stabilize political conflicts and cushion the blow when a traumatic meltdown in one part of the world affected citizens far away. That self-satisfaction was blasted away by the crisis that began in 2007–08, which demonstrated that the world economy had become so interdependent that its vulnerabilities to economic shocks were in fact magnified, with the result that blameless victims around the world were devastated when the crash occurred.

Within Europe since 2010, complacency was heightened by arrogance. European leaders, who initially blamed the financial practices of the United States on the crisis in 2008, became engulfed in their own similar problems of state sector spending without regard to the ability to pay for it and lax regulatory practices two years later. Just as Americans rebelled against programs that rescued banks, the citizens of Portugal, Spain, Italy, and especially Greece expressed outrage over diminished services and safety net programs, imposed in the view of many by the lords of finance in Germany and northern Europe. Europe's moral indignation was thus aggravated by nationalist fervor and resentment.

Even before President Barack Obama's embrace of liberalized trade and investment agreements in his second term, the critics saw markets not as liberating but as a new tyranny, imposing discipline, austerity, and weaker protections for the poor and helping to spread terrorism and cyberwarfare.[16] Anger has especially been directed at the organizations that help support globalization—the World Bank, International Monetary Fund (IMF), and World Trade Organization (WTO). Their rules, critics claim, are trampling on local laws and prerogatives.

Following the global financial crisis, the criticism of capitalism and free markets became especially acute among religious figures. Pope Benedict XVI's 2009 encyclical, *Caritas in Veritate* (Charity in Truth), declared that both had their place, but that they had also led to greed, selfishness, "wasteful and consumerist" luxuries, and "dehumanizing deprivations" of the poor.[17] He added, "The economy needs ethics in order to function correctly—not any ethics whatsoever, but an ethics which is people-centered."[18] His successor, Pope Francis, has been an even more acerbic critic of the global economic system and capitalism in general. His 2015 encyclical on climate change, *Laudato Si'* (Praise Be to You), excoriated greed and free markets as sources of the global environmental crisis. "We need to reject a magical conception of the market, which would suggest that problems can be solved simply by an increase in the profits of companies or individuals," he declared.[19] He went so far as to criticize the mobilization of market economics to cap greenhouse gases and trade them for credit, declaring that such a system—which is supported by many environmental advocates—is "a quick and easy solution under the guise of a certain commitment to the environment."[20] In another speech, Pope Francis referred to the "unfettered pursuit of money" as "the dung of the devil." [21] But speaking to the US Congress in September 2015, he tempered his denunciation of capitalism, saying that "business is a noble vocation" that nonetheless must serve "the common good." A line in his prepared text saying that politics "cannot be a slave to the economy and finance" was omitted from his actual address.[22]

Francis's call in *Laudato Si'* for "wealth redistribution," opposition to corporations outsourcing production to places where they are less regulated and taxed, and denunciation of "downsizing of social security systems" and weakening of rights of workers has been especially striking.[23] But Catholics are hardly the only religious leaders to speak this way about the modern global economy. In a 2009 speech, Rowan Williams, the former Archbishop of Canterbury, deplored the exaltation of the marketplace above other values, which he said was creating "a ruinous legacy for heavily indebted countries, large-scale and costly social disruption even in developed economies; and, most recently, the extraordinary phenomena of a financial trading world in which the marketing of toxic debt became the driver of money-making—until the bluffs were all called at the same time."[24]

What Is the Great Tradeoff?

An axiom of modern economics is that individuals, organizations, governments, and indeed societies must confront material tradeoffs—that is, to choose some things, they must give up other things, and every benefit or gain comes with some kind of cost. These tradeoffs can sometimes be measured and sometimes not. Two famous generalized *economic* tradeoffs are "You can't have your cake and eat it too" and "There is no free lunch." To assess tradeoffs, economists apply metrics and formulas to the empirical observations of gains, losses, and efficiencies that flow from the alternatives posed in ordinary life, such as whether to save or to spend, whether to work or to play, whether to combat inflation or to fight unemployment, whether to devote public resources to national security or to support the social safety net (better known as the guns versus butter debate). In the economic analysis of free market systems, tradeoffs may cause some people to win and some to lose, but in the end market economics is justified as the system that most efficiently delivers goods and services to those who want and need them, spreading wealth to communities and nations.

Yet, however efficient the system is at delivering economic benefits, it has its shortcomings, arising from what economists call "externalities" such as pollution and the inability of the marketplace to adequately deliver public benefits such as schools, law and order, and infrastructure (roads, ports, and highways, among other things).[25] Mere use of the term *externality* to describe what non-economists might regard as moral shortcomings (such as harming the planet and the human race through pollution or global warming) suggests a certain discomfort in the field of economics with the notion of morality. But surely the economic consensus of most of those who support free markets includes the need for regulation to curb abuses and ensure transparency, competition, and a level playing field. With its welter of federal agencies, for example. the United States is hardly an unregulated economy. "The market needs a place," the economist Arthur Okun argued in the 1970s, "and the market needs to be kept in place."[26]

Moral tradeoffs are obviously more difficult to quantify than economic tradeoffs. More important, they cannot be isolated or understood apart from the messy, complex, and ambiguous realities of history, human behavior, politics, culture, and faith. Compromises and solutions must derive from politics and political institutions and leaders, however imperfect they may be, because absolute moral principles, when expanded or extrapolated, invariably come into conflict. Choices must be determined by experience, history, and the implications of what might be true in one context but not in another.

Economics and moral philosophy have gone hand in hand at least since the days of Adam Smith, the 18th-century founding father of modern free-market economics. Smith, in fact, taught moral philosophy, not economics (which did not exist as a discipline), at the University of Glasgow. In *The Theory of Moral Sentiments* (1759), he wrote of the conflicting ethical impulses of personal strength of will, "dignity and honour," on the one hand, and "indulgent humanity," on the other—his own version of the conflict between justice and mercy.[27] In the 1920s, John Maynard Keynes, already famous for his warnings about the harsh economic penalties imposed on Germany after World War I, asserted that the goal of any society is to balance economic efficiency against two moral values—social justice and individual liberty.[28] Okun, a leading proponent of the "mixed economy" of government and private sector who served as the chief economic adviser to President Lyndon Johnson during the Great Society, captured the tradeoff differently. In his book *Equality and Efficiency: The Big Tradeoff* (1975), he asserted that it was between economic efficiency (and the economic growth that would come with it) and the moral goal of achieving social and economic *equality*.[29] (The title of this book is an homage of sorts to Okun's formulation.)

According to Okun, there is no easy way to resolve the tradeoff between economic efficiency and economic equality. Programs intended to bring about social justice, for example, come at a cost. That cost, Okun asserted, comes in the form of slower economic growth when some of those receiving assistance work less than they might otherwise, or when waste results from government aid programs. He evoked the image of a "leaky bucket" in which some of the money transferred from the rich to the poor "will simply disappear in transit."[30] The leaky bucket idea of inefficiency in government programs has had staying power and is endorsed by economists of varying political persuasions, even many of those who favor government intervention to assist the needy. On the other hand, a staff paper by the International Monetary Fund (IMF) in 2014 argued that for poor countries, at least, programs aimed at redistributing wealth are "generally benign" in terms of their impact on economic growth and that "only in extreme cases" do such programs harm growth. "We should be careful not to assume that there is a big tradeoff between redistribution and growth," the staff concluded. "The best available macroeconomic data do not support that conclusion." Indeed, the staff pointed out that some government intervention, such as taxes to prevent risk taking in the financial sector and programs to encourage education of young people, can actually encourage economic growth.[31]

The sections that follow describe in more detail the moral conflicts, encompassed by The Great Tradeoff, studied in this book.

Liberty versus Justice

The principles of liberty and justice spring from Western tradition and the Enlightenment. Freedom of movement of goods, services, capital, people, and technology is rooted in both ancient mythology and modern political theory. In the words of Milton Friedman, one of the most influential modern proponents of the virtues of capitalism, "I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity."[32] Justice, in the sense of reward for good behavior or punishment for bad behavior, has also been an issue since antiquity, in scripture and Greek philosophy, although the notion of a just distribution of economic benefits in a society is of much more recent vintage.

In the modern era of globalization, freedom of choice enables consumers to buy goods made in other countries at lower cost and enables investors to channel funds anywhere they believe will yield a return. But since at least the 18th century, a countervailing principle has been the imposition of social and economic justice to tame the excesses and unequal consequences of freedom. Whether the same dynamism that has encouraged economic growth throughout the world has also contributed to increased economic inequality between countries and within countries—and has been driven deeper by the global economic crisis—is the subject of reams of books over the last several years from widely read authors such as Joseph Stiglitz, Jeffrey Sachs, and Thomas Piketty on the left.

Liberty and *justice*, which are loaded terms in an economic context, mean different things to different people. Liberty can refer to freedom from external constraints by government, or it can refer to government intervention to ensure that all individuals have the ability to mobilize their own resources and gifts to fulfill their individual potential, possibly with the intervention of government. In recent years, the goal of economic justice has been equated in American political discourse with the concern over reducing economic inequality. But is economic justice in fact achieved by increasing economic equality? Or is it achieved when those at the bottom gain a greater standard of living for themselves, even if inequality increases in some countries along with these gains? To explain further, in his work *A Theory of Justice* (1971) the eminent Harvard philosopher John Rawls said a just social order must embody economic justice and economic liberty.[33] But Rawls is most famous for the principle holding that the first priority of any society is to devise a distribution acceptable only if the worst-off members of that society are helped, not hurt. What happens, however, if the worst-off members of a society are helped, but those at the higher end of the ladder are helped even more, widening the economic gulf overall?

Instilling Virtue versus Recognizing the Realities of the Modern Global Economy

In the era of globalization, does capitalism require virtuous behavior by countries, corporations, and individuals—or does it undermine such conduct? Since the dawn of modern capitalism, part of the system's legitimacy has rested on the widespread view that it encourages self-discipline, trust, hard work, saving, self-improvement, ingenuity, and delayed gratification (while discouraging laziness and recklessness). The Founders of the United States were determined to create laws and charters that would encourage upstanding habits and conduct. "To suppose that any form of government will secure liberty or happiness without any virtue in the people is a chimerical idea," wrote James Madison at the Virginia Ratifying Convention in 1788.[34] From this idea has come the belief that any government must ensure that economic incentives encourage virtuous behavior among citizens.

That idea was challenged—among those on both the left and the right—by the actions taken during the recent financial crisis to bail out banks, financial institutions, homeowners, and governments. Indeed, these rescues were widely seen as excusing and even encouraging recklessness, corruption, and heedless greed—the very shortcomings that caused the crisis in the first place. Economists define this problem as "moral hazard." A furor similar to that arising from the recent rescues occurred in the late 1990s when the IMF, supported by the United States, went to the rescue of the East Asian countries in trouble. The IMF's actions were doubly unpopular, both among those who opposed the bailouts and among the countries themselves, which were resentful of the harsh measures they had to endure as the price for rescue.

The belief that government should not undermine incentives toward virtue has extended to tax policies, to the welfare state, and to charity for the "undeserving" or to those at risk of becoming dependent on outside aid. Even President Franklin Roosevelt opposed the "dole." The 2012 presidential election campaign between Democrat Barack Obama and Republican Mitt Romney exploded over Romney's assertion that nearly half of the US population did not pay federal income taxes and, depending on government for transfer payments, had lost the willingness to take responsibility for their own lives. The other side of the argument is that government must help, if not as a matter of charity or justice then as a matter of preserving stability and avoiding unrest.

All this said, is it moral to invoke the risk of contagion and rescue the financial institutions that behaved irresponsibly by borrowing heavily and packaging dubious housing loans to unsuspecting customers? Is it moral to do the same for errant governments, businesses, and homeowners who take on too much debt? Or is it immoral to invoke moral hazard and bring down a system to the harm of countless innocents? Again the danger is in following moral absolutes to disastrous ends. This book concludes that just as justice is tempered with mercy, moral hazard must be tempered by whether innocents are harmed in the process.

Loyalty to Community versus Loyalty to the World

The tradeoff between doing what is best for one's own country or community and the demands of the world as a whole is debated by economists and philosophers in terms of "communitarian" versus "cosmopolitan" loyalty. The dilemma is choosing between protecting the welfare of one's own community or country from unwanted immigrants, foreign-made goods, and the loss of investments to locations or tax havens overseas, or seeking a system of trade, capital flows, and immigration that produces the greatest prosperity for all, and particularly benefits the poorest individuals and countries in the world. Loyalty can be expressed in different ways: the French Revolution, after all, enshrined *fraternité* as equivalent to *liberté* and *égalité*.

The morally unassailable economic goals for any society, and indeed for the world as a whole, should be to provide the greatest good for the greatest number while doing the most for those most in need. The modern global economy has delivered an unprecedented level of economic gains and improvements in living standards for vast numbers of once-destitute people, especially in Asia and more recently in Africa. But these gains have not been so helpful to the working class in the United States and Europe. There, globalization has lowered middle- and lower-income wages, leading to a decline in median household incomes, even as the wealthiest and those deriving income from their investments have done exceptionally well in terms of both income and possessions.

Support for free trade and liberalized investment has eroded in advanced countries over the last few decades because of this dilemma. The 1993 debate over the North American Free Trade Agreement (NAFTA) among Canada, Mexico, and the United States accelerated that trend, which is invoked by opponents of pending trade agreements between the United States and its partners in Europe and Asia. To whom should Americans be loyal? This question is even more difficult to answer because trade and investment are increasingly taking place between and among corporations rather than countries. Indeed 80 percent of all transfers of goods and services across borders is undertaken by multinational corporations through their affiliates or networks of providers,[35] blurring the distinction between "us" and "them" in global commerce. "We no longer simply trade what we make for what we do not make but need," wrote Stephen Carmel, a senior executive at Maersk Line, Ltd., the giant Danish container ship concern. "We now trade in order to get what we need *to make what we make*." He also noted that more than 50 percent of containerized trade is in components of goods rather than goods themselves.[36] A plane or automobile may be labeled as "Made in America," but it often contains parts made in many other countries. The iPod, for example, has 451 different parts produced in companies, factories, and assembly operations spread throughout Japan, China, the Philippines, and other places in Asia, although most of the value added is by Apple in the United States.[37] Americans who embrace the moral obligation to "Buy American" find it increasingly hard to do so. Similar conflicts arise over the obligations of the biggest US corporations—should they be "loyal" to their workers, their investors, their home countries, or their customers, whether in the United States or in distant countries?

The "communitarian" school of thought holds that one's obligation to one's own community has a high moral standing equal to the primacy of helping the poor, especially in other communities. Cosmopolitan moral judgment requires that one's obligation to others around the world be equal to the loyalty one feels toward one's neighbors or compatriots. In reality, citizens are always pulled in opposite directions and find it difficult to reconcile these two demands.

An important aspect of these conflicts is that it is difficult to go from judgment to implementation and solutions. The political scientist Ethan Kapstein has written, "One of the great weaknesses in the application of moral philosophy to international politics is that it has almost exclusively been exploited by scholars as a normative tool for asserting what some imagined world *should* look like, as opposed to a methodology for helping us to understand the world as it *is*."[38] This book does not seek to lay out practical solutions, except to invoke another kind of "cosmopolitan" loyalty in the form of the legitimacy and authority of international organizations. What Kapstein and others call "liberal internationalism" applies to the post–World War II order of the United Nations and global diplomacy and the supranational political and financial institutions that represent attempts at global economic governance. These institutions, through which the modern rules of globalization must be negotiated, include the World Bank, IMF, World Trade Organization (WTO), and similar, lower-level organizations structured to stabilize the international system. Flawed as many of these organizations are, their goals are to try to avoid another round of ruinous economic "beggar thy neighbor" warfare, elevate the values of economic freedom and openness, and introduce new rules, norms, and buffers to achieve economic justice. Yet the irony is that these same institutions are depicted by antiglobalization critics as agents of the rich and powerful.

However flawed, the international system of free markets needs these institutions because, with the end of the Cold War especially, governments around the world have come to see the management of their economies as their most important function, alongside the obligation to provide security.[39] The work of these agencies is supplemented by nongovernmental organizations (NGOs) that seek to elucidate and elevate the research necessary to make the worldwide market system work. NGOs are also an important counterweight to the role of multinational corporations on the global stage.

Moral Absolutes and Pragmatism

The attraction of moral absolutes has been prevalent at least since antiquity. Tales of heroism, national purpose, and war can hardly exist without that attraction. But in the real world, justice is often tempered by liberty, punishment is moderated by mercy, and discipline is offset by compassion. Utilitarianism (the greatest good for the greatest number) runs up against the rights of the minority. Liberty conflicts with security and stability. Tolerance is balanced with the need for social order. Action is weighed against reflection. Honesty and truth telling are mitigated by sympathy and benevolence. Resisting tyranny at all costs is balanced against sparing the lives of the innocent, particularly children. The psychologist Joshua Greene speaks of "the two moralities" of head and heart that he labels "abstract" and "sympathetic."[40] He applies the label "metamorality" to the balancing of moral imperatives. Other writers have used other terms.

The shadowy world of ambiguous choices is inhabited by civilization's greatest writers and thinkers. The poet John Keats employed the term *negative capability* to describe the rare but vital ability to accept the world's complexities and contradictions and to reject forced and permanent theories or categories—"when a man is capable of being in uncertainties, mysteries, doubts, without any irritable reaching after fact and reason."[41] F. Scott Fitzgerald's formulation of this capacity is also well known: "The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function. One should, for example, be able to see that things are hopeless and yet be determined to make them otherwise."[42] David Herbert Donald, historian and biographer of Abraham Lincoln, associated this "negative capability" with the 16th president, who ended slavery but violated civil liberties, made crass political deals, and tolerated scorched earth warfare to achieve his goals.[43] Isaiah Berlin has written in the same vein: "The notion of the perfect whole, the ultimate solution, in which all good things coexist, seems to me to be not merely unattainable—that is, a truism—but conceptually incoherent. We are doomed to choose, and every choice may entail an irreparable loss."[44]

Reconciling the conflict between hard realities and moral absolutes gave birth in the late 19th century to the American philosophical tradition of pragmatism, described by the literary historian Louis Menand as "an effort to unhitch human beings from what pragmatists regard as a useless structure of bad abstractions of thought."[45] The term *pragmatism* was introduced by the philosopher William James, and its approach was adopted by leading lights and thinkers of the era such as Charles Sanders Pierce, John Dewey, and US jurist Oliver Wendell Holmes Jr.

Pragmatism holds that "the ultimate test for us of what a truth means is indeed the conduct it dictates or inspires," in James's words.[46] Or as he subsequently rephrased it, "A pragmatist turns his back resolutely and once for all upon a lot of inveterate habits dear to professional philosophers. He turns away from abstraction and insufficiency, from verbal solutions, from bad *a priori* reasons, from fixed principles, closed systems, and pretended absolutes and origins. He turns towards concreteness and adequacy, towards facts, towards action, and towards power."[47]

In the 20th century, pragmatism went into something of an eclipse for intellectuals—they turned to other schools of thought such as Marxism, psychoanalysis, and existentialism—but it has undergone a revival in recent decades with a new generation of writers. In that spirit, this book is guided by the principles enunciated by Holmes, an intimate of James though he did not call himself a pragmatist. In 1886 Holmes told an audience at Harvard Law School, "to make a general principle worth anything, you must give it a body. You must show in what way and how far it would be applied actually in a system. . . . Finally, you must show historic relations to other principles, often of very different date and origin."[48]

If there is a moral case for globalization, as stated at the outset of this chapter, it must be rooted in a spirit of pragmatism. Thus to explore the Great Tradeoff, one must proceed in the pragmatic spirit of Holmes, with an examination of the origins, evolution, and context of what has been meant historically and economically by liberty, justice, virtue, and loyalty.