



Economic Justice in an Unfair World: Toward a Level Playing Field

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Introduction

JOEL ROSENTHAL: Good afternoon and welcome to the Carnegie Council. I'm Joel Rosenthal.

[George Kennan](#) once famously said of [Reinhold Niebuhr](#) that he is the father of us all. Sometimes I think about that quote when I think about Ethan's work.

ETHAN KAPSTEIN: My age is what he means.

JOEL ROSENTHAL: Well, there is a sort of family-like, fraternal-like connection between us. We've been good friends for a long period of time.

But it's also a little bit more serious in an intellectual way, in that most of you know that the Carnegie Council has chosen [Global Social Justice](#) as one of its theme areas—our areas of focus are moral and ethical questions as they relate to the global economy. Ethan has been working on this throughout his entire professional career. He was very helpful to me, speaking of age, last century—I looked at the files — when we actually started on a project that has had various incarnations—Justice in the World Economy, various titles like that—and we are now talking about [A Fairer Globalization](#), which is the title of the series that this lecture is part of. We owe Ethan a great deal of gratitude and credit for helping to set us on this path.

His work has been pioneering. He has talked a lot about labor issues, corporate social responsibility, trade, development. If you just look at his bio you can see what he has written, in addition to his teaching. His books and articles include: [Sharing the Wealth, Workers in the World Economy](#) and "The Corporate Ethics Crusade", and he has two pieces out right now, one article, one book. The article is in the most recent *Foreign Affairs*. It's called "The New Global Slave Trade." His book, which is going to be the topic of his discussion tonight, is [Economic Justice in an Unfair World](#).

Ethan has hit all of the major intellectual hubs in the United States and abroad. Among them, he went to Harvard, he taught at Fletcher, he has been at the Council on Foreign Relations. I remember visiting him when he had the Hubert Humphrey Chair at the University of Minnesota. He is now at INSEAD in Paris. So he has seen a bit of the world while he has pursued this intellectual agenda.

It is a great opportunity to welcome you to the Carnegie Council. Thanks for coming.

Remarks

ETHAN KAPSTEIN: Thank you, Joel.

What I'd like to do tonight is go over with you some of the arguments from this book, *Economic Justice in an Unfair World*.

One of my friends, a distinguished political scientist, who I ran into at a conference this year, said to me, "Ethan, who's the audience for a book like this, a bunch of Europeans?" You know, there is something, I think, to that. Despite Joel's bold efforts, despite my efforts, these themes of economic justice are not very prominent in the American economics community in the way that they have been quite prominent in European discussions of how the economy works and should work.

What motivated this study is that, in fact, there has been some change, I think, in recent years. Any number of scholars, activists, and even policymakers, have claimed that the global economy is unjust or unfair. I think you had [Joseph Stiglitz](#) here, and he writes that the global economy is unfair. At one point during the trade negotiations last year, Pascal Lamy and Bob Zelick, the respective trade negotiators at the time for the European Union and the United States, were throwing epithets at one another's trade policies, that they were unethical—not that they were inefficient, but that they were unethical. It's kind of a strange epithet to throw at another trade negotiator.

So we've seen this kind of transformation of the global economy into an ethical space, which I think is an interesting development in and of itself. Certainly when I was a student of international economics, I never heard the words "justice" or "fairness" uttered, I don't think, in four years of international economics. These concerns just weren't prominent. Now, I think, for a number of reasons, they are very much on the agenda.

Having said that, though, there is disagreement over what a just or fair global economy would look like. Would it require a centralized allocation of scarce resources, like oil, like [Chuck Beitz](#) of Princeton famously argued? Would it require a global income tax, like [Thomas Pogge](#) of Columbia has advocated? Would it argue for a doubling of foreign aid, like [Jeff Sachs](#) has said the global economy requires? Would it entail free migration, as [Dani Rodrick](#) at Harvard says? Dani Rodrick says if we're really concerned with the poor, the best thing we could do is open our borders in the United States or in Europe to poor people. So these are very differing conceptions of what a just globalization would look like.

So the purpose of this book is to illuminate normative issues in the global economy and to propose what I consider to be some politically feasible reforms of the system. So, as I say, what I'd like to do very briefly tonight is just lay out what I consider three different models or frameworks for thinking about international economic justice. I want to elaborate on the model that I develop in the book, which I call a liberal internationalist model of international economic justice, and talk about some policy implications. I want to do all that in about twenty minutes or so, so I will be quick. I'm a New Yorker, I can speak quickly, no problem. But at the same time, being a New Yorker, I welcome your interruptions. You know, obviously, you're not going to get a word in edgewise if you don't interrupt me. In economic seminars we like interruptions; we don't like polite audiences. Economists are a rude bunch. So you can ask questions at any time as far as I'm concerned.

So what are these three models, basically? When people say "the global economy is unfair or unjust," I think they have one of three very different meanings in mind. One meaning is that the global economy, globalization, is unfair because it has made some people in my country worse off. It's hurt unskilled labor in the United States. It has increased inequality in the United States. You know, Bill Gates has gotten fabulously rich off globalization, but unskilled textile workers have really been hurt by it. So it really causes disruption in the domestic social compact in my country.

In that sense, the global economy is unfair, because that's not why we entered the global economy. We entered it to strengthen the social compact, to make a better life for everyone, allegedly. To the extent that is not happening, therefore, there is some injustice associated with this globalization experiment. I call that a kind of communitarian model of economic justice, in the sense that I think of a society, a more or less self-contained society, with its own domestic social compact. Those social compacts vary around the world, from the kind of American approach; to the French approach, where I live, which entails not working very much and taking lots of vacations; to the Danish approach. You have these different social

compacts, and societies enter the global economy in order, allegedly, to strengthen their own models. To the extent that isn't happening, there's something wrong with globalization.

It is interesting that you have a lot of the globalization critics, like the "anti-mondialisation", in places like France, which ostensibly have been the greatest beneficiaries of entry into the global economy, because of this, because there is a fear that the cradle-to-grave welfare state cannot be maintained in a global economic structure. So that's one approach.

A different approach, associated, I think, most with our friend Tom Pogge at Columbia, is that globalization is unfair because it hurts particularly the most vulnerable people somewhere in the world. For people like our friend Tom, national boundaries have no ethical meaning. There might be national boundaries, but the only unit which has ethical meaning is the individual. Therefore, from an ethical perspective, we should be concerned about the impact of any of our policies on people anywhere in the world because we are all of equal moral worth. It is simply, of course, an accident of birth that some of us were born well-off in New York City and some of us were born poor in West Africa. That's just an accident of birth. There's no reason why people should be penalized for that.

To the extent that the global economy actually makes some people even worse off, then there is an injustice there, and justice would require, as I say, something like a global income tax. You might say, well, in a way, Bill Gates has accepted this. He has set up the biggest foundation in the world and he does dispense billions of dollars to developing countries.

But no, the idea would be that justice would really require a centralized IRS that would tax the Bill Gates's of the world or all of us and distribute income more fairly on a global basis. This is a very different notion of global economic justice. It is one in which borders don't really enter the equation.

The model that I develop in the book starts off from what we call in international relations a realist perspective, in a sense, on the international system. That is, I take states seriously as the authoritative units in the international system, and I take seriously the fact that these states negotiate and bargain with one another over international trade, international finance, foreign aid, what have you. Therefore, I consider those states as having something like ethical responsibilities toward their own citizens, but also toward one another.

In a sense, the question that I ask in the book is: What background conditions would this international community, the society of states, establish in the interest of creating global economic arrangements that were in the interest of each state?

Basically what I say—and I'll illustrate this with a few examples, because this might sound kind of abstract—is that each and every state would want to be involved in international arrangements that were inclusive. In other words, you'd want to be included in any international arrangement where people were making rules that might affect you. You'd also want international arrangements that were participatory, you'd actually want a voice in the proceedings. It's not enough just to be a member; you'd want to have some voice in what is happening. And you would want these arrangements to be welfare-enhancing. You should be better off from your participation in the arrangements than you would be if you were exempt from them or if you exempted yourself from them.

Now let me just give you a real-life example, because it was recently in the newspapers. A lot of people have said in recent year that the [International Monetary Fund](#) is unfair because the United States has the biggest voice in the International Monetary Fund, and somehow that is unfair. There has been a lot of discussion about how to give developing countries more voice in the system.

In fact, the last annual meetings of the IMF and [the World Bank](#) were devoted to that question. And, lo and behold, developing countries, particularly China, to the extent you consider that still a developing country, were effectively given more voice in the IMF. So this is a real-life example of some effort at the level of the international system to give more authority, more say to those who felt they didn't have a voice in these arrangements.

An example that I take very seriously in the book is the international trade regime, [the World Trade Organization](#). Now, the World Trade Organization is inclusive—that is, most countries in the world are members of the World Trade Organization. You know, Russia would probably like to become a member, and it probably will eventually. But most countries in the world are now members.

But it is not very participatory. This is because basically the World Trade Organization works as a cartel between the United States and the European Union. Bargaining within the WTO is driven by these two superpowers in trade terms. They're the ones that really determine the deal, and the rest of the world kind of gets the crumbs off the table. Whatever the United States and European Union settle upon, then that is the basic structure of the deal.

Now, there are good reasons of domestic politics why it works that way. But in the book I make an argument that, with some fairly minor modifications of the trade regime, you could in fact give developing countries more voice in the system. Now, that's critical. Why? Because the United States and European Union bargain over Europe is that Europe exports luxury goods to the United States and Europe will import Boeing aircraft from the United States. So it is luxury goods for aircraft.

Those items are not necessarily on the top of the developing world agenda. That's not what they need in terms of their trade concerns. What are they concerned by? As you all know, agriculture. Well, you can't get tropical agriculture on the agenda if you have just a little tiny voice. The United States and European Union don't produce tropical agriculture; they don't care about it; no politician in the United States or European Union is going to devote much of their political capital to tropical agriculture. So these countries, although they are members of the WTO, don't get much participation, if you will.

I suggest some modifications that would give, as I say, developing countries more voice in the system. That would make the system much more welfare-enhancing for them.

Now again, in life the devil is in the details. I'm sure you all recognize this in your own work. Part of the book is devoted to actually tracing some of the detail issues, because they are so critical to a couple billion people around the world. You know, if you did make some modifications in how the WTO worked, it would make a huge difference in the lives of rural peoples, particularly in developing countries.

What we have now, for example, is a system. What do the industrialized countries, the United States and Europe, do against developing countries? We practice what's called tariff escalation. What that means is that you can import from Africa coffee beans or cacao beans at a very low tariff, but if the African countries try to produce instant coffee or chocolate bars, those imports from Africa get hit with a big tariff. So this tariff escalation, obviously, discourages industrial investment in those countries, and that undermines their growth potential. So this is in the structure of the system. It's not because the United States and European Union are evil; it's part of the way the bargaining structure of the WTO works. It is extremely unfair.

Now, let me just say a few words about some of the policy implications of what I am arguing, because in a way those might be the most provocative for you.

In recent years, as I say, there has been, I think, this transformation, in a sense, of the global economy into an ethical space. One of the major concerns of the international community in recent years has been global poverty reduction.

Now, this would, of course, make someone like Tom Pogge very pleased, because as a cosmopolitan, as someone who doesn't believe that states themselves have ethical boundaries, it makes sense to talk about global poverty. But to someone like me, who thinks that states do have meaning, the communities that we do form do have not only political meaning but ethical meaning, I'm very skeptical about ideas like global poverty. I think there is Chinese poverty, American poverty, French poverty. But at the end of the day, societies tend to solve their income redistribution problems on their own. There is very little evidence that outsiders can alter the income distribution in other countries.

Look, the United States, as we have seen, tragically, is having a very difficult time altering the social

compact in a country or a couple of countries it has invaded militarily and stationed thousands of troops in. It is extremely difficult to alter the domestic social compact in other countries. These are very sticky. They are the product of many centuries of development. The ability of the international community to affect that is extremely limited.

So basically, my argument is: if the international community really cared about these issues, the first thing it would do is try to create a level playing field at the level of the international community.

The other reason why the international community should have an interest in doing that is if you work in the developing world, one thing that you become familiar with very quickly is that developing world leaders will use the international system as their scapegoat for all of the domestic political ills and economic ills that they have. If their economies are not going well, if their polities are not going well, it's because of the neocolonial structure of the international system; it's because of the unfairness in the global economy.

Well, in a sense, you want to take that excuse away from bad governments. You want to take that excuse away from them, so that in domestic societies people will say, "No, you can no longer blame the international system for not giving us market access. We have market access, but you, government, are not allowing us to take advantage of it because of your bad policies." That would make an extremely different sort of debate within many of the developing countries in which I work, where, as I say, we give kind of a free ride to leaders around the world who have not engaged in the sort of domestic investments that would make their economies more competitive.

Just to wrap up, I argue that there are these three very different approaches to how we think about unfairness in the global economy. These have extremely different implications for policy. You know, it makes a big difference if you think the global economy is unfair because it is creating more inequality here in the United States and the policy solution to that is protectionism, for example, or limiting migration, for example. That is a very different approach to someone who would say, "The unfairness in the global economy is caused by change that's just rewarding the Bill Gates's of the world and hurting the most vulnerable, the poorest people in the world, and therefore we need a major transfer mechanism." That's a very different model. I consider that infeasible politically.

A third approach, as I say, is the first responsibility of the international system, of all our politicians, and that is to create the background conditions that enable each country to do as well as it can. We are very far from having achieved that. This is why the failure of [the Doha Round](#) is such a tragedy. I must say I've been extremely disappointed by the Bush Administration in particular on this issue, which has not used any political capital, I think, to cause trade liberalization, in particular.

I do think this is something that particularly the business people in the room—I'll just say parenthetically that I had a meeting with business leaders earlier today. I think they have basically given up on the Doha Round. They have basically given up on this Administration being able to use any of its remaining political capital that it has to advance this.

Again, I think it seems very far away from us here in the Upper East Side of New York, but this makes a big difference in the lives of millions and millions of people around the world. I think if there is anything something like the Carnegie Council can do, it is just to keep hammering away how important these issues are to the most vulnerable people.

I think I'll wrap it up there. You've been very polite. Thank you.

Questions and Answers

JOEL ROSENTHAL: Okay, we'll start to mix it up.

QUESTION: What do you do about one major, very important multinational organization which plays a very significant role in globalization today, which is neither inclusory nor participatory, and that is [OPEC](#), because the transfer of wealth to the OPEC countries affects probably even more the least-developed

countries that don't have oil than it does ourselves?

ETHAN KAPSTEIN: Should I take a group of questions or one at a time? How do you like to do things?

JOEL ROSENTHAL: It's up to you. Either way. Why don't we take a group? We'll get more in that way.

QUESTION: I don't know much about economics, so this may sound like a foolish question. But you were speaking on grander terms. I was thinking as you were speaking about agriculture and so forth about subsidies here in this country and how that is so harmful to the developing world. I'd like to hear you address that.

QUESTION: As a fellow realist, I was happy to hear your commitment to that. But I think that you concede too much to the liberal view that there really is a global community and there is an international community. I'd like to suggest that you identify some of the problems really as realist problems, as nationalist problems, in a couple of ways. One is that I don't think that there is going to be much change in the world trade regime unless there is a change within U.S. politics, French politics, and that kind of thing. For example, as the last questioner just suggested, there are lots of subsidies in the agricultural sector and they benefit very small groups within countries. And so it seems to me that it's there that you really need to address the issue.

The other way in which I think that you might give more emphasis to states is to use the illustrations of states that have gone from very low levels of development to being very successful. My favorite example, of course, is South Korea, which had a per capita income in 1960 of around \$50 or \$60 and now has a per capita income of about \$1,100. And South Korea is not the only one. There are others that could be used to illustrate that what really needs to happen is to develop within particular countries the notion of transfer and so forth. It is an interesting ethical position, but perhaps not a practical position.

ETHAN KAPSTEIN: Maybe I'll just start with the last question and go forward. Certainly, one of the more interesting issues—and I don't want to get too off on a techy track here, but some of you will appreciate this—I think one of the most interesting issues now in political economy is the role of the groups with normative agendas, as opposed to material interest agendas, in politics. In other words, a congressman in New Jersey might be as influenced by a group of Catholics who have a strong concern with human rights in China as he is by industrial workers in his district.

I think the power of this—and again, we feel it very powerfully in Europe—is that groups like Oxfam have considerable political influence now. I think these groups could play a leading role in changing a lot of the normative debates within our countries about who should get what.

This, in a sense, ties to your issue about the subsidies. Some people have said to me, "Look, Ethan, your reforms would entail changing the social compact in the United States, wouldn't it? We have a kind of bargain with farmers." I'd say, "I think it's different, a social compact and an arrangement with a group of people who have been very successful in sucking rents out of the system for a very long time." There are small groups of very well-organized interests that have picked the taxpayer's pocket for a very long time. I'm not sure that eroding their rent is a major ethical concern. And one would say that in a political economy you can make them side payments anyway.

I do think we are in the midst of a kind of changing political economy within many of the industrial countries and taking more seriously the role of these groups with normative interests, as opposed to material interests. This is something that as scholars we should be doing, but I think it might have policy implications that we haven't thought about sufficiently.

On the South Korea example, in the book I talk about what is called convergence theory, which is in a sense, the idea that we had years ago, that developing countries would grow more quickly than industrial countries—naturally; they're starting from a lower base; you'd expect rapid growth—and if they had access to world markets, then you would expect them to grow quickly.

South Korea, of course, was the beneficiary of relatively open markets, particularly in the United States,

largely for security concerns, Cold War security concerns; but nonetheless it benefited from the fact that it did have this strategic partnership. I think it does provide a lesson in how openness and good policy on their part, putting the feet of their producers to the fire of international competition, did tremendously increase their growth.

I think I've also maybe addressed your issue on subsidies. You know, again, in Europe, too, I'm amazed when I talk to groups in Europe how few people are aware that these subsidies don't go to the small farmer, they don't go to the mom-and-pop farm, Auntie Em there in Kansas. These are not the people receiving subsidies. This is a fairly small group of agro-businesses that receive massive support. Again, this is the kind of thing we should all be hammering away on all the time. It's extremely important.

OPEC is problematic. It is particularly problematic from an ethical perspective, to the extent that you believe it is a cartel, and therefore it is also able to extract what we call monopoly rent—that is, a kind of superprofit from world consumers because of this organization, just as in the United States we break up monopolies. Well, we used to break up monopolies, but I guess now we encourage them; but once upon a time, we used to try to break up monopolies. You would say that in the international system, to the extent that you have that kind of monopoly behavior, it is going to be very difficult for countries.

But I do think market forces have a lot to be said for them, even in this case. What we know, of course, is that a lot of the cash that OPEC gets does have to be recycled through the financial system. One of the huge beneficiaries of this recycling, of course, in recent years has been emerging markets. Now, that's true. Are the least-developed countries beneficiaries? No, probably not. But a much wider range of countries has been the beneficiary of these normal capital flows than ever before in history, and a lot of that is traced to the recycling of OPEC dollars.

But I think, again, it would be very difficult to propose the dismantling of OPEC on an ethical basis. I'm not sure how you would make that ethical argument. And who, in a sense, would be responsible for carrying that out?

PARTICIPANT: I would think that is the easiest thing in the world from an ethical point of view. Why should some countries, simply because 20 billion years ago animals died and therefore produced petroleum, and other countries located very close by didn't have that advantage—why should those countries benefit and the other countries not?

ETHAN KAPSTEIN: Okay, great. This is precisely the question that started off really one of the greatest books in this field, written twenty or thirty years ago, Chuck Beitz's book. This was exactly his argument, that yes this was unjust. The distribution of talent is similar. It's unfair—the distribution of talent in this room is unfair—and we should act to create some centralized mechanism.

So here's my argument against that. Again, you have to take my starting point, which is that the international system is composed of sovereign nation-states, and that any agreement among them is going to have to be welfare-enhancing for each one. So I can't see any oil producer willingly agreeing to give up sovereignty over those oil resources on behalf of some ethical claim that you might make on behalf of countries that don't have it. I think what a Saudi oil minister, for example, would say is, "There is a redistributive mechanism in the world. It's called trade."

That's what trade is; trade is a redistribution mechanism. We get oil from Saudi Arabia; we send them Boeing aircraft. We send oil from Saudi Arabia to Africa; they send coffee beans. So I think what someone in an oil-producing country would say is that trade is the redistributive mechanism, which is fair, which is just, and any imposition onto my sovereignty would collapse the entire basis on which the international system rests.

JOEL ROSENTHAL: We'll go for another round of questions.

QUESTION: It seems that whenever there is a cataclysmic change in society, there is a cultural lag. I mean when we had the industrial revolution in the 19th century, machines took over the labor of human beings and there was disaster for a long time, until human beings adjusted to this, learned, and so forth.

Could we be going through a new kind of—I wouldn't want to call it an industrial revolution, but this is a revolution? There is a cultural lag. We have lost manufacturing jobs, we've lost service jobs, and we have to adjust to this. It may take a while, in the same way the industrial revolution did, for us to catch up to the newness of globalization.

QUESTION: I do believe that we have a tremendous responsibility for the poverty in the world. I'd like to focus on factory and service jobs in this country. I heard that [Schumer](#) was at Johns Hopkins, as the head of an economic conference on the whole idea of comparative advantage. He said he didn't believe that existed anymore, because in comparative advantage you make this better, I make that better; but because there is such a difference in the pay scale in China and the other undeveloped countries, it doesn't work that way now. You had said that being part of this international organization should be to everyone's benefit. But as a society, how can we prevent making this segment of our society suffer?

I'd just make another point. When you say that we're independent states, the way I look at the world now is that there's an overlay over the globe, and that overlay is the large corporations. They are not in this country or that; they are in the world of money—if it makes money, it's good.

QUESTION: I'd like to come back to the issue of oil-producing states, because they actually have seemed in the past, or at least in the past five years or so, to offer at least a partial rebuttal to your argument that the international community actually has very little influence on those countries. What do you make of the [EITI](#) initiative launched by the United Kingdom five or six years ago, and all the work that [Soros](#) and others have done to basically impose on these countries measures which have the potential of being welfare-enhancing, if countries stick to them? Surely, if Nigeria and Angola had been left to their own devices, they would not have come up with these ideas. So obviously, they were imposed from the outside. They are all about, if not obviously giving up sovereignty over raw materials, at least accepting the outside world to look into what is being done with them.

ETHAN KAPSTEIN: Let me start with that question. The questioner used an acronym which very few people in this room probably are familiar with: EITI. How many people in the room know what that is? Really? EITI stands for Extractive Industries Transparency Initiative. I had to think about that myself.

The little phrase they use is "publish what you pay." I think that Britain, Norway, the United States, and other oil producers, have not signed on to the EITI in terms of their own domestic oil production, but maybe I'm wrong about that. As the questioner says, the idea is to go to developing countries and bring more transparency to what they do with their oil revenues.

In a sense, there was some debate along these lines in the United States, particularly in Alaska, where in Alaska they did create a trust fund with the oil revenue that was devoted to future generations, after a significant political debate about what you do with the oil.

PARTICIPANT: Didn't the World Bank try to impose that on Chad?

ETHAN KAPSTEIN: Yes, that's an example. The World Bank tried to impose this on Chad.

PARTICIPANT: Nigeria.

ETHAN KAPSTEIN: The fact of the matter is this that has not been very successful. As you know with the World Bank in Chad, they have broken the agreement on any number of occasions. From what I can tell—there was just a big conference on this, I think, last week in Oslo—this idea is getting very little traction, for a number of reasons. First of all, countries do it as a violation of their sovereignty. Second, in typical industrial world fashion, it does represent hypocrisy. Is this going to be universal—every oil company operating everywhere, every government would publish what they pay—or is it only going to be targeted at certain developing countries or countries that receive World Bank loans? What's the decision principle here?

It sounds like you know a lot more about it, so maybe you'll correct us. But I have spoken to people who were at this meeting in Oslo. The idea is not getting a lot of traction in many developing world

governments.

Now, I agree with you that greater transparency would be a good thing in these countries, as in our country. You know, there was a great article on the front page of today's *Wall Street Journal* about how defense contractors are lobbying Congress to push money into black programs because there's less oversight over black programs—you know, the black secret projects. So I would love more transparency in the industrial world governments as well. However, I don't think this sort of imposition is going very far.

But having said that, related to the remarks I made before, I think that there is an interesting development with respect to normative change—what is acceptable behavior, in a sense. This goes back to your comment about multinational corporations and corporate social responsibility. I work a lot with multinational corporations. We can be very cynical about them, and should be. But nonetheless it is incredible, if you think over time, this sensibility on the part of corporate executives with respect to their behavior in the countries where they do business. Now again, has that consciousness been reflected in dramatic change yet? No. But the consciousness is there in a way that I certainly never saw it earlier in my career.

So I think to the extent that we do develop norms of transparency, norms of good governance, norms of certain behavior, and keep hammering away, yes, over some very long period of time that can and should make a difference. I think that it is probably more successful than imposing certain standards when the world is not ripe for them. But again, I'd love any transparency you can give on this.

I think on the question about is there a great disruption, in a sense, going on in the world and the notion that comparative advantage no longer exists, yes and no. I mean the argument made on behalf of the end of comparative advantage is that skilled labor everywhere is doing well. In other words, skilled labor in China is doing well, skilled labor in France is doing well, skilled labor in America is doing well. It is not this kind of comparative advantage that we used to think of as just rewarding unskilled labor in China and skilled labor in the United States. The globalization we're undergoing now particularly rewards skilled labor.

But the implications from that, if that's true, are fairly clear-cut. You've got to get skills, and you have to provide incentives to people to get skills and the capacity to get skills. So a lot of the economic changes that we see actually do bring with them fairly clear policy implications. But again, within many societies you don't get the accompanying policies that are necessary.

For example, in Pakistan education is extremely expensive; it's very hard for non-elites to get education. Why does Pakistan have a huge community outside of Pakistan? Because it is actually cheaper in many cases to leave the country, to be educated outside the country, or to get an unskilled job outside and then send remittances back.

So again, this points us to the kinds of policy changes that we need in lots of areas, I think.

JOEL ROSENTHAL: Shall we go back for another round?

ETHAN KAPSTEIN: Sure.

QUESTION: The population problem, the growth of it, hasn't been mentioned, particularly in the developed world. You've got situations like in Kenya where the population in 1965 was 8 million people and it's 32 million now. Syria, Lebanon, and Egypt have tripled in that same period. I traveled all these countries in the 1960s, more than once, and put battery plants in four countries: Cote d'Ivoire, Nigeria, Kenya, and Ghana. Three of them have failed.

But anyway, I know them very, very well. I think the quality of life back then was better than they have today. I don't see how the infrastructure can catch up—education, bridges, anything you can think of—unless the population rate of growth is somehow minimized.

QUESTION: I want to come back to your remark that we're not interested as a developed world in

tropical agriculture. As you well know, Brazil led a group of twenty-one nations to bring things to an impasse, claiming that the Doha Round was not offering enough liberalization of agriculture trade. Maybe I'm exaggerating the political pressure that is building on our subsidization of cotton farms in this country and what it is doing to West African agricultural industry, but it appears to me, maybe because I come to these sessions and it has been discussed here, that there is building political pressure against U.S. agricultural subsidy programs on cotton.

Then, lastly, the United States and Europe were at loggerheads over the banana trade for many years, and it was a very bitter fight. Depending on how open-minded you are toward what America's motives are, we were trying to open up the banana trade to more countries in mainland Latin America than Europe wanted to be permitted. That has come to denouement. The controversy has been quiet now for several years. Does that controversy and its resolution offer any hope on future attempts to open up the agricultural markets?

PARTICIPANT: We shouldn't forget oranges in Japan-United States trade either.

QUESTION: I understand the first two models, but your own model isn't very clear the way you presented it. I gather what you are saying is that a fair system would be one in which the central key would be free trade, and that basically as long as it's free it's fair. Are you really prepared to stand by that?

JOEL ROSENTHAL: Let's take those and then we'll see if we have time for more. The last questioner sounds like he might have a follow-up in his pocket.

ETHAN KAPSTEIN: Yes, it's interesting. In the book, I end up making a much more spirited defense for free trade than I anticipated when I started thinking about this. In a sense, the book—I'm sure this crowd will appreciate it—to some extent tries to develop the law of peoples. The late [John Rawls's](#) last book, *The Law of Peoples*, was really a sketch for how he viewed international arrangements. He wrote it when I think his health was failing, and the book in many respects remained a sketch. In a sense, although I differ with Rawls on some grounds—he kind of believes there is going to be a norm for international human rights, or at least a moving in that direction; I'm not so sure. I do try to develop in a sense and take seriously many of the ideas there.

If you want an argument contrary to mine, fairly strongly stated, in the last issue of *Foreign Affairs* there's [a review article](#) by Robert Wade of LSE, who is a very strong proponent of industrial policy. He attacks the book on maybe the grounds that you are alluding to, and you might want to look at that.

But my argument there is, imagine a world that was highly protectionist. In a world that was highly protectionist, it would be very difficult, particularly for developing countries, to grow their economies in a sustainable fashion. Why? Because they don't have the size of the market domestically, and they can only grow if they expand the size of the market, and they can only do that through globalization. So the argument that I come out with is that protectionism, particularly on the part of the great industrial powers, would be incredibly damaging to the chances of the most vulnerable countries. That's why I end up making a very strong argument on behalf of free trade, though if you read the book, there are influences there.

Again, just for the academics in the room, I really build on [Keohane's](#) notion of diffuse reciprocity as the basis for a trade arrangement. So we can actually mix that up more. That's what I try to do.

But it's a fair point, because, as I say, I didn't go into the book thinking I'd make the defense for free trade that I ended up doing.

On the issues about agriculture that the questioner raised, I hope you're right. If you are right, I think to some degree it would represent the kind of normative change that we are talking about, normative change in that people are increasingly aware of the issues that you've discussed, and congressmen are increasingly pressured by groups that care about those normative issues. I'm not so sure that we're there yet, but maybe we are moving in that direction. That would be a good thing.

It's really nice that you bring up the banana trade issue. Again, for those of you who are unfamiliar, basically Europe had struck a deal, going back to the postwar period, with its former colonies, where it continued to give its former colonies privileged access to the Metropole. The United States, naturally, claimed that that was unfair to, let's say, Chiquita Banana, to Guatemala, to Honduras, to countries that were outside the colonial zone of Europe. This is a battle that has gone on for fifty years.

It really isn't solved. It just kind of goes through periods of quietude. But I think the recognition is there that Europe does have to open its markets more generally and cannot continue to give the preferential access to its former colonies. Though now there is a big battle over sugar in Europe, which is similar.

PARTICIPANT: Don't forget the issue of efficiencies. The Latin American producers that the United States controls are efficient, with large plantations, and the Africans—

ETHAN KAPSTEIN: Right. The price of the bananas would be much lower.

PARTICIPANT: Didn't we overthrow a government in Guatemala over that?

ETHAN KAPSTEIN: Yes, among other things.

The population problem, that's an interesting question, sir. There is a lot of debate about that, in the sense that some people say—and there are some statistics that support it—that developing world populations are aging very rapidly as well, that the population growth in many of the developing countries is coming to an end much more quickly than we anticipated. Of course, that's very uneven. In the Middle East, you've cited some cases where no, that's not true. In Africa, you actually are seeing some slowdowns in population growth pretty dramatically.

PARTICIPANT: They're dying.

ETHAN KAPSTEIN: Well, some of it is due to HIV/AIDS, but not only. If you take South Africa, for example—well, it's an important country because it is 45 million people, so it is very important and it has a huge influence in Africa.

JOEL ROSENTHAL: We'll take a couple more. Go ahead. Just a couple more.

PARTICIPANT: The facts are that if there were free trade in that area, the clients of the Europeans, the African states and so on that grow bananas, would be wiped off the face of the planet by the Latin American producers controlled by the United States. It's just a simple fact.

ETHAN KAPSTEIN: That's right.

QUESTION: Your proposals on trade, on aid, on migration, seem very reasonable and fair-minded and economically logical. But how do you propose to generate adequate political will in the rich and powerful countries that essentially set the rules of the game to change those rules? You made a reference earlier to grassroots activism and the efforts of Oxfam and so on, but the lobbying pressure and the vested interests on the other side of that equation vastly outweigh them.

ETHAN KAPSTEIN: Yes. That's a \$64,000 question, so I'll start with that.

What I do in the book is I do try to focus narrowly on what I call welfare-enhancing proposals. I do, you would probably say, confound that with political feasibility. In economic terms, of course, one associates political feasibility with welfare enhancement. Why? Because a surplus is produced that, at least in principle, can be shared. You know, you can make side payments to those who don't benefit from the deal. So, at least as a starting point, I try to do that, rather than focus on what I see in some other proposals of our colleagues as palpably welfare-reducing, at least to some states. So I can't see any state, at least now, in the present state of world consciousness, agreeing to a global income tax, for example,

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