

# 1

## ECONOMIC JUSTICE IN AN UNFAIR WORLD

The place of morality in international politics is the most obscure and difficult problem in the whole range of international studies.

—E. H. Carr

Recent years have witnessed a growing number of activists, scholars, and even policy makers asserting that the global economy operates in a way that is fundamentally unfair, particularly to developing countries and to the poor within them. Thus, a Washington-based policy analyst has called the trade policies of the United States and the European Union an “ethical scandal,”<sup>1</sup> and a U.S. trade representative has branded European protection of its agriculture “immoral.”<sup>2</sup> The Belgian foreign minister has proclaimed the need for an “ethical globalization,”<sup>3</sup> and the former United Nations High Commissioner for Human Rights, Mary Robinson, has even launched an “Ethical Globalization Initiative.” As president of the World Bank, James Wolfensohn lamented that “something is wrong” with the global economy, and his controversial chief economist, the Nobel Prize-winner Joseph Stiglitz, once glibly remarked, “Of course, no one expected that the world market would be fair.”<sup>4</sup>

In response to the global economy’s alleged inequities, we now find the United Nations regularly publishing re-

2 CHAPTER 1

ports with titles such as *Globalization with a Human Face*, and debates over the international community's poverty-reducing "Millennium Development Goals" making front-page news.<sup>5</sup> But profound disagreements exist over how to solve the world's most pressing economic problems, and who should take responsibility for them.

Despite this lack of common ground, it is probably safe to say that almost everyone agrees that economic transactions should be carried out on a "level playing field." As a consequence, even the president of the United States, who governs the world's lone superpower, finds it necessary to offer assurances that his international trade objectives include "providing a level playing field for American workers."<sup>6</sup>

But what does it mean to create a level playing field for international economic transactions? And why is such leveling even desirable? After all, there are prominent theories of international relations that dismiss the notion that world politics can or should be conceptualized in normative terms at all. Most prominently, "realists" assert that there is no moral authority above states, no central enforcement agency, and so states are "self-contained" ethical units. This means that world politics is shaped by the distribution of power rather than by any shared normative culture, and thus a tilted playing field is quite "natural" and perhaps even desirable, to the extent that a great power uses its authority to create the international regimes that make global economic transactions possible.

Given differing views about what constitutes a level playing field and about the sources of unfairness in the global economy, this chapter opens by providing three alternative lenses for viewing the normative problems associated with increasing economic integration. As we will

### ECONOMIC JUSTICE IN AN UNFAIR WORLD 3

see, some people criticize increasing economic integration because of its allegedly deleterious effects on *national welfare* and the domestic social compact, or what might be called the *communitarian* model of economic justice. Others, in contrast, are primarily concerned with the effects of greater openness on the “global poor,” or what might be called, following Derek Parfit, the *prioritarian* variant of *cosmopolitanism*; this means that international economic policy should make poverty reduction its priority.<sup>7</sup> Finally, still others, including myself, emphasize the political structure of the global economy, its international institutions and regimes, and how these institutions shape economic relations among nation-states. That is the particular focus of this book, and I label my perspective the *liberal internationalist* approach to economic justice; elaborating that framework is the major burden of this chapter.

### Models of International Economic Justice

Even within the institutional setting provided by domestic politics, in which a central authority can (at least in principle) set taxes, redistribute incomes, and provide social safety nets, there are few public policies that are as controversial as those that shape the allocation and redistribution of assets, revenues, and other scarce resources, that is, the policies that constitute a society’s definition of economic or distributive justice. (*Distributive justice* is more accurately a broader or “umbrella” term of art, referring not only to economic goods but to opportunities and other valued services—e.g., health care—as well, but I will also use it in this narrower context here.) Students and practitioners of economic or distributive justice are concerned

4 CHAPTER 1

with the goods and services that should be subject to allocation and distribution (e.g., income, health care), the recipient populations (e.g., “needy” individuals, particular ethnic or religious groups, or developing countries), the distributive principles (e.g., equality of resources or of opportunity), and the specific policy instruments (e.g., progressive taxation schemes or foreign aid transfers).

Naturally, there is significant debate among scholars, public officials, and citizens with respect to each of these dimensions, that is, *what* should be distributed, *who* the recipients should be, *what* distributive principles should be adopted, and *how* those allocations should be accomplished.<sup>8</sup> As Thomas Schelling has written, “Among the most divisive issues that policy deals with is the distribution of income and wealth,” and of course he might have added other things as well, such as “opportunities.”<sup>9</sup>

As already noted, common to every domestic theory of distributive justice is the assumption of a central authority, a government or a state, that is capable of enforcing initial allocation decisions and any subsequent distributions that a society may wish to make. Thus, Ronald Dworkin’s theory of equality of resources “requires government to adopt laws and policies that insure that its citizens’ fates are, so far as government can achieve this, insensitive to who they otherwise are.”<sup>10</sup> Similarly, the realization of Hal Varian’s theory of fairness depends on a state that distributes property “equally to new generations” and serves “as a watchdog to prevent monopolistic interference with the market.”<sup>11</sup> Even the late libertarian philosopher Robert Nozick, who viewed the complete theory of distribution as the voluntary exchange of legitimately acquired property, recognized the need for a minimal “night watchman” state and admitted that an even

ECONOMIC JUSTICE IN AN UNFAIR WORLD 5

stronger central government might be necessary to rectify historical injustices in transfer.<sup>12</sup>

Despite the fact that states have long been “globalized” in terms of their economic relations, it is only in recent years that scholars have begun to pursue the problem of distributive or economic justice on the wider stage provided by world politics.<sup>13</sup> We have already seen that this effort is marked by considerable controversy and is rejected outright by modern realist thought. Can “international justice” even be said to exist in the context of an anarchic system that lacks a central enforcement agency (recall Hobbes: “where there is no law, there can be no justice”)? And if we assume it does exist, who are the relevant actors in this particular drama? Are they states or individuals? Resolving these issues is of considerable importance if we wish to advance theoretical, much less public policy, debate.

Stanley Hoffmann has asserted, with considerable reason, that “the problems of international distributive justice are by far the most troublesome” within the study of international relations.<sup>14</sup> Hoffmann’s point is that even if we boldly assumed that states cared about establishing a system of international justice, it would hardly be a straightforward exercise to determine how they might go about distributing wealth (and power) in a way that promotes public goods such as global peace and prosperity. Some scholars have argued that justice among nations would require a more or less radical redistribution of the earth’s scarce resources, such as oil and minerals; others, including myself, look askance on policies that would reduce welfare in a particular state, and instead emphasize the role of free trade and investment in promoting economic growth; these differing views are developed in this

## 6 CHAPTER 1

book. Further, disentangling domestic from international economic justice, especially in light of increasing globalization, poses a first-order challenge.

To date, scholarly (and indeed, activist) assertions about international economic justice—or injustice—have taken at least three distinct forms, which reflect contrasting views about the normative consequences of increasing economic openness. Table 1.1 provides a matrix that summarizes these frameworks, and the following sections provide brief descriptions of them.

### **The Communitarian Critique**

First, some critics of today's international economic order are primarily concerned with the effects of globalization on *domestic* social and economic arrangements, or what I call the *communitarian* model of economic justice. This group takes domestic society as the appropriate site of distributive justice, for it is only within this political context that coercive fiscal and redistributive policies can be introduced (usually by the state), as a way of reducing income inequality, poverty, lack of opportunity, and other collective “bads” in a manner that is consistent with the domestic social compact, the “basic bargain” between state and society. In this view, global economic integration is tilting the playing field against the social compact, particularly in “cradle-to-grave” welfare states, which are allegedly threatened by capital mobility and a growing inability to meet collective objectives through redistributive taxation. Questions that are relevant to communitarians include: How has greater openness influenced poverty and the income distribution *within* countries, and particu-

ECONOMIC JUSTICE IN AN UNFAIR WORLD 7

**TABLE 1.1**  
Three Models of International Economic Justice

Theory	Site	Policy goal
Communitarian	Nation-state	Equal opportunity
Liberal	Society of states	Growth and convergence
Cosmopolitan	Individuals	Poverty reduction

*Source:* Author

larly within “my” country? Has it closed income gaps or widened them? Who are the “winners” and “losers” from globalization (or market integration) within domestic societies, and can the losers be effectively compensated? What are the effects of greater openness on domestic fiscal and social policies and on the capacity of the state to maintain the domestic social compact among its citizens? These questions reflect a predominant concern with the effects of global economic pressures on domestic societies and with the capacity of the state to respond in a manner that preserves domestic distributive justice.

John Ruggie’s “bargain of embedded liberalism”—the phrase he used to describe the postwar “Bretton Woods” order—provides perhaps the neatest expression of the national welfare or communitarian position.<sup>15</sup> According to Ruggie, the challenge for postwar leaders was to rebuild a global economy that would be made safe for the welfare states of Western Europe and North America. A dense network of domestic and international arrangements was crafted in order to ensure that global trade and investment did not undermine the goals of nationally based social policies, such as full employment and equal opportunity.

Thus, international trade agreements included “escape clauses” to protect workers, and particular industries were exempted altogether. Conversely, the United States and other countries put into place “trade adjustment assis-

8 CHAPTER 1

tance” and other compensatory mechanisms to support those who were hurt by economic change. In short, greater openness was to be made consistent with and to reinforce the domestic social compact. And for a while, many if not most had reason to remain confident in this model, at least in the advanced industrial countries. The expansion of global commerce following World War II was accompanied by the rise of the “cradle-to-grave” welfare state, particularly in Western Europe.

It is the fear that rapid globalization is disrupting this communitarian model of distributive justice that has sparked an intensive research agenda in recent years on the relationship between greater openness to trade and investment on the one hand and, for example, changes in domestic income distribution, employment, and poverty rates on the others.<sup>16</sup> As Dani Rodrik has written, “the international integration of markets for goods, services and capital is pressuring societies to alter their traditional practices, and in return broad segments of these societies are putting up a fight.”<sup>17</sup> In an important review of the literature, William Cline has demonstrated that greater openness to trade has increased wage inequality in the United States, as unskilled workers face competitive pressures from imports made with low-wage labor. Reflecting the communitarian model, he writes that the “basic policy conclusion” stemming from his analysis “is that a commitment to open trade needs to go hand in hand with a commitment to a whole array of *domestic policies* that help ensure that society evolves in an equitable rather than an inequitable direction” (emphasis added). Tellingly, he nowhere suggests that *international* policies might need changing as well.<sup>18</sup>



ECONOMIC JUSTICE IN AN UNFAIR WORLD 9

Mainstream economic theory and public policy analysis reflect the communitarian perspective in important respects; after all, the state remains the privileged site of policymaking and the actor with the monopoly right to use coercive means over its own territory. Economists commonly hold that “countries shape their own destiny,” and endogenous growth theory emphasizes the role of domestic institutions and policy choices in promoting investment and creating human capital. From this standpoint, globalization offers states tremendous opportunities to increase their technological base through trade and foreign direct investment, and in turn improves their chances for sustained growth. Yet one question that communitarians pose is whether the “rules-based” economic regimes that currently structure international economic relations are making it more difficult for states to pursue such growth-promoting domestic policies, say, through the use of “protectionist” instruments or subsidies, because these are now illegitimate. Further, globalization may undermine the state’s fiscal capacity to redistribute income from winners to losers, and thus the social compact that binds citizens together.

In short, communitarians emphasize the effects of greater openness to trade and investment on the capacities of domestic societies to provide adequate economic opportunities for their members, and particularly for unskilled workers in industrial nations, whose incomes and livelihoods may be “threatened” by globalization (including by immigration of low-skilled workers) in a meaningful way.<sup>19</sup> To these groups, the potential benefits of globalization may be elusive, at least over a relevant time horizon, and particularly if the state is now unable to help them adjust through fiscal transfers and education and

training opportunities. Communitarian critics, then, have raised significant issues of international economic justice, but through the particular lens of national welfare.

### The Cosmopolitan Challenge

The second group of globalization critics we consider is composed of *cosmopolitans*, whose main concern is with the effects of greater openness on individuals, and particularly the poor, irrespective of national boundaries, since these frontiers have no particular ethical relevance. The World Bank economist Branko Milanovic has deftly described this perspective when he writes, mimicking Diogenes, “globalization implies that national borders are becoming less important, and that every individual may, in theory, be regarded simply as a denizen of the world.”<sup>20</sup>

Cosmopolitanism provides, in fact, a big theoretical tent. But as one of its leading theorists, Thomas Pogge, writes, “Three elements are shared by all cosmopolitan positions. First, *individualism*: the ultimate units of concern are human beings, or persons. . . . Second, *universality*: the status of ultimate unit of concern attaches to every living being equally. . . . Third, *generality*: this special status has global force.”<sup>21</sup>

Because it is such a big tent, I focus more narrowly in this book on those cosmopolitans who might be called “prioritarians,” following Derek Parfit’s term of art.<sup>22</sup> The specific question that prioritarian theory raises for modern globalization concerns the effects of economic integration on the poor and least advantaged, and prioritarians argue that public policies should give absolute priority to their plight. Pogge, for example, has recently

ECONOMIC JUSTICE IN AN UNFAIR WORLD 11

asserted, “the affluent countries and their citizens . . . impose a global economic order under which millions avoidably die each year from poverty-related causes,”<sup>23</sup> and that this order should be reformed for that very reason. This global order and its associated rules influence poverty levels and income inequality within nations, by favoring particular interests (e.g., those of multinational firms) over others (e.g., labor). Indeed, it is notable that although the rules governing trade and investment are relatively strong, the rules governing labor rights—much less basic human rights—are weak.<sup>24</sup> These are stinging accusations of the international order, for which prioritarrians demand a response.

Cosmopolitan thought holds that rational persons may agree on certain universal moral truths, and it is these truths that provide the normative glue, weak as it may be, that holds domestic societies, and eventually the international community, together. They thus perceive the promise of a “universal international society grounded in the gradual homogenization and globalization of norms. . . . This development has manifested itself in a variety of ways . . . most significantly, in the growing acknowledgment by states and societies that all individuals, regardless of their citizenship, race, religion, or other defining characteristics, are entitled to basic protections of life, property and contract.”<sup>25</sup>

The cosmopolitan perspective is not only influential in contemporary political philosophy, but it has become increasingly influential in the world of public policy as well. The present-day preoccupation of the World Bank and International Monetary Fund with global “poverty reduction,” for example, cannot be neatly explained by reference to the “objective” material interests of powerful

12 CHAPTER 1

states. Instead, this emphasis indicates how ideas—specifically new ideas concerning the site of distributive justice in light of economic globalization—have come to shape the priorities of the leading international institutions.<sup>26</sup> We will return to this theme in later chapters.

Many nongovernmental organizations have also appealed to cosmopolitan values in seeking public support for their activities. The British charitable organization Oxfam, for example, claims that its members are “global citizens” who seek “global equity.” The organization presumes to speak for “poor people,” placing their “rights and interests” at the center of international power, identified as being wielded by global corporations, multilateral institutions, and national governments. Similarly, Save the Children lobbies “for changes that will benefit *all* children, including future generations” (emphasis added).<sup>27</sup>

In making their normative assertions, prioritarrians often evoke a utilitarian perspective, suggesting that global happiness would be maximized by distributing income and wealth away from those who enjoy relatively little utility from the marginal dollar or euro to those who would gain high utility from receiving additional sums. Thus, the marginal dollar of income is probably of less value to Bill Gates than to a smallholding coffee grower in the Chiapas region of Mexico. What this implies is that economic justice is found internationally, as it often is domestically, through redistribution schemes. As Milanovic asks, “If the political community becomes the world, would it not make sense to define redistribution at the world scale?”<sup>28</sup> Similarly, Pogge has proposed a “Global Resource Tax,” the proceeds of which “are to be used toward the emancipation of the present and future global poor.”<sup>29</sup> Even Britain’s chancellor of the exchequer, Gor-

ECONOMIC JUSTICE IN AN UNFAIR WORLD 13

don Brown, has proposed an “International Financial Facility” to increase spending on foreign aid targeted at the poor, and President Jacques Chirac of France routinely floats the idea of a “Tobin Tax” on international financial transactions in order to finance development. Whatever the practical merits of these proposals, they indicate the cosmopolitan sensibility of treating people, qua ethical “units,” as members of one universal community, each of whom has a claim on the world’s resources.

It must be emphasized that cosmopolitans take seriously, in a way that many other theoretical traditions do not, the problems of state failure and of unjust states. While recognizing that states *could* serve the cosmopolitan end of a social arrangement in which each individual is treated equally or fairly, they also accept that many governments around the world lack the will or capability to provide for the basic needs of their citizens, especially those citizens who, owing to income, gender, religion, or ethnic background, are most vulnerable to life’s vicissitudes. Cosmopolitans simply reject the notion that the bad luck of certain persons to find themselves locked up in states that deny basic human needs, much less basic human rights, is reason enough for those of us who are more fortunate to turn our backs on their plight. As a consequence, “cosmopolitans have argued that efforts to secure justice should focus on the reform of social arrangements beyond the nation state.” In this book, we will consider some of the proposals along these lines: for example, the oft-heard calls for tying international trade agreements to “higher” labor standards.<sup>30</sup>

The prioritarian view of international economic justice poses a profound set of theoretical and policy challenges. While not denying the roles and responsibilities of na-

14 CHAPTER 1

tional elites in extracting rents from their societies and oppressing the poor, this position forces us to ask whether the international arrangements that shape the global economy—which were, of course, designed by these very same elites—actually help or hinder the life chances of the world’s most vulnerable citizens, no matter where they live, or whether they simply serve as vehicles for the rich and powerful. If the entire story of international institutions can be reduced to the interests of the privileged few, then one must be pessimistic about any chances for reform—at least peaceful reform—since these institutions’ architects, who represent the dominant interest groups, are unlikely to have much motivation to share their part of the pie with others.

Although I am sympathetic to the prioritarian model of international economic justice, and appreciate its decision rule—that social arrangements must promote the life chances of those who are most vulnerable—it is not a framework that I emphasize in this book, building instead what I consider to be a largely complementary, statist approach. This is because I believe that any discussion of international justice must take seriously the character of relations among states, and this has been a weakness in much of the normative literature to date. After all, it is governments that sign treaties and agreements, impose sanctions and boycotts, and make war and peace, and it is governments that—for good or for bad—are ultimately accountable for their actions at home and abroad.

To be sure, much can be done to ease the plight of the poor and the excluded even in the context of an unjust international system, and I have no doubt that individuals, operating alone or more powerfully in groups such as nongovernmental organizations, can make a positive dif-

ECONOMIC JUSTICE IN AN UNFAIR WORLD 15

ference. Having said that, I would assert—indeed, I will try to show—that governments can feasibly build a fairer world that improves each nation’s chances for sustained growth, which remains the single best instrument we know for durably improving the lives of those millions who are poor and excluded. Demonstrating that proposition—that a fairer international economy is possible—is the major burden of this book, and in the following sections I develop the theory that motivates my argument.

**Liberal Internationalism and Economic  
Justice: An Introduction**

The liberal internationalist perspective that I elaborate builds on a perspective that Charles Beitz has labeled “social liberalism.”<sup>31</sup> Social liberals hold that international justice is built upon two distinct social compacts: first, a domestic compact, which provides societies with their basic principles of distributive justice; and second, an international compact, which provides states with the “background conditions” for the pursuit of their national welfare objectives.

At the international level, therefore, social liberals adopt a “statist” approach, asserting that states have ethical borders, and as such assume duties and responsibilities toward one another, however “weak” or “thin” these might be, in light of the absence of effective enforcement mechanisms. In this sense, liberals may be distinguished from cosmopolitan theorists on the one hand, who hold that only individuals can be conceived of as moral agents, or globalization theorists on the other, who claim, “The nation-state is just about through as an economic unit.”<sup>32</sup>

16 CHAPTER 1

Many social liberals locate domestic economic justice (or injustice) in particular sorts of *outcomes*, such as rising income inequality or mass poverty; this type of analysis is often called “consequentialist” in the philosophical literature, since its main concern is with the consequences of different public policies. They therefore submit that a just domestic society would seek to eliminate or rectify such undesirable outcomes. Similarly, a just international society would be one that provides its member states with the opportunities to develop their own capabilities for escaping poverty and enjoying the fruits of sustained growth, say, through free trade policies or the provision of foreign assistance.

While I certainly agree that international injustices may be located in particular outcomes, I also emphasize the normative stance of libertarian or procedural theorists, who find justice (and injustice) in the rules and procedures that shape market relationships and transactions. I do not believe that such rules are always *sufficient* for establishing a level playing field—a soccer team from a small university hardly enjoys a “level playing field” in its contest against Real Madrid, even though the ground rules are the same for both teams—but they are *necessary* to any theory of justice and should not be overlooked.<sup>33</sup>

I therefore call my theory *liberal internationalist* because it is primarily concerned with nation-states and their interactions.<sup>34</sup> Liberal internationalists hold that something like a “society of states” has evolved over time, with its members—that is, states—gradually assuming rights and obligations with respect to a set of generally agreed-upon principles, norms, and rules. The fundamental norm that regulates the international community is respect for state sovereignty and, consequently,



ECONOMIC JUSTICE IN AN UNFAIR WORLD 17

there is a generally accepted right to noninterference in domestic affairs.

These principles imply that the cornerstone of international justice is equality in the status of states, and this provides the basis not only for international negotiations and agreements, but for world order more generally. To be sure, such equality is fictive when placed against the distribution of power—once again, my soccer team is in no way equal to a professional club, even if we agree on the rules that define the game—and it is military power that gives world politics its fundamental structure. But as we will see in future chapters, the distribution of power does not necessarily provide a complete account of state behavior and outcomes, at least in the economic realm. Because states also have an interest in order and stability, they may forgo relative gains today in the interest of building a robust system that all participants view as being reasonably fair.

According to liberal internationalists, the few principles of international justice that exist, such as sovereignty and equality, are vital to world order, even if adherence to them is often halfhearted and inconsistent. Indeed, these principles define world politics in nontrivial ways and provide the basis for the articulation of an increasing number of rules and ever-deeper interactions, including those associated with the global economy. Liberal internationalists therefore tend to conceive of economic justice in terms of the mutually advantageous and noncoercive agreements that states reach through the process of multilateral negotiations.

The challenge that these states face in their negotiations is how to construct and maintain economic arrangements that each one of them views as being in its

18 CHAPTER 1

interest. From the realist standpoint, which holds that states must be motivated by the search for “relative” as opposed to “absolute” gains, such an arrangement is nearly impossible to achieve, since of course not every state enjoys relative gains vis-à-vis the others. As a consequence, many realist scholars of world politics have asserted that it is impossible to create cooperative economic institutions in the absence of a hegemonic power.<sup>35</sup> Later in this chapter I will show why this view is excessively pessimistic.

In an important sense, the international community has adopted, if only rhetorically, a variant of the liberal internationalist approach to economic transactions for most of the post-World War II era. That is, the system has been largely built on the normative foundation of equality among states, and most countries have been included in the major economic regimes, such as the World Trade Organization and the International Monetary Fund. But liberal internationalists do not hold, of course, that contemporary economic arrangements among states actually create a level playing field. As Dani Rodrik reminds us, “Global economic rules are not written by Platonic rulers . . . those who have power get more out of the system than those who do not.”<sup>36</sup> Indeed, a central normative concern of most liberal internationalist thinkers is to understand, expose, and criticize the exploitative use of power relationships among states.<sup>37</sup> As already noted in the preface, a just international system would be inclusive, participatory, and welfare-enhancing, meaning that it would give the smallest and poorest states greater voice in the system than they have at present. This theme will be taken up again in the following chapters.

ECONOMIC JUSTICE IN AN UNFAIR WORLD 19

Charles Beitz has offered what remains the deepest philosophical critique of our present international economic order from a liberal internationalist perspective.<sup>38</sup> Like other liberal internationalists, Beitz represents the international system as a society of states whose representatives are tasked to establish a set of just principles that are to serve as the basis for the political and economic arrangements that are to govern their interactions. By applying certain aspects of Rawls's conception of domestic justice to world politics, and to the international economy more specifically, however, he arrives at some fairly radical results.<sup>39</sup>

Drawing on Rawls's characterization of the "original position," Beitz has us imagine a group of representatives from rich and poor countries who are bargaining over the terms of their interactions. Since they are negotiating from behind a "veil of ignorance," unaware of their particular resource endowments, he assumes that each negotiator would be risk averse and thus fearful about his or her particular condition. He posits that "not knowing the resource endowments of their own societies . . . they would agree on a resource redistribution principle."<sup>40</sup> The resource redistribution principle is Beitz's rough analogue to the Rawlsian difference principle, in that its objective is to improve resource endowments in the least-advantaged country, providing what he considers to be the background conditions necessary for economic growth. And since states have no prior moral claim to the resources located on their territory, patterns of inequality and poverty that result from an international system that does not redistribute such resources will be unjust. (Ironically, in *The Law of Peoples*, John Rawls rejects this by asserting that it is a country's institutions, not its resources, that provide the

20 CHAPTER 1

necessary background conditions for growth; in support of this he cites the literature on the “natural resource curse,” which shows that countries rich in oil and minerals generally have poor economic performance.)

Even if we accept the need for economic redistribution, it does not follow that a coerced *resource* redistribution mechanism is necessary to provide the background conditions that enable states to achieve sustained development. In the interest of constructing a “realistic utopia,” or providing a politically feasible mechanism for building a fairer world, we would do well to remember that welfare-reducing policies should be avoided.<sup>41</sup> Fortunately, a resource redistribution mechanism exists that is welfare-enhancing for all participants, and it is called free trade.

This claim on behalf of free trade as a welfare-enhancing redistributive mechanism is based on the thesis of economic convergence. Most countries are abundant in certain factors of production relative to other countries. China, for example, is relatively abundant in labor compared to Sweden, but Sweden is relatively abundant in capital as compared to China. When China and Sweden trade, they are actually redistributing their relative endowments of labor and capital, with Sweden receiving some labor from China (as embodied in imports of labor-intensive goods) and China receiving some capital from Sweden (as embodied in imports of Sweden’s capital-intensive goods). Further, to the extent that China started trading with Sweden (and other advanced industrial countries) from a less-developed economic level, its rate of economic growth should actually exceed Sweden’s over a relevant time horizon, as it reallocates its domestic resources to their most efficient use, attracts investment that seeks a high return, and imports the latest technology

ECONOMIC JUSTICE IN AN UNFAIR WORLD 21

and management know-how. Indeed, free trade may be viewed as a uniquely suited instrument for promoting international economic justice, for the very reason that it bolsters the growth of the least-advantaged regions in a manner that is welfare-enhancing for all states.

Unfortunately, there is relatively little empirical support for the proposition that globalization is promoting convergence in growth rates or incomes among nations. And many economists argue that this is because developing countries have struggled to create the “right” sorts of institutions, say, institutions that protect property rights and civil liberties. They therefore lay the blame on domestic politics and policies rather than on the character of the international system.

Consider, for example, the assertion that “countries . . . shape their own destiny,” which was often made by Lawrence Summers during his tenure as US treasury secretary in the second Clinton administration.<sup>42</sup> That statement reflected both his theoretical and his empirical understanding of the development process. Summers had drawn from modern growth theory the lesson that domestic policies and institutions are crucial in providing the underlying conditions necessary for investment and innovation, while empirically he knew that the *divergence* in the growth trajectories of nations during the postwar era has been dramatic, especially when compared to the *convergence* that globalization theorists would have predicted. When theory and data are combined in this way, they seem to lead easily to the conclusion that the international system exercises relatively little influence over the development process, and thus the assertion that “countries . . . shape their own destiny” appears correct.

But is this really an accurate depiction of the political structures that shape global economic transactions? Are they as benign and insignificant as Summers would have us believe? A liberal internationalist would suggest that the answer to these questions is not so obvious, and in a world where wealth and power shape the terms of international exchange, tilting the playing field in one direction or another, it would hardly be shocking to find that our public policies are failing to serve the interests of those states with the least voice in the economic system.<sup>43</sup>

The question thus remains as to whether the international system really presents a level playing field for each and every state. It is *not* (I would argue) the end of international economic justice to equalize economic performance through coercive resource redistribution—even if that were desirable and possible—but rather to provide the background conditions that make it possible for *all* states to exercise their comparative advantage and achieve sustained growth. Such an approach to justice, I have argued, is welfare-enhancing for all. But as we will see in the next chapter, the international trade regime remains firmly tilted against developing countries in important respects. For the liberal internationalist, only once it has been leveled, so that countries that wish to enter the global economy are able to do so, can the international community claim to have fulfilled its most basic duties in justice to each and every state.

But why should states even care about building a fairer global economy? What would possibly motivate them to do so? Why would powerful states not simply exploit the weak to the greatest extent possible, as indeed they have done throughout history? In the following sections, I will try to answer these critical questions. But first, I empha-

ECONOMIC JUSTICE IN AN UNFAIR WORLD 23

size why it is that a theory of *international* economic justice must differ in important respects from a *domestic* theory of resource allocation, since this distinction—which some would reject on moral grounds—is absolutely critical to the liberal internationalist perspective that I adopt.

### On Economic Justice, Domestic and International

In political practice, as in academic scholarship, it is notable that no single model of distributive justice has yet become dominant around the world—even among liberal democracies living at “the end of history.”<sup>44</sup> To the contrary, polities appear to maintain significant discretion over their allocative and distributive principles. To simplify an extremely rich and complex picture, we might say that the Anglo-Saxon democracies have adopted a theory of distributive justice grounded in equality of opportunity, in which societies seek to provide the background conditions (e.g., access to education and credit markets) that permit individuals to realize their talents to the best of their abilities, whereas the Scandinavian welfare states are closer to providing “equality of resources,” through wage compression, social policies, labor market institutions, and highly progressive tax structures. This rich variety of distributive schemes and principles confirm J. S. Mill’s assertion that the “distribution of wealth . . . depends on the laws and customs of society. The rules by which it is determined . . . are very different in different ages and countries; and might be still more different, if mankind so chose.”<sup>45</sup>

24 CHAPTER 1

For a theory of international economic justice, this diversity of national schemes has a critically important implication. *What it suggests is that a just international economic arrangement among sovereign states must be supportive of each of their domestic social compacts.* That is, the international economic system must be constructed so that each polity accepts it as operating to its mutual advantage. To cite once again John Ruggie's famous phrase, international economic policies must be consistent with the bargain of "embedded liberalism" that each government has struck with its own polity, the bargain that globalization will be used as an instrument for maintaining and enhancing the social contract.<sup>46</sup>

The reference to "embedded liberalism" will naturally lead readers to think that I am limiting my discussion of international economic justice to justice among states that the late John Rawls would have called "well-ordered."<sup>47</sup> But it is not my intention to be quite so restrictive. My purpose is to make the case for the minimal set of economic arrangements that a diverse collection of states might agree to, given very different definitions of what constitutes an acceptable domestic social compact.<sup>48</sup>

As we will see in later chapters, international tensions will undoubtedly arise between states that define their social compact differently, as in the case of labor rights, which democratic societies may value more highly than authoritarian regimes, or in the case of the prohibition on child labor, which rich countries may value more highly than poor countries in which children routinely work. And that leads to the question of how the international community can resolve such tensions in the interest of maintaining an international economic system that is participatory, inclusive, and welfare-enhancing. One



ECONOMIC JUSTICE IN AN UNFAIR WORLD 25

answer might be to posit the establishment of some truly global or supranational authority with the power to establish minimal social norms for all countries that wish to participate in global exchange (the International Labor Organization's "core labor standards" provides a possible model), while another might be to suggest that such conflicts can be resolved only through the exercise of hegemonic or imperial power that forces a particular set of social norms on others.

The more modest position that I take here, in contrast, is that the members of the international community would find justice only in a multilateral arrangement that enables each of them to maintain their own domestic social compact, in short, that respects their sovereignty with respect to their social norms. To be sure, there may be cases in which states practice such flagrant abuses of what are widely accepted as fundamental human rights that the international community would decide to intervene with sanctions or force, but such situations will be rare, because states would have to be convinced that their intervention will be welcomed by the local population and that it could actually improve the situation on the ground. Less dramatically, states may be tempted to sanction others because of labor, environmental, or other practices they deem unacceptable, an issue we take up in some detail in the chapter on justice in labor and migration. In general, however, states will rarely intervene in order to alter domestic social arrangements elsewhere.

Now the international system has two characteristics that are essential to understanding that a theory of economic justice pitched at the level of the society of states cannot be identical to a theory that presupposes a more or less self-contained domestic polity. First, the international

system is anarchic, lacking any supranational government or superior authority. Second, as noted earlier, the society of states is characterized by a diversity of national approaches to distributive justice, a diversity of domestic social compacts. This is the environment in which the members of the international community must seek to find the common ground of justice. Thomas Pogge makes this point well when he writes, “While the world can contain societies that are structured in a variety of ways . . . it cannot itself be structured in a variety of ways.”<sup>49</sup>

In the international setting, where states bring their own domestic conceptualizations of distributive justice to the table, their own social compacts, the challenge of creating a system that each one views as being fair or of mutual advantage would seem overwhelming, and perhaps impossible to meet, at least absent a dominant or hegemonic power that imposes its rules of the game on all the actors. Lacking a central enforcement authority that has the power to coercively redistribute the planet’s wealth through tax or resource transfers, so that impoverished Chad can enjoy its “fair share” (whatever that might be) of Saudi Arabia’s oil bounty and Iowa’s fertile farmlands, the society of states must somehow reach agreement on an economic arrangement that each of them accepts as being participatory, inclusive, and welfare-enhancing, that is, a system that operates to their mutual advantage. In the next section I try to develop such an approach.

### **A Theory of International Economic Justice**

For international relations theorists of the realist school, cooperation among states is scarce because world politics

ECONOMIC JUSTICE IN AN UNFAIR WORLD 27

resembles a prisoner's dilemma game. Since states are always insecure, the threat of conflict and war inevitably casts a shadow over their relations. The result is less cooperation and more conflict than states would rationally choose if their sole objective were welfare maximization. Realists therefore assert that a dominant power, a hegemon, may be necessary to overcome this tragedy by imposing order on the international system. Conversely, cooperation is unlikely to occur when the distribution of international power is characterized by multipolarity, that is, when several states possess similar levels of power resources. Under the condition of multipolarity, security will be in short supply and the logic of relative gains will predominate. The probability of achieving durable cooperation in this setting is therefore miniscule.

Does realist logic inevitably lead states toward conflict and war? The surprising answer is no. In fact, states in a multipolar system may be predicted to act in such a way as to *balance* power, so that no hegemon emerges among them. As Bruce Bueno de Mesquita and David Lalman have put it, "If there is any distinctively political theory of international politics, balance-of-power theory is it."<sup>50</sup> Balance-of-power theory means that any potentially war-like state should have second thoughts about pursuing an aggressive policy against its neighbors, since systemic pressures will lead other states to form an alliance to challenge it. The only *rational* outcome for dissatisfied states in the international system is either to redress their grievances through negotiation or to accept the status quo, since war or the threat of violence will always cause a balance to form against the aggressor, making its ultimate victory unlikely. For the policy maker, then,  $N > SQ > W$ , where  $N$  is negotiation,  $SQ$  is the status quo, and  $W$  is

war. This ranking is of tremendous consequence for international relations theory, since it leads to the conclusion that *war is not an inevitable product of the anarchic structure of the international system, but is rather due to purposeful foreign policy decisions made within nation-states.*

To illustrate this point using the specific example of economic policy, let us suppose, following the theoretical approach first developed by Jack Hirshleifer, that states can generate national income either by producing it themselves on the basis of their own resources, coupled with peaceful foreign trade, or by invading other nations and seizing their resources.<sup>51</sup> Knowing that each potential trading state is also a potential aggressor, rational governments will seek to minimize the risk of being invaded. They can do this by acquiring weapons and building up military power, but that will lead to a costly arms race and may actually increase the risk of war, in prisoner's dilemma fashion. Alternatively, each state can seek to mollify potential adversaries by seeking to negotiate what Hirshleifer has labeled a "potential settlement region" (PSR), or a zone of peace. Within the PSR, the benefits that flow from peaceful exchange outweigh the costs associated with a violent takeover of foreign resources. *A crucial element in establishing the PSR, the zone of peace, may be the potential for mutually advantageous trade.*

But isn't the promise of economic cooperation inevitably upset by the search for relative gains? How can states strike agreements if they are uncertain as to who will gain and who will lose in the bargain? This realist critique of cooperation theory again suggests that international arrangements must reflect the preferences of a dominant power that structures the global economy in its own self-interest.

ECONOMIC JUSTICE IN AN UNFAIR WORLD 29

Yet there are several problems with a theory of cooperation based on the logic of exploiting only relative gains. First, the terms of trade are often uncertain. They may be in favor of Country A today, but tomorrow they could favor Country B. Indeed, the terms of trade exhibit a fair degree of stochastic or random behavior over time, making it difficult for countries to be certain that they will be “winners”—at least in a mercantilist sense—over a politically relevant time horizon.

Second, the logic of relative gains overlooks the problem of opportunity cost. Let us imagine that the United States is fearful of striking a trade agreement with China because it believes this will enable China to grow at a faster rate, making it wealthier and more powerful as a result. Although policy makers in Washington might be tempted to reject the agreement for that reason, they would also recognize that leaving China outside the economic system may have political costs as well. If rejected by Washington, Beijing might be tempted to focus its attention on regional arrangements in Asia, and to ally with others who are dissatisfied with the American-led trade regime. Over time, this trade rivalry between the United States and China could spill over into other issue areas, making the international system less stable as a result. In contrast, by locking China into the global economy and the international institutions that govern exchange, the chances for maintaining a more peaceful and prosperous world would increase.

We are now getting closer to an ethical theory of international relations, one that is grounded in the policy *choices* that states make. If governments know, for example, that peace is more likely when trade expectations are high, and that war is more likely when they are low, this

30 CHAPTER 1

suggests that they can shape the international environment in which they exist, for better or for worse.<sup>52</sup> They can act in such a way as to promote a peaceful world, by increasing trade with one another. As Robert Keohane has written, “Without altering the basic structure of anarchy, governments can make the world safer, or more dangerous, through the strategies they follow.”<sup>53</sup>

On what basis would this expansion of commerce take place? Traditionally, trade agreements—and international agreements more generally—have relied on what Keohane has called “specific reciprocity,” referring to “situations in which specified partners exchange items of equivalent value in a strictly delimited sequence.”<sup>54</sup> In trade negotiations, for example, countries offer up tariff concessions of equal value in the quest for a deal, with the Europeans opening their markets to one billion dollars of American exports if the United States does exactly the same. The game-theoretic strategy of “tit for tat” provides an example of specific reciprocity, and its power in promoting cooperative outcomes should not be underestimated. As Robert Axelrod demonstrated in *The Evolution of Cooperation*, tit for tat maximizes payoffs to the players in an iterated as opposed to a one-shot prisoner’s dilemma game. Since trading relations are likely to be iterated, specific reciprocity would appear to be a sound strategy for the players to adopt, and indeed it figures prominently in the international trade regime that is institutionalized in the World Trade Organization.

But cooperation based on specific reciprocity should not be confused with an international arrangement that is necessarily considered just or fair or of mutual advantage. As Keohane has written, “Because reciprocity implies returning ill for ill as well as good for good, its moral status

ECONOMIC JUSTICE IN AN UNFAIR WORLD 31

is ambiguous.”<sup>55</sup> An equivalent nuclear exchange may provide a good example of specific reciprocity, but it could hardly be considered an arrangement of mutual advantage.

Further, and of greater consequence from our perspective, equivalent exchange may simply be unfair in a world of unequal state actors. Imagine a trade regime based only on specific reciprocity. Country A will offer up, say, one hundred million dollars of tariff reductions to its trading partners in the World Trade Organization if Countries B, C, and D do the same. But if Country A is, for example, the United States of America, and Country B is Bangladesh, specific reciprocity will either fail as a formula or provide fewer benefits to each party than would be the case under an alternative arrangement. Following Keohane, I call that alternative approach to negotiation “diffuse reciprocity.” In the multilateral trade rounds, it is generally known as “relaxed reciprocity,” or the provision of benefits to developing countries that are not fully reciprocated.

Keohane explains that under “diffuse reciprocity . . . the definition of equivalence is less precise, one’s partners may be viewed as a group rather than as particular actors, and the sequence of events is less narrowly bounded. Obligations are important. *Diffuse reciprocity involves conforming to generally accepted standards of behavior*” (italics added).<sup>56</sup>

In policy terms, the notion of diffuse reciprocity could mean that countries exchange concessions on the basis of their relative economic size, as opposed to equivalent exchanges of equal value. In short, diffuse reciprocity suggests that “special and differential” treatment for certain states, particularly those that are relatively poor and underdeveloped, may be required as part of a just trading order, as I will elaborate in the next chapter, on justice in trade. But it is only by incorporating some notion of dif-

fuse reciprocity that a global economy can be built that is truly inclusive and participatory; under strict tit-for-tat reciprocity, in contrast, some countries will simply be excluded from the negotiations (even if they might enjoy benefits from it).

Keohane stresses that unbalanced economic relations need not be considered “an unsatisfactory basis for long-term relationships.” In support of this view, he cites the work of the anthropologist Marshall Sahlins, who has shown that among “primitive” tribes “a measure of imbalance sustains the trade partnership, compelling as it does another meeting.”<sup>57</sup> In a similar vein, Keohane suggests that “in the world political economy, international regimes make temporary imbalances feasible, since they create incentives (in the form partly of obligations) to repay debts.”<sup>58</sup> Again, it is the *iterated* nature of the social arrangement that helps promote rules and outcomes that are viewed as just by the trade regime’s participants.

Why would great powers adopt a policy of diffuse or relaxed reciprocity in which they negotiate with and provide a level of benefits to smaller, weaker states that may not be returned in full? The answer is because the resulting international structure is likely to be more robust, more stable, as a result. World politics is full of uncertainty, and at some point small, dissatisfied powers might seek to alter the status quo. Psychological studies of violent behavior have asserted that “the idea of justice or fairness may be more centrally related to attitudes toward violence than are feelings of deprivation. It is the perceived injustice underlying the deprivation that gives rise to anger or frustration.”<sup>59</sup> Relatedly, Donald Puchala and Raymond Hopkins have written, “The degree of bias may make a considerable difference in a regime’s durabil-



ECONOMIC JUSTICE IN AN UNFAIR WORLD 33

ity. . . . ‘Fairer’ regimes are likely to last longer, as are those that call for side payments to disadvantaged participants. . . . Furthermore, it can make a difference whether the norms of a regime *permit movement between the ranks of the advantaged and disadvantaged*” (italics added).<sup>60</sup>

The legal theorists Francesco Parisi and Nita Ghei provide, from a game-theoretic perspective, a rationale for why the norm of diffuse reciprocity can provide a stable basis for cooperation. They examine a game setting in which players “undertake repeated transactions in a stochastic game.” What this means is that there is an element of randomness attached to possible outcomes, or “role reversal” in which, say, State A might be a winner in one round of play but a loser in a subsequent round. This is not to argue that world politics is stochastic in exactly the same sense—most states that are “on top” today will still be there tomorrow—but the uncertainty that resides with the system leads states to act prudently, particularly when the price associated with prudent behavior (e.g., by incorporating small nations into the trade regime) is fairly low.<sup>61</sup>

Under these stochastic or random conditions, “a high probability of future interaction is more likely to increase the expected payoff from cooperation.” Specifically, stochastic reciprocity suggests that “an agent cooperates, not in expectation of a specific reciprocal reward, but some general reciprocal return in the future.”<sup>62</sup> Examining the international trade regime, Keohane recognized a similar pattern when he asserted, “States in reciprocal relationships with one another often do not have identical obligations.”<sup>63</sup>

As already mentioned, stochastic uncertainty causes states to act prudently, to behave cautiously with respect

34 CHAPTER 1

to the future course of world politics, and it encourages them to buy options against the possibility of future conflict. If a group of states is dissatisfied with the status quo, they might at some point seek to revise or overthrow it. A prudent state will therefore try to ensure that potentially dissatisfied states also view the status quo arrangement as being to their mutual advantage. Instead of adopting maximizing behavior in their international relations, great powers may come to recognize that the strategic use of coercion or force carries its own risks, particularly as it could catalyze a backlash by smaller states. *We will see in the next chapter, on justice in trade, that the outcomes of international trade negotiations are not neatly explained with reference to the distribution of power.* There is a significant “residual” that seems to emerge from a concern with achieving a “fair” or “equitable” outcome, in which each member state believes that the deal that was struck took its particular interests into account.

Political scientists have long hypothesized that, in many settings, noncoercive arrangements are likely to be more robust and less costly to maintain than policies that rely on the use of coercion or force.<sup>64</sup> Henry Kissinger put this sentiment well when he wrote that “agreement on shared values inhibits the desire to overthrow the world order.”<sup>65</sup> Andrew Hurrell makes a similar point when he argues, “A great deal of the struggle for political power is the quest for authoritative control that avoids costly and dangerous reliance on brute force and coercion.”<sup>66</sup> As usual, E. H. Carr said it best when he wrote, “Those who hope to profit most by [a political] order can in the long run only hope to maintain it by making sufficient concessions . . . to those who profit by it least.”<sup>67</sup> In other words, there is power in moral reasoning.<sup>68</sup>

ECONOMIC JUSTICE IN AN UNFAIR WORLD 35

Again, a central finding of this line of analysis is that, far from discouraging international cooperation, uncertainty about the future course of world politics may actually encourage it! That is hardly an original observation; Thomas Schelling made it years ago when he described how agents use “focal points” in the presence of uncertainty.<sup>69</sup> As Barbara Koremenos, Charles Lipson, and Douglas Snidal have pointed out, states face “uncertainty about the state of the world,” and they correctly intuit that this uncertainty “may . . . make cooperation easier.”<sup>70</sup>

Modern game theory, building on models such as the “ultimatum game” (UG) and the stochastic game cited earlier, has made increasing use of uncertainty as an explanation for observed behaviors and outcomes. Under the one-shot, two-person UG, a Proposer (P) and a Respondent (R) have the opportunity to divide a sum of money. P makes an offer to R, who can either accept it or reject it. If R accepts the offer, P and R divide the money according to P’s proposal. If R rejects the offer, however, both P and R must walk away from the table empty-handed, so that neither of them wins any money at all.

The classic, rational actor model of *homo economicus* would lead us to predict that P would make R a lopsided distributive offer of, say, 99/1; that is, P would offer R 1 unit, while keeping 99 units to herself. For the profit-maximizing agents in this one-shot game,  $1 > 0$  so both P and R are made better off even by this “egoistic” division. Maximization strategies, therefore, lead to very unequal divisions of the pie.

But experimental economists, repeating the UG in a variety of countries and under a variety of conditions, have observed a puzzling result. As Nowak, Page, and Sigmund report, “Obviously, rational responders should

36 CHAPTER 1

accept even the smallest positive offer, since the alternative is getting nothing. Proposers, therefore, should be able to claim almost the entire sum. In a large number of human studies, however, conducted with different incentives in different countries, the majority of proposers offer 40 to 50 percent of the total sum; and about half of all respondents reject offers below 30 percent.<sup>71</sup> The experimental economists Ernst Fehr and Simon Gächter describe R's rejection of P's offer as an example of "negative reciprocity"; that is, an offer that is perceived by R to be unfair is answered with rejection.<sup>72</sup> In contrast, fair offers by P and their subsequent acceptance by R provide an example of what they call "positive reciprocity."

Researchers have drawn several significant findings from the ultimatum game, each of which finds support in the present study.<sup>73</sup> First, Ps adopt moral reasoning or other-regarding behavior out of their self-interest. Proposers who do not care about what others think must nonetheless fear rejection of an "unfair" offer by R and the absence of any payoff whatsoever. The adoption of other-regarding preferences is therefore efficiency enhancing to the extent that it leads to an agreement and thus an increase in welfare for both of the agents.

Second, the Proposer's concern with achieving an equitable or fair result arises in part from *uncertainty* about how R will respond to its offer. If P knows that R will willingly accept a greedy offer, P will be much more inclined to propose a lopsided division. Not knowing R's response *ex ante*, P offers the amount it intuitively considers to be fair; more on this later.

Intriguingly, the game-theoretic setting described earlier, in which agents must make decisions about their economic interactions in the face of stochastic uncertainty,

ECONOMIC JUSTICE IN AN UNFAIR WORLD 37

also reminds us of the Rawlsian model of decision making with respect to a society's "basic institutions" or social contract. It will be recalled that Rawls's "original position" imagines a group of representative individuals who meet from behind a veil of ignorance, only knowing that they are expected to create enduring principles for their social interactions and institutions. These self-interested individuals may be expected to reach agreements that are ultimately in the collective interest because they imagine the changing life circumstances that could confront them or their children; in short, they must confront stochastic uncertainty and the possibility of role reversal, whereby a healthy person becomes ill or a rich person becomes poor. Keohane does not cite Rawls but makes a similar point when he writes of cooperation under diffuse reciprocity, "In such international regimes, actors recognize that a 'veil of ignorance' separates them from the future but nevertheless offer benefits to others on the assumption that they will redound to their own advantage in the end."<sup>74</sup>

The concept of diffuse reciprocity, of unequal exchange, is also consistent in important respects with Rawls's "difference principle," or the notion that just societies should maximize the life chances of those who are least advantaged. As Rawls says of this principle, it "expresses a conception of reciprocity. It is a principle of mutual benefit. . . . The social order can be justified to everyone, and in particular to those who are least favored; and in this sense it is egalitarian."<sup>75</sup> Notably, for Rawls the difference principle is crucial to social stability. Similarly, the concept of diffuse reciprocity in the global economy must take into account the resources and capabilities of each and every state, including those that are least advantaged.

38 CHAPTER 1

By drawing on the concept of diffuse reciprocity we can see how it is possible that rational egoists, in the absence of some external enforcement mechanism, may nonetheless be able to establish among themselves “conventions,” which are “forms of agreement that . . . depend upon the general consent or recognition of the society at large, rather than the formal recognition of a sovereign authority.”<sup>76</sup> As David Lewis famously argued, conventions are built through the establishment of precedents. That is, the way in which agents behave toward one another in period 1 will influence their actions in period 2.<sup>77</sup> If agents behave well in period 1, we may expect that they will behave well in period 2. If they behave badly, we may expect more of the same and respond accordingly. Exchange based on diffuse reciprocity thus becomes the basis for international economic interactions, as states recognize that strictly equivalent exchange does not provide a robust basis for mutually advantageous agreements, especially in the face of stochastic uncertainty.<sup>78</sup>

Nations that interact on the basis of diffuse reciprocity and that view their transactions as being repeated or iterated, will enjoy a much wider scope for mutually beneficial international cooperation.<sup>79</sup> And unlike the international setting suggested by realist theory—in which states are always tempted to cheat on the agreements they have made and thus need an outside enforcer—this cooperation need not be imposed by a dominant power. Instead, it may be established by self-interested actors that seek to maximize their joint surplus, in the same way that early institutions designed to support long-distance trading—which proved quite durable—were established based on a nongovernmental system of sanctions among the traders themselves.<sup>80</sup>

## **International Economic Justice as Equality of Opportunity**

International justice is “thin” at best. Its terms are generally vague, and to the extent it produces obligations, these are difficult to enforce. Governments routinely make pledges of all kinds—to increase foreign aid, to reduce pollution, to limit arms sales—that they fulfill only halfheartedly, if at all. Still, we have seen that even in this hostile environment, states may, out of self-interest, seek agreements that are generally viewed as “fair” or “other-regarding.”

Because states are unlikely to reduce their own welfare in order to improve the welfare of others, it is dubious that a principle of justice qua “equality of resources”—as Charles Beitz, among others, has advocated—would find much political resonance among the members of the society of states, however desirable it might be from the perspective of moral philosophy. States are often happy to trade their resources to other states, but they are usually less willing to give them away for free. What model of distributive justice, then, is consistent with a world in which little generosity can be expected?

One alternative is provided by the principle of “equality of opportunity,” specifically, the opportunity to achieve the world’s average rate of growth. Whether a government chooses to pursue that goal will depend on domestic factors; some polities, for example, may choose less growth and more leisure. This section elaborates on that perspective, which will be further developed in the subsequent empirical chapters.

In order to appreciate the power of an equal opportunity approach to international economic justice, we must

40 CHAPTER 1

spend a moment recalling growth *theory* and its import for the society of states. For generations, economic historians have proposed that developing countries will grow *faster* than rich countries, with a tendency toward catch-up in terms of per capita income levels; “this catch-up phenomenon is referred to as *convergence*” (emphasis in original).<sup>81</sup> Convergence can occur along several different pathways, but one of the most promising is via technology transfer, which comes through trade and foreign direct investment. As a trio of economists has reported, “virtually all growth regressions include a catch-up term that is generally rationalized as capturing international technology transfers.”<sup>82</sup>

We will see in the following chapters that international trade and investment provide states with an opportunity to reach the world’s average growth path while increasing social welfare, and thus free trade will likely have a prominent place in any discussion of international economic justice. To be sure, as already noted, countries may not seek high growth rates, choosing instead different social compacts with different values and trade-offs, or they may simply lack the political will to build the institutions needed to sustain growth. *Still, what the society of states can plausibly do is to make it possible for each country to achieve the world’s growth rate through free trade and other complementary policies.* Again, this approach is politically feasible because it is welfare-increasing rather than welfare-reducing, in contrast to the equality of resources position. It is in this sense that, following John Roemer, we associate policies that promote free trade with “equality of opportunity.”<sup>83</sup>

It is critical to emphasize that equality of opportunity is fully consistent with the concept of diffuse reciprocity described in the previous section, or an international sys-



ECONOMIC JUSTICE IN AN UNFAIR WORLD 41

tem grounded in maximizing the economic opportunities of the least advantaged or poorest states, in the same way that affirmative action may be viewed as consistent with a domestic notion of equal opportunity. This is because a trading system based solely on equivalent exchange of reciprocal “concessions” would simply not be capable of promoting equal opportunity; in such a system, smaller or poorer states would have little to offer those that were wealthier or less dependent on international commerce for growth. States, like domestic societies, will adopt equal opportunity policies in part because of stochastic uncertainty about the future course of world politics, or the concern that someday a dissatisfied country, or group of dissatisfied countries, could choose to band together to overthrow the status quo.

As Roemer and his colleague Humberto Llavador put it:

Primary to the conception of equal opportunity is the distinction between two attributes of the “individuals” among whom opportunities for some objective will be equalized—their “circumstances” and their “effort.” The circumstances of an individual (our individuals will be “countries”) are attributes that influence the degree to which it can achieve the objective in question (for us, a growth rate), and which are beyond its control, or are not changeable in the short run. In contrast, “effort” refers to actions the individual takes, which also influence the degree to which it achieves the objective, but which are deemed to be “within its control” or are changeable in the short run. . . . *[T]o equalize opportunities means to level the playing field, where the troughs and gulleys in the field are the disadvantages countries suffer . . . due to poor circumstances. Once the playing field is leveled by application of a judicious policy, then*

*the difference in outcomes will be due only to differences in efforts.*" [italics added]<sup>84</sup>

Within the framework of international economic justice, these national circumstances can be offset through the combination of free trade and foreign aid to promote open markets; having done that, domestic policies will then play a decisive role in determining growth rates.

To be sure, there are many practical difficulties associated with the removal of the economic and political barriers to national attainment. Just as individuals may face a multitude of roadblocks to success—their family background, neighborhood, income bracket, and so forth—countries may face barriers in terms of geography, natural resources, a lack of savings, or a lack of human capital. Under an equality of opportunity theory of international economic justice, the society of states must seek to remove the barriers to development created by their policies so that no state believes that the international “system” has conspired against it in such a way as to deny its growth prospects. Through free trade and foreign aid, for example, the international community does what it reasonably can to help countries to attain their highest growth path.

Free trade is essential to equal opportunity because it helps countries to overcome resource shortages by making available, in the international marketplace, goods and services in which they do not hold a comparative advantage, or makes available more goods than they can produce domestically. Further, trade, investment, and technology transfer can boost domestic growth rates. Foreign assistance can help countries overcome “bottlenecks” that may prohibit them from entering the global economy to the fullest extent. Conversely, trade barriers or discrimi-

ECONOMIC JUSTICE IN AN UNFAIR WORLD 43

natory customs unions undermine equality of opportunity, making it more difficult for states to do as well as they can. I treat justice in trade and justice in aid in considerable detail in the following chapters.

### **Conclusion: Toward Justice among States**

In this book, I endow economic relations among states with something like a moral character.<sup>85</sup> The approach follows closely the one taken by Hedley Bull in *The Anarchical Society*, and in many respects the present work may be seen in the context of the “English School” of international relations theory. Bull wrote, “Because states are the main agents or actors in world politics, ideas of interstate justice provide the main content of everyday discussion of justice in world affairs. Every state maintains that it has certain rights and duties that are not merely legal in character but moral: it contends that its policy is just in the sense of being morally correct *and demands equality or fairness of treatment as between itself and other states*” (italics added).<sup>86</sup>

My position, then, is that justice among nations may be said to exist and is a relevant category for theoretical analysis. Although I do not deny the pull of cosmopolitanism, I believe that this perspective can be made policy-relevant only in the context of a more peaceful and prosperous international system. When states deny one another the possibility of shaping their own destinies, it becomes much more difficult to achieve cosmopolitan objectives. In an important sense, cosmopolitan and liberal internationalist theories must find common cause if they are to promote greater global justice.

44 CHAPTER 1

But how can states, locked in the anarchic realm of world politics, advance the cause of international economic justice? And why would they do so when the instruments of brute force are always available to them?

In this chapter I have sketched a theory of international economic justice, grounded in the self-interest of states that interact in the context of an anarchic and insecure political environment. Concern with the stability of international arrangements, combined with the stochastic uncertainty associated with the global economy (and world politics more generally), makes it prudent for states to negotiate agreements that all members of the international community, including smaller and weaker nations, find reasonably fair or just. In the absence of these considerations of fairness and justice, states would have greater motivation to revise or overturn, perhaps violently, the status quo. By providing a level playing field on which states can do as well as they are able—through trade, investment, and limited access to foreign aid—the members of the society of states seek to ensure a more stable and prosperous world.

That summarizes the theory of international economic justice that I defend in this book. In the following chapters, we will have a chance to test it against the case studies of trade, aid, labor, and investment. As we will see, ideas of justice and fairness have crept into each of these issue areas, even in a world where the distribution of wealth and power remains the major determinant of international relations. The presence of these ideas is suggestive of the recognition among policy makers that durable and robust systems of international cooperation cannot be reliably built upon the threat of violence alone.