The Second Return ofUnchecked Capitalism

How an International Rule of Law can reap the benefits of the global market economy and strengthen national and regional sovereignty.
SUMMARY

Many in the Western world feel that something has gone terribly wrong. They see a systemic crisis, a crisis that stretches from the financial system to the political, from the ecological system to the social, from the availability of natural resources, food and water to their use.

It has been easy, especially of late, to identify mistakes and put the blame for those on politicians who have spent more than they should have had, on individual countries that are worse sinners than others, on inventions such as the Euro currency union or on the development of a global market economy, or, perhaps more correctly, the lack of adequate management of this development.

Others, especially outside the Western world, do not recognize the crisis, or see it as Western problem, often because they are benefiting from the forces which globalization has unleashed, more than they are hurt by the drawbacks. Hundreds of millions in Asian and other countries have after all been lifted out of poverty during the last decades.

Clearly, these are valid points and legitimate views. However, they are in my mind missing an important underlying trend and that is the destructive Second Return of Unchecked Capitalism. The public order has lost its upper hand in relation to the market and as long as this situation remains we will see the return of the drawbacks of un-checked capitalism. It will not be enough to correct mistakes in individual countries, not even within a currency union to get the development back on track.

I want to state from the outset that in my view the capitalistic system is the best system ever imagined to create wealth as it inspires one and all to develop their own life projects. The strengths of capitalism are numerous and the system continues to create technical progress, new products and services, accumulation of capital, growing markets, value for entrepreneurs and a global division of labour. Much is written about a capitalism in crisis, but the truth is that the system as such has never really been in crisis. It has, given the proper conditions, always delivered what it is best at.

That un-checked capitalism on the other hand, comes with severe shortcomings was proven already at the initial phases of the industrial revolution a hundred and fifty years ago. The industrial revolution did bring unprecedented progress but also serious problems. It is a question of judgement what were the worst, but I would point to four drawbacks in particular.

- Many workers were taken advantage of, while others were left unemployed.
- Distribution of income and wealth became unreasonably skewed.
- Nature and natural resources were exploited in a short-sighted way.
• Tendencies to establish harmful monopolies and block competition hampered development.

These negative side effects were felt by a majority of the populations in the early phases of industrialization. The popular unrest that followed gave rise to labour unions and the modern western democracies.

People called upon nation-states, governed with the consent of their citizens, to address the problems and create checks and balances that could ensure the benefits of progress being shared by all. Thus, over time a marriage of convenience evolved between the market economy and the Western democracies – some call it ‘liberal democracy’, others ‘democratic capitalism’.

The nation-states introduced different forms of control over the market economy, having the upper hand in the relation. The unchecked capitalism became a checked capitalism, bestowing on it a ‘softer’ name, market economy, but the underlying forces had not been changed, just slightly curbed.

In truth, the benefits of the market economy have never been shared by all in an equal way, but then few have really demanded it, outside the circle of those that vainly are dreaming about a communist planned economy. The majority seems to tolerate that some are more successful on the markets than others, as long as their desires are being increasingly met and they feel that they are shown sufficient respect.

The newly established marriage, however, between the nation-states and the market economy got into trouble after only a couple of decades. The drawbacks started to reappear in some Western countries, especially in the form of unemployment and inequality. Many view the First World War as part of this evolving systemic crisis. There was a Return of Unchecked Capitalism, not everywhere at the same time or in the same way, but where it cropped up, it eroded popular trust in the marriage and in both its partners, both the democratic system and the market economy.

Industrialization had been followed by an accelerated globalization and relocation of industries. This was a one-sided globalization; characterized by colonialism and exploitation of weaker countries by military means. Western industries wanted and gained access to raw materials and new markets.

The money involved increased rapidly as did the opportunities for fast rewards, which made the financial elite demand liberal financial markets. As a consequence, the globalized financial markets started to become flooded by speculative ‘hot money’ to use the language of the famous economist JM Keynes. A second consequence was that governments lost control of the flow of money.
There were early calls in many continental countries for protectionism and de-globalization in face of the rising unemployment; the responses by governments in the form of protectionism and other measures may even have deepened the crisis as it evolved into a Wall Street crash and the Great Depression.

The loss of confidence in the system that unavoidably followed, paved the way for the take-over by fascists all over Europe, finally leading to another World War. The Second World War broke the neck of globalization, the relative role of trade in the economy declined and the financial markets were re-nationalized and regulated.

The era of global “hot money” had ended and JM Keynes was the economist of the day.

What then followed was a period of steady growth and a flourishing marriage between the market economy and the Western democracies.

It is not until of late that we have achieved the same degree of globalization as before the Second World War. And now some drawbacks in the form of high unemployment and increased inequality within nations start to return. Some economic historians are observing the return of some disturbing imbalances and patterns. At the end of the first modern globalization period, the governments were, just like now, unable to control the global market economy, especially the forces of the financial markets. We have already had one severe global financial crisis and many see the early signs of a new such crisis. Some also warn of the risk for a prolonged recession in the Western hemisphere, similar to the one the Japanese experienced after their financial crisis fifteen years ago.

Others are concerned about the increases in money supply, rising oil and food prices that can easily create expectations of inflation, almost inevitably leading to inflation, demanding monetary policy responses, creating stagflation or even a global recession.

The parallels with history should not be drawn too far; the present globalization is much more balanced than the earlier one, driven as it is by an IT-revolution that has enabled a sophisticated and intricate global distribution of work. One important difference is that it is not only in the interest of the developed world, but also of the emerging countries that are benefiting most from globalization, that the global market economy functions in a reasonably stable and predictable way.

However, what seems more and more obvious is that we are seeing a Second Return of Unchecked Capitalism. The market economy has once again outgrown the nation-states and become global. It can no longer be controlled by any individual country or even by regional bodies such as the European Union. The checks and balances that the nation-states have exercised on the market economy have withered away as the globalisation process and the
liberalization of the financial markets have shifted into a higher gear, without the much needed balancing institutional development.

The power balance between the public order and the financial markets has once again been reversed. The public order has to act within the space offered by the financial markets, not the other way around.

In hindsight one may argue that the Western democracies should have seen it coming. It has over the last decades become increasingly difficult for nation-states to meet the aspirations of their citizens for developed social services, education and other public goods. A main reason has been the lost ability to tax their global companies and their wealthiest citizens, who, in order to avoid taxes and by way of regulatory arbitrage, have been able to take advantage of an unregulated global market economy.

Almost all Western nation-states responded to the new environment by running deficits of their public finances, heavily borrowing, initially mostly on the domestic markets, but increasingly on the global financial markets. As public debts began to reach unsustainable levels and doubts about the advisability of this route started to spread, a new opportunity was offered. It was argued that globalization demanded liberalized financial markets. As a side effect of the forthcoming deregulation, individuals were also able to borrow aggressively for their consumption. This irresponsible lending of money soon created the major ‘bubble’ that led us into the worst financial crisis since the Great Depression.

The Western economies, whose laid-back regulation of the financial markets and relaxed financial policies created the crisis in the first place, have, after rescuing their banks, surfaced debt-laden and significantly weaker than before the financial meltdown and are now facing a new, and more austere, reality.

The loss of national sovereignty to the financial markets is mostly felt in the Southern European countries. The Northern European countries have for their part shown a remarkable lack of empathy for their situation, possibly not realizing that they also have lost most of their own sovereignty. It is true that the Southern countries have acted more irresponsibly than the Northern countries, but it is a difference of degree, rather than of substance.

History is presently repeating itself in a tragic way. The Northern European countries are now reacting just as the US and the UK did at the First Return of Unchecked Capitalism. As they are not yet suffering from the consequences themselves, they have, just like the US and the UK then, meagre understanding of the pain that unchecked capitalism causes the populations in Southern Europe. Many seem to be unable to fathom the horror of mass unemployment and provocative increase of inequality, and – above all – the loss of hope.
Why is that? One explanation is that many politicians are prisoners of a faulty economic theory – the idea that the markets left to self-regulation will create growth and income distribution that will benefit all.

According to this theory, all the Southern European countries have to do is cut the public sector, deregulate and liberalize their markets. Although there is some truth in the need for those actions, since the countries concerned have indeed gone too far in offering public services they cannot afford, there is however little evidence that such measures will in themselves lead to growth and a harmonious development in an un-checked environment. I will in this report offer evidence why this re-emerged “trickle-down” theory is theoretically flawed.

There is also another way of reading the situation. The political reluctance of the Northern European countries to help out, dressed in faulty principles, may just be a way to make politics out of a necessity; a reflection of the fact that the politicians no longer have the sovereignty to act in a substantially different way. Also Northern European politicians feel the constraints of the global financial markets and many see their first priority to be to follow the requests of the markets, not the demands of their citizens.

I will not discuss the European dilemma in this report and I will make no prediction on the outcome. Will the Euro break down and the UK leave the EU in a popular referendum 2015, putting an end to the European Project? Or will the European politicians find a way to muddle through, save the Euro and the European Project? I personally hope and believe in the second outcome, but it has to be recognized that neither outcome will solve the problem of the Second Return of Un-Checked Capitalism. For that, there is a need of a global solution.

So, what else can be done? Many, especially within the Political Left, are arguing in favour of a global government that can control the emerging global market economy. This is an idea with a long history going back to philosophers such as Immanuel Kant. Modern thinkers, e.g. the political scientist David Held, see a step by step development of global institutions, often linked to an expansion of the UN family. The national marriages between democratic nation-states and the national market economies would in this vision be replaced by a marriage between a global government and a global market economy.

This is not an easily sold proposition. The opposition that most people spontaneously express when faced with the idea is, to my mind, deeply rooted in human nature. In this report, I delve into how life scientists understand our human complexity and why we tend to demand that social and cultural conditions be decided by people as close to us as possible, with whom we can identify ourselves. We may have a global market economy, but there is no appetite for a global society.
Nor is there any political support for a global government. In fact, in the US there is no political majority for any actions at all that can curb unchecked capitalism or put restraints on the global financial markets. Election mathematics makes it clear that there will be a solid majority against any such efforts in the House of Representatives regardless of the outcome of the 2012 elections.

This may seem to leave those that want to restore the checks and balances between the public order and the market economy, with only one workable alternative: De-globalization and re-nationalization.

The economist Dani Rodrik claims that we have to choose: We cannot have a global market economy and national democracies at the same time. He has developed some concrete ideas on how a re-nationalization could come about. I am in this report critical to his proposals for a global convention based on democratic ideals that support re-nationalization and a sustainable respect for national sovereignty, which to my mind is an impossible proposition. My criticism does not mean that I believe that the return of protectionism and a break-down of globalization are unlikely. On the contrary, that is where I think we are heading if we do not act decisively in order to restore the checks and balances that are needed to tackle the downsides of an unchecked global market economy.

There are many signs of the return of protectionist thinking in the Western democracies. The theme has been highly present in the election campaigns in many countries, including the US, and parties that openly propose more closed borders are gaining ground.

However, the price for such a disorganized return of protectionism and nationalism risks to be very high, as the ending of the First Return of Un-Checked Capitalism showed. We should learn from that history and avoid a repetition of all the mistakes made then.

Is there a way out? My claim is that there is, but it has to start with the recognition that the public order and the market economy are two different systems that relate to different human features. While the now mainly global market economy offers the space and preconditions for the fulfilment of life projects and the creation of wealth, the mainly national public order responds to our need of trustworthy social and cultural conditions. The undermining of the national and regional public order creates public unrest for the simple reason that people want their local culture to be respected.

The way to curb the unchecked global market economy while restoring the national and regional sovereignty is to my mind to develop an International Rule of Law to address the most pertinent drawbacks of unchecked capitalism. The four areas that I believe are in urgent need of coherent and enforceable international legislation are:

- Financial regulations that address the instability created by unrestricted speculation
• Domiciliation of income that enables fair taxation
• Environmental regulations to protect a planet under pressure
• Competition rules that ensure a level playing-field

What are needed are practical steps that can recreate the necessary checks and balances. In my proposal, elements of an International Rule of Law would be international legislation decided by a Legislative Assembly representing countries in relation to their economic strength and through which also ‘the many’ can find their interests represented, accompanied by an independent Judiciary. Existing international organisations could assume the administrative functions.

Most people seem to agree on the need for global regulation in the areas that I have mentioned, but may still be reluctant to accept a process in order to reach that goal, which they do not understand or is outside their influence. Any International Rule of Low therefore, must be created in ways that install confidence in the citizens.

A transparent process leading to a charter that defines and restricts the scope to the absolute necessary is crucial. There should be no place for the suspicion that the ultimate aim is a global government.

The purpose must be well-defined and the charter must make it clear that the sovereignty of states and federation of states is strengthened and not weakened. Enforcement must be credible, fair and transparent.

But who would be the champions of such an order? The US took the initiative after the Second World War to create global institutions that could solve conflicts before they led to war, such as the UN and the Security Council, but also institutions that support global finance and global development, the International Monetary Fund and the World Bank. The US President could drive such a process from a position of strength, even while partly in conflict with a nationalistic Congress. The pre-conditions for this are however not in place now. Europe is also clearly too weakened by the financial crisis and too divided to take any credible initiative.

No, the initiative must come from those that are the winners of globalization, from those that have an interest in blocking the return of protectionism and the calls for re-nationalization by offering an alternative.

And there are winners; the whole world economy is not in a dire state. The benefits of industrialisation that earlier were experienced mainly by the Western societies are spreading fast among populations especially in Asian countries. There is a strong belief in the future among the citizens in countries such as China and India. The death rate among new-borns has declined sharply in the developing countries; more children are given education and the
transmission of many deadly diseases has been halted. Fewer are living in life-threatening poverty than when the ambitious Millennium goals were agreed. However, that the picture is multi-faceted should be no excuse for inaction. The winners of globalization, especially the BRICS countries, have to recognize their important role in addressing the global challenges.

Not only the issues around global finance but also the environmental challenges have to a large degree been left unsolved. And while more people reap the economic benefits of progress on a global scale, the gaps between the have and the have-nots have increased within nations. Also the BRICS countries are increasingly facing tax avoidance. People and nature in many developing countries are suffering from the effects of a destructive un-restricted capitalism. The up-rising in many Arab countries should be seen in the light of the food crisis, decreased living standards for the majority and increasing gaps between a wealthy few and the citizens in general.

Global problems are piling up and the existing world order seems to be unable to address many of them in a satisfactory way.

An initiative to create a global Rule of Law in the specific areas of concern could count on support from many within the professional communities. Financial regulators know what ought to be done to control the global markets, the business community know what a level playing-field would demand and scientists know what we need to do to halt climate change. Now they, as all of us, need a public order that can meet these concerns.
# TABLE OF CONTENT

## I. THE GLOBAL MARKET ECONOMY - A WINNER GAINING GROUND .......... 1
- The market economy - a winning model ........................................ 1
- Emerging global markets .......................................................... 4
- Integrated financial markets ....................................................... 10

## II. THE PUBLIC ORDER - LOSING POWER TO THE MARKET .......... 15
- The nation-state is not the only societal system ............................. 17
- The marriage between the public order and the market economy ....... 19
  A marriage in trouble ................................................................. 24

## III. INSUFFICIENT INTERGOVERNMENTAL GOVERNANCE .......... 27
- The Challenges of 1944 ............................................................. 27
- The Challenges of 2008 ............................................................. 29
- The Challenges of 2011 ............................................................. 31
  What the global market economy is lacking .................................. 34
  An order at the end of the road .................................................. 35

## IV. WHAT HISTORY CAN TEACH US ......................................... 44
- The Great Depression ............................................................... 44
  Will history repeat itself? .......................................................... 47
  The governance lesson ............................................................. 49

## V. THE IMPROPER, INADEQUATE OR IMPOSSIBLE ALTERNATIVES .... 51
  1. RE-NATIONALIZATION IS NOT THE ANSWER ............................ 51
  2. A NEW IMPERIAL ORDER IS NOT IN THE WAITING .................... 56
    Military power and the global market economy .......................... 57
    The rise of China ................................................................. 58
  3. SELF-REGULATION IS NO OPTION ........................................... 59
    The emergence of the rational man ......................................... 60
    The invisible hand .............................................................. 61
    Two different ways of reasoning ......................................... 64
    The powerful self-justification process ................................ 67
    The market does not demand rationality ................................ 68
    The death of the Myth of the Rational Man ............................... 69
  4. NO APPETITE FOR A GLOBAL GOVERNMENT .............................. 71
    The dream .......................................................................... 71
    Man in the philosophical tradition ........................................ 72
    The struggle for recognition ................................................ 72
    Group identity ................................................................. 73
    No global society ............................................................. 75
    No common value base ........................................................ 76
    Democracy is a vulnerable concept ....................................... 77
    The UN is no alternative ...................................................... 78
Government by reasoning .................................................................78

VI. THE JUSTIFICATION OF WORLD MARKET GOVERNANCE ..........81
The purpose of the alternative .........................................................82
The global market economy - a separate societal system ....................83
The indispensable nation-states .......................................................86

VII. OBJECTIVES ..............................................................................90

VIII. THE RULE OF LAW - A CENTREPIECE .................................93
An independent Judiciary .................................................................94
The Rule of Law meets most objectives .........................................95
International execution sometimes necessary .................................96

IX. LEGITIMACY ............................................................................97
Key values .....................................................................................98
Equality - a contentious value ......................................................100

X. THE LEGISLATOR .....................................................................107
Guardianship ..................................................................................107
The few and the many .................................................................111
Republicanism ..............................................................................113
Legislative Assembly ..................................................................115

XI. WORLD MARKET CHARTER ..................................................117

XII. PRACTICAL EXAMPLES ..........................................................119
A functioning financial market .......................................................119
Trade .............................................................................................121
To buy assets ................................................................................122
Competition, intellectual property rights and sound trading practices ..123
The market actors and the environment .........................................123
To tax the wealthy and avoid regulatory arbitrage .........................124
The conditions for the developing countries .................................124

XIII. FROM VISION TO REALITY ..................................................126

XIV. REFERENCE LIST .................................................................128
I. THE GLOBAL MARKET ECONOMY - A WINNER GAINING GROUND

There was no shared view on how a national economy should be run among the nation-states that emerged after the Second World War. The relatively free market economy in the US stood in sharp contrast to the planned economies of the socialist countries. In between those extremes you found different versions, the developing European welfare states, a corporate Japanese economy and socialist market economy experiments in countries such as Yugoslavia. It is fair to say that at the time in which most of the present global institutions for the governance of the global economy were created there were several competing types of economies of which some deserved the label market economy, some not. Somewhat surprisingly I have, when discussing an earlier version of this paper with scholars in different think-tanks and institutions, discovered that many still perceive the world this way. Some continue to see a fight between different economic models, models that are competing with one another; they perceive the financial markets as the final arbitrators, the ones to decide which countries and models are to win and which that are to fail.

The market economy - a winning model

My perception is a different one. The situation after the Second World War has to my mind changed dramatically and today we can hail a winning economic model. When the populations raised their opposition to the authoritarian communist regimes in the old Soviet Union and its satellites they did it only partly because they wanted more freedom. The main reason was that the planned socialist economies and the so called socialist market economies failed to deliver the development and general welfare people were demanding. Surveys show that we on a global scale have learned the lessons from the planned economy experiments. More and more people around the world are now embracing the market economy concept as the best system created to meet our steadily evolving desires and our wish to be recognized.

The failure of the socialist alternatives is above all a failure for systems that have tried to plan the economic development from the top. The Western market economy model is in contrast to the alternatives a bottom-up system based on the power of division of labour in which the prices of goods and services are determined in a free price system set by supply and demand and in accordance with generally agreed rules and conditions. This model in itself is found to be attractive as it enables people to freely pursue their dreams, but it is not as simple as that.

The global support for the market economy concept is with conditions. We humans seem in general to be prepared to be the means to other people's ends, if that is what it takes to meet our desires, but we are not embracing the market economy concept without a complementary
order that ensures an acceptable outcome. I will argue that we do not expect that everyone will be as fortunate as those most successful, but that we expect our desires to be reasonably met and to be treated with sufficient respect and be given sufficient recognition. If those conditions are not met we express our resentment, we revolt and we strike.

That Russia and China have embraced the market economy system has been a major victory for the concept. The Chinese economy has of late been the foremost example of a market economy with an outstanding growth. But it has also shown an inability to address problems, such as negative environmental effects, created by the growth. The reason is a far-reaching decentralization of decisions that concerns the market and a growing interdependence between localities and the fast-growing companies. Many are using the word "socialism" to describe a planned economy of the Marxist-Leninist type, but the Chinese Communist Party is now using the word in another way. Socialism is in China now described as an order in which the Party is in control of four pillars of the public order: the State and the Defence Forces, the appointments of officials (including judges and leading executives in state-controlled companies), and the flow of information. The Chinese under the leadership of Deng Xiao Ping thirty years ago successively liberated the entrepreneurs and let the market economy grow organically in response to a disappointing development during several decades under the planned economy regime, but ensured at the same time that some of the benefits of the new order were directly captured by the State and the Party, mainly through ownership. The old school communists tried, after the events at Tiananmen Square 1989, to turn the clock backwards and reinstall top-down control of the economic development, with the predictable result that the economic growth stagnated. After a new intervention by Deng Xiao Ping 1992 the entrepreneurs were once more heralded and allowed to create "bottom-up" and since then the Chinese economy has been growing at a staggering speed. It is misleading to describe the present market economy in China as a socialist market economy in the sense that the term has been used earlier. China has a market economy that has many of the same characteristics as the Western countries.

There is no perfect market economy. Almost all economies have some deficiencies, often because, as already Adam Smith pointed out, it is in the interest of the actors to try to abuse the system. Companies, but not customers, like monopolies. Traders, but not the ordinary investor, like inside information. When entrepreneurs use their contacts to get deals that they cannot get on the market, their competitors suffer unfairly. Most economies in corrupt autocracies that do not care about the needs of the citizens perform badly. It is to a high degree the strength of the public order that decides how well a market economy functions. Bo Rothstein\(^2\) has in his research shown that countries with strong social institutions that create a

---

\(^1\) The central role of The Communist Party is described by Richard Mc Gregor, 2010.

\(^2\) See e.g. Lindvall-Rothstein, 2010
climate of trust have better functioning market economies. The level of trust has for example a great impact on the level of corruption. There are lessons to be learned from this research in the governance of the market economy, but the fact that some market economies perform better than others due to the domestic environment does not make the models as such different. It just makes their relationship to the public order different.

The political scientist Peter Hall and the economist David Soskice see two successful main varieties of capitalism, the Anglo-Sachsen liberal market economy, and the coordinated market economy combined with a welfare state, a type of capitalism that is to be found in most of Northern and Continental Europe. The Chinese economy is with this definition more in line with the Anglo-Sachsen model than the model common in Europe. However, the Hall-Soskice definition has included aspects that are part of the public sphere of the nation-states and relate to institutions and public activities that are anchored in social and cultural values. The nation-states have, besides offering oversight of the civil society, the possibility to redistribute wealth that the market economy creates and use those resources to offer all citizens public services such as education, health care and pensions. To which degree the states do that is a domestic issue and does not to my mind make the market economies as such different. There are obviously different views on how active the state should be in the Western world but the way the markets work is very similar.

The market economy as a winning concept has been enhanced by several factors.

First. The fall of the Berlin Wall had an enormous psychological impact. Some philosophers such as Francis Fukuyama even proclaimed "The End of History", which to philosophers mean that there is no place for further development of the foundations for political philosophy, including the running of the economies. The liberal project, of which the market economy is a centrepiece, had in the view of Fukuyama won a decisive victory, even if he in the last chapter of his famous book expressed less final opinions.

Second. The WTO is demanding that countries who want to become members are recognized market economies i.e. receive Market Economy Status (MES). Countries have to implement best practice standards to live up to the WTO requirements (even if the perfect market economy still is wanting).

Third. The OECD and the IMF have developed bench-marking, in which the performance of different countries has been publicly compared and the OECD has developed different codes of conduct that have influenced corporate governance.

---

3 Hall and Soskice, 2001
Fourth. The information technology revolution has created companies with global supply-chains and global markets. Those companies are pressing countries to synchronize regulations and conditions.

Fifth. The European project has harmonized the conditions within the EU and forced accession countries to rapidly adapt best practice.

My conclusion is that we have moved a long way from the disparate models for the functioning of the economies in which we found ourselves after the Second World War to the harmonized "best-practice" market economy concept that is increasingly winning the day.

**Emerging global markets**

The emergence of a winning market economy model has been one of the factors driving the development of a global integrated economy.

Another factor is the failure of protectionism. During the Great Depression of the 1930s, countries attempted to shore up their failing economies by sharply raising barriers to foreign trade, devaluing their currencies to compete against each other for export markets, and curtailing their citizens' freedom to hold foreign exchange. These attempts proved to be self-defeating. World trade declined sharply and employment and living standards plummeted in many countries. But it took time to learn the lessons. The trade between countries remained limited in the immediate aftermath of the Second World War. Only some five per cent of the US GDP was related to trade. Many countries in Europe were preoccupied with the rebuilding of their industries and had an internal focus. Regulations that hindered the free flow of capital between countries remained and were common. The banks were strictly regulated.

The internal and protectionist focus has successively given way to a more open attitude in which financial markets have been deregulated and trade between countries step by step has been liberalized. The opening up of the economies, especially of trade, has been perceived as a success as it has coincided with a rapid growth in living standard in those Western economies that most actively have participated in the globalisation process. The Single Market initiative in Europe proved to be an achievement as it increased business opportunities and growth. The economies in countries that remained closed, especially those behind the "Iron Curtain", on the other hand faltered.

The drivers behind the spreading of industrialization are well-known. The Western economies have moved from being agricultural and industrial to become knowledge and service oriented.

---

4 See  www.imf.org
More than half of the world’s population is, however, still in farming. There is a well-described global dynamism in which countries on the early stages of the development curve are trying to catch up with the countries higher up. It is, however, not a straightforward development. For example: The nineteenth century globalization created a division of labour between the European countries and South America. South America exported cotton, beef meat and the like to Europe that turned the commodities into industrial products. South America never developed the institutions that are a pre-condition for industrialization, something they were to suffer from during the main part of the twentieth century. With the emigration from Europe to the US, Canada and Australia followed another type of relationship. The emigrants brought with them the knowledge on how to build institutions and factories, which contributed to a fast industrialization of these countries.\(^5\)

Even if there are many winners, there are now many in Europe and the US who are starting to question if the world economy has not passed the point where all are winning and have come to a stage where the US and Europe are starting to be on the losing side.

The most common answer to that question is that people have worried unnecessarily about such a scenario since the Japanese started to recover after World War II. Many believed at the time that the Japanese would overtake and out-compete American and European industry. But while some industries had to close down in face of the Japanese competition, other flourished as Japan increased its demand for Western products. The end result was that the wages in Japan reached European levels and after a while the Japanese were facing the same problem as the US and Europe, namely how to address competition from other countries that were trying to catch up. As a consequence of the unforeseen difficulties Japan faced a financial crisis fifteen years ago. It was read as an effect of a loss of export competitiveness due to an increased domestic cost-level and the emergence of new low-cost alternatives. A real-estate bubble also contributed. The general remedy prescribed to Japan by most actors – after interest rates were reduced to zero - was to increase domestic demand and to reduce the level of savings in the economy. The problem has, besides a slow recovery of the financial system, been that the Japanese population has not complied. Some claim that it is a cultural issue, some a slow recovery of the banks and others that it is due to the lack of pension and health systems covering all citizens; it may be a combination. The result anyway is that the Japanese economy has recovered very slowly; a positive late development, however, being that it has been less affected by the latest global crisis than other countries.\(^6\)

One of the challengers that brought Japan to its knees was South Korea. Its competitiveness led to the closing down of both Japanese and Western industries, such as the shipyards. The negative effect on employment in Europe and the US was, however, balanced by the

\(^5\) Rodrik,2011, p 138-142
\(^6\) Until hit by a tsunami in March 2011 with unknown consequences when this is written
increasing demand for other products and services. The Koreans are now starting to worry, almost as much as the Americans, the Europeans and the Japanese, about the effect on their economy of the two latest entrants on the global scene, China and India.

A reason why it could be different this time is the sheer scale of these countries’ potential. Their populations outnumber Europe and the US together more than three to one. When they catch up as Japan did and South Korea is close to doing their economies will be far bigger than the US and European economies together. That would have an unprecedented impact on the global market economy as it would change the epicentre of global power.

Another reason why it may be different this time is that information technology has enabled an outsourcing of production in a scale hitherto unseen. Factories are being closed down in the Western economies at a worrying speed. What is happening is that information technology enables companies to put together supply and production chains that can ensure quality and just-in-time delivery that were not achievable before. A designer of clothes in Milan can program a CD-ROM that in a detailed way describes how a machine in Bangladesh can produce a dress he has created. And as the telecom systems are expanded he can send the instructions on line. Shops can within the system that the designer has created individualize the dress to fit special individual needs and send an order of the fitted dress directly to the machine. Logistic companies ensure that the dress is delivered just-in-time and they have track and trace systems that enables the shop to observe where in the delivery chain the dress is at a given moment of time. The reliable production and delivery system enables shops to keep a minimum of dresses in store and the supplier to produce new dresses in line with actual demand.

If you want to buy a new car it will no longer be produced until you have made an order. It is possible for you to ask for special features and it will seldom prolong the process. The assembling of the car represents perhaps only ten per cent of the value of the car. Almost all the parts of the car are produced somewhere else than in the assembly factory. Germany is the leading producer of auto-parts, but the parts may come from anywhere, from factories in Italy, Sweden, China, Japan or any other place that have proved to be competitive. The distribution of work on a global scale enables factories to develop economies of scale and scope that makes them more or less independent of the local cost level. Automation and robots steered by IT-systems also help to drive down the costs.

Companies are increasingly globalised. They can grow organically, but are often the result of mergers in which synergies in the form of for example joint supply-chains are exploited.

"Glocal" has become a buzzword. Companies are global at the same time as they try to market their products and services with a local flavour, adapting to different cultures and customs. The IT-systems enable the companies to make those local variations without losing economies of scale.
There is nothing in this development that in principle has to make anyone a looser or assures anyone to be the automatic winner. When industrialization came to Europe each country started to develop its niches, trying to establish comparative advantages. The Germans developed chemical industries and manufacturing for industries. Swedes became experts on anything built on its natural resources - steel and wood. The French developed energy and food companies. The Italians designed shoes and clothes etc. The new global landscape is challenging many of those niches, and it will be tougher to defend them and to build new ones, but the fact that the competition is global does not in principle change the way it works. There is always a place for the innovator and first mover, the entrepreneur who sees an opportunity and starts building a business before others are capturing the market. It is up to the nation-states and bodies, such as the European Union, to enlarge the space for creativity and to support innovation.

The globalisation is, if anything, increasing in strength and speed. The global trade has for a long time been growing much faster than the global GDP. In other words, we are on a global scale consuming relatively more of imported products and exporting more of our own production. The dip in global trade following the latest financial crisis is already overcome, mainly thanks to the emerging economies. China was 2010 increasing its export by 37 per cent and its imports by 51 per cent. Of the export 55 % were produced by companies with foreign owners. China has become the first or second trading partner to most developed countries.

A concern from both a Western and Chinese point of view is that the domestic demand in China, and also in India, has not been growing at the same pace. As a consequence imports have not balanced the export growth, in turn creating a growing trade deficit for Europe and the US particularly in relation to China. Economists have warned China not to keep the currency too low and to become too dependent on export. While China has had as an official policy to encourage more domestic demand, they have, however, not put the pension or health schemes in place to make the policy credible. Just like the Japanese the Chinese citizens also have a cultural aversion against debt, something many in the West probably would be better off learning from. When the US economy, followed by many European economies, went into recession and their import demand tumbled the Chinese had to face a similar situation to the one the Japanese faced before them. There are several reasons why China has so far managed better than Japan did. The first is that China is still a low-cost country; the second is that it has an undervalued currency and has gathered substantial currency reserves, and the third is that China due to those reserves can use the state budget to heavily increase the public demand, especially related to infrastructures, when needed.

---

7 According to China Daily February 2011.
The US had a relatively balanced increase of exports and imports until the end of the 1990s. It was the ability to innovate and exploit new technology discoveries in the areas of IT and medicine that held up the exports. But since 2000 the exports are no longer increasing. During the new millennium, the increase in GDP and domestic consumption has been financed with loans from countries with an export surplus, mainly the commodity rich countries and China. When the new President of the US decided to further stimulate the US economy even more than already decided he counted on the willingness of especially China to lend the US more money to get out of the recession and to start import again. It is a gamble that seems to have succeeded; the US has been allowed to borrow, even if the lenders cannot be certain to get their money back at the exchange rate of the time.

It is imperative for both Europe and the US to have a balanced trade, e.g. to export as much as we import. A country has in principle to earn, to export, in order to buy, to import; it can only to a limited extent take up loans to pay for its consumption, and then only if it can offer future value creation capabilities as security. Anyone who is trying to “talk away” this simple fact is just wishful. Economic fundamentals have always won at the end of the day. The insight that the recession has given the lenders is that the underlying value-creation capabilities of the US economy have been overestimated. US companies are thriving in the new global landscape, but that is not due to the development of their US production facilities, but due to the fact that they have become global and are benefitting from the possibility to locate production wherever they like and access more markets than ever before.

Even if the euro crisis has slightly reversed the trend, the lacklustre performance of the US economy has been reflected in the value of its currency. For lenders that is bad news and Chinese funds as well as Arab investors and unsuspecting and risk-taking European banks have all lost huge amounts. There is no bouncing back from that situation; it is a one-way street; the dollar and to a certain extent the euro will have to depreciate in relation to the Chinese Yuan to create a new balance; the fall of the dollar has already contributed to halving the US account deficit.

Many US politicians and officials feel let down by their successful international companies. Before joining the Obama administration as director of the National Economic Council, the economist Larry Summers complained about “a stateless elite whose allegiance is to global economic success and their own prosperity rather than the interests of the nation where they are headquartered”. The companies have little stake in the “quality of the workforce and infrastructure in their home country” and “can use threat of relocating as a lever to extract concessions.” Workers have disproportionately to wear the brunt of the pressure that global competitiveness causes, he concludes.  

8 Summers, 2008, quoted by Rodrik, 2011, p 86
Is there a simple mechanism to restore US competitiveness? Feeling powerless or possibly believing that threats will help, many in the US Congress have brought old mercantilist thinking out of the wardrobe raising all types of wishful protectionist actions to be taken in order to stop jobs from leaving the US. Almost all economists, both consensus economists and their opponents, are in agreement that it is a route that only will deepen the economic problems. There are, they claim, better alternatives. The issue to concentrate on for both the US and Europe is innovation and competitiveness to ensure that we have the money to pay for our imports in the future.

The official Chinese position is that it is a developing country that needs to concentrate on the domestic development, and it is true that China has many facets. While more skyscrapers are built in cities such as Beijing and Shanghai than in any other part of the world, while the economy is steadily growing by ten per cent a year and China has overtaken Japan as the second largest economy in the world, it is still a country in which a hundred million are living on under two dollars per day and in which most people are in want of health care and pensions. The Chinese government has made it a top priority to urgently address these inequalities in order to keep the support of the rural population for the direction of the country. One of the actions taken is to encourage companies who are feeling the strain of increased wages in the coastal areas to move their production to lesser developed areas inland.

China may for some decades keep a competitive edge through the policy of moving production internally, and the official view is that the whole vast country will not be developed until 2090. The Chinese position is thus that it will take quite a while until they have to worry about the loss of competitiveness on the global market and that they therefore can take a passive attitude to the development of the global economy. This perception is perhaps not as well-founded as the official view may suggest. The global imbalances can, if they are not addressed, create recurring financial crisis. All emerging economies are also sooner or later facing a situation when it becomes more and more difficult to match an increased domestic cost level with productivity gains. History has some lessons to teach.

Production in wage-sensitive industries such as textiles is already moving from China to other emerging economies such as Vietnam and Bangladesh. Commodity-rich African and South-American countries are also showing growth potentials. China is usually the first to highlight that the country is not the only emerging country and that the perception that the US will be replaced by China as the new dominant world power is faulty. The decline of US power due to the loss of competitiveness is obvious, even if a majority of the Americans are in denial, but it is not self-evident that China will be able to take over the US role uncontested. The demographics are against such a development. In five years time the population between 15 and 64 years will start to decline and the foundations for a continued exceptional Chinese growth less obvious. India, Brazil and Russia are for example three other countries with a large growth potential and with a joint population twice the size of China, and other countries
are aspiring to take over when those economies reach the phase in which they start to become vulnerable.

Anti-globalization proponents are sometimes claiming that the migration and global trade is nothing new and, besides, that the population in the Third World is only marginally integrated. This all true, but it is also a fact that the integration of production and markets in complicated supply chains never has been anywhere close to where we are today and that the countries that take active part in the global integrated markets represent more than 90 per cent of the global GDP.

**Integrated financial markets**

Some highlight the collapse 1971 of the Bretton Woods system of fixed exchange rates as a watershed in the globalization process. The economic globalization that has been aggressively promoted by the US and others should partly be seen as a consequence of that breakdown.

The deregulation of the financial markets followed a re-evaluation by leading economists of the benefits and dangers of free capital flows. Before the breakdown of the Bretton Woods system it was seen as desirable to control the flows of “hot money”. As Keynes explained: The Bretton Woods agreement gave every government the “explicit right to control all capital movements” on a permanent basis. “What used to be heresy”, he said, “is now embraced as orthodoxy”\(^9\)

The IMF is seen as one of the leading proponents for deregulation of the financial markets. The claim has been that capital mobility would allow global savings to be allocated more efficiently, channel resources to their most productive use, and raise economic growth. The IMF has recognized the risks but claimed that the benefits of free capital flows would outweigh the costs.\(^{10}\)

The deregulation of the financial markets, which took place step by step after the Second World War, accelerated in the late eighties and the nineties, and strongly contributed to the development of a truly global market economy. The order of events can also be seen in the opposite light, namely that it is the global business opportunities that have been driving the deregulations; global companies need global financial partners. The imbalances between savings and investments on a country basis have also been propelling the opening of markets worldwide; the financial actors, who have a responsibility to invest the assets entrusted them, need the access to global markets in which they can find a reasonable return. Many

---

\(^9\) Keynes, Activities 1941-46 , p 17,1980

\(^{10}\) Fischer, 1997
economists have seen liberalization of the capital flows as inevitable given this global development.

The volumes of money put at risk at any point of time in the global economy are impossible to envisage. Calculations hint at figures in the ballpark of hundreds of trillions of dollar. Of special importance for the global stability are the currency reserves. They were 2004 about three billion dollars of which less than one trillion dollars were to be found in the Chinese reserves. 2010 the global currency reserves have reached nine trillion dollars of which three trillion dollars are in China. The development reflects gaps in current accounts. Before the crisis the fuel exporters, Japan, China and the EU countries (as a group) had positive current accounts, while the US, India and other emerging and developing countries had negative current accounts. The EU has now as the crisis has evolved joined the US as an “over-consumer”. The growing imbalances that assemble currency in some hands and make others dependent on the willingness of the “rich” to lend some of their reserves to the “poor” contribute to the need for a global financial market.

The financial market actors are often heralded for their innovativeness, and not seldom express pride over their international reach, new products and technological advancements. However, it is not a development without risks. The knowledge among investors of the foreign markets in which they enter and the new creative products they are offered is not always as deep as one would have desired. The technology is pushing the decision-time to a minimum, yes, even to the point in which machines take over the trading. The risks for faulty decisions based on perceptions and group conformity have as a consequence increased.

The first major financial crisis following the deregulations of the financial markets hit East and South East Asia in 1997 and it spread to Brazil, Argentina and Russia. Just before the crisis the IMF and other observers heralded several of the countries for their progress; but when the crisis hit they all tried to blame the run on the countries on perceived problems. They did not want to see the obvious, that Keynes and the economists of his generation had a point, namely that unregulated “hot money” can create financial crisis without substantive grounds. Jeffrey Sachs was one of the few recognizing that the crisis was a financial panic largely unrelated to economic fundamentals and internal weaknesses.

The Western economies have experienced two financial asset bubbles within one decade; the first one was the Internet bubble that was linked to over-optimistic predictions on the uptake of Internet services. The issue was not that the forecasters were fundamentally wrong, but that they over-estimated how fast the use of Internet would grow. The market is now where the optimists of 1999 thought it would be 2002; new “cool” technical solutions have been found,

11 Martin Wolf, Financial Times, 6 April 2011
12 Radelet and Sachs, 2000, quoted by Rodrik, 2011, p.94
which makes the business models of the internet boom look “stone-age”, quite a typical development during the breakthrough phase of a new technology. The guardians did not intervene when the stock prices skyrocketed, but they issued warnings that those that speculated on the market did not listen to.

There were some lessons learned by the central banks and the regulators from the burst of the Internet bubble. Creative accounting and conflicts of interest led to irresponsible auditing; banks had been making money on IPOs at the same time as they had been rating the companies. To avoid a similar incident again the stock exchanges, the financial regulators and the central banks issued new directives, forced auditing firms to sell off their consultancy arms and banks to better separate their businesses. Managers in some of the companies that had been the most creative in their accounting had to face trials.

The bursting of the Internet bubble was in itself not a very dramatic thing. It led to necessary corrections of the share prices on a couple of stock markets and the bankruptcy and down-scaling of a number of companies, but the effect on the economy in “the real world” of the bubble burst was quite limited. What really hit the US economy hard at the time was instead 9/11. The shock made the US economy go into a temporary “standstill”; a psychological effect countered by Alan Greenspan (followed partly by European central bankers) as he brought down the interest rates to almost zero. As an unintended side-effect a new asset bubble started to develop; trillions of available dollars started to look for a better return than the central banks’ “zero” rates. Financial institutions started to lend money carelessly, ignoring the third-party risks. Bad loans were packaged in complex “structured products” and sold around the world to unsuspecting pension funds, public institutions and private investors. Their losses were enormous when the new bubble started to burst. In hindsight the financial regulatory regime has clearly been too laidback. The commercial development of the new products mainly took place in an unregulated system, a system in which there was not the same accountability or demand on capital coverage as in the ordinary banks. There were those, including Congress committees, that criticized the lack of regulation, especially in relation to the hedge funds, which is one of many types of actors in this financial “secondary” bank market; but Alan Greenspan and other central bankers rejected the requests for increased regulation.

Many have questioned whether the old generation at the helm of the banks really understood what their younger colleagues, who had so much higher marks from Harvard and Yale than they themselves once had, were up to; “I did not buy the products because I have never understood them” the straight-talking Warren Buffet has declared. But how many of the older actors in the financial world have had such high self-esteem to be able to admit in front of young brilliant collaborators that they do not understand something they are supposed to understand? If they had, their thymos - their own self-image and how they are recognized by others - would have been threatened. With a global savings surplus looking for returns and
triple A ratings from the ratings institutes it was easy for the young financial wizards of Wall Street and their friends in the City to sell the products to the world.

When the bubble burst the trust in the financial system waned; a deep recession in the real economy followed contributing to a second wave of losses in the banks. Unemployment soared and many saw the value of their houses decline, finding themselves with negative equity. When banks stopped lending to one another due to the perceived risks, a lack of liquidity on a global level developed, and companies found it difficult to get financing deepening the recession further. Central bankers have responded by a massive issuing of new money and governments have stimulated their economies by borrowing money from countries with an account surplus, mainly China and the commodity-rich countries. The lack of liquidity on a global level has hit the developing countries particularly hard and the IMF has been forced to intervene in some cases. When they have done that they have, in line with the Washington consensus, but contrary to the road chosen by its main financier, the US, requested the countries to contract their public expenditure, leading to in many cases an accelerated fall in asset prices and increased unemployment.

In a declaration\(^{13}\) after a meeting in Washington that has been retrieved but was public for one day, the Leaders of the Group of 20 described the root causes of the crisis:

“During a period of strong global growth, growing capital flows, and prolonged stability earlier this decade, market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system.

Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions. Major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. These developments, together, contributed to excesses and ultimately resulted in severe market disruption.”

Many blame the Washington consensus, the economic school that has dominated the IMF, the World Bank and the US Treasury, for the seemingly inadequate regulation of the financial markets. The Consensus for a long time remained faithful to the Rational Choice Theory and the General Equilibrium Theory, which we now know to give an incomplete picture of the financial markets and the economy as a whole. There are psychological reasons, such as group conformity and collective self-justification, why the consensus economists abode by

\[^{13}\] Published on [www.whitehouse.gov](http://www.whitehouse.gov). Retrieved the day after.
their models, but that is already history. Leading proponents such as Alan Greenspan have concluded that their belief in the self-correcting and self-regulatory power of the market has been mistaken. President Obama has not included the critics of the old regime among his advisers, but the ones he has chosen have "reformed" their own thinking. Economists in central banks and finance ministries around the world are now looking for economic models that give a better representation of the markets.

It is not that such models are readily available. The critics of the Washington Consensus have shown the short-comings of the old theories. It has been quite a while since the Nobel Prize Winner Joseph Stiglitz showed how asymmetric information distorts the markets and he and others have repeatedly criticised the recipes that the IMF and others have issued based on their incomplete models.\textsuperscript{14} Stiglitz has lately together with Paul Krugman, Amatrya Sen and Jacques Attali advised the French President Nicolas Sarkozy to take a wider look at the economy and include environmental and other impacts in the decision process.

However, it is not until the last decade, more or less, that the computing power and computational knowledge has been available to create alternative models to the ones used by central bankers and finance ministries. Those responsible for economic modelling are now with increasing interest looking at the opportunities that are available to them, especially on how to create models that are based upon a representation of "real" people acting on the market, so called agent-based models. It is a challenging proposition and it will take many years to develop such models and an intense cooperation between institutions, economic researchers and computer scientists, but this expressed interest is creating hopes for the future.

\textsuperscript{14} See e.g. Stiglitz, 2006
II. THE PUBLIC ORDER - LOSING POWER TO THE MARKET

The modern state has a short history. The sovereignty-claiming state is a European invention following the Westphalia Treaty in 1648. The ruler of a state was granted the right to his territory and the right to decide the choice of religion and the law of the land. The idea of the nation-state, i.e. that the state is based upon a ‘nation’, a culturally and socially cohesive unit, is also relatively new. Empires, consisting of many nations, are common in history and the result of peace negotiations has frequently been that states have been allocated territories that are inconsistent with the perceived national identities. Such states are often unstable, constantly subject to internal and external challenges. Although there are discrepancies between nations and states, I will, somewhat incorrectly, sometimes use the word nation-state as a synonym to the state, the reason being that I want to avoid any confusion with the ‘states’ within federations.

Traditional political theory often makes a distinction between civil society and polity. ‘Civil society’ is everything from family and community life and the exercise of religious beliefs to the organisation of production and markets. ‘Polity’ can be described as a public order which has the authority to regulate the relations between citizens (demos) living within its reach. The purpose of the polity is in the liberal tradition primarily to protect the citizens from harm to their health, life and property. The polity should, however, not dominate the citizens. The citizens are in the tradition granted civil rights, i.e. exemption from control in respect to their persons and properties.

The perception historically has been that the citizens can belong to only one polity. In ancient times that polity was often a city-state; today polity is mostly consisting of sovereign nation-states. The structure of polity has, however, continued to evolve; nation-states have joined federations, new regional and global political bodies with power such as the European Union and the World Trade Organization have been created. It is no longer obvious that citizens belong only to one polity. They are in practice belonging to a hierarchy of societal systems with different reaches and different objectives. One level, usually the nation-state- is more fundamental than the other levels as it has sovereignty and constitutional power and as it defines citizenship, but it is not always that simple. The situation is often more blurred in the case of federations, such as the United States. The constitutional power rests in the US in principle with the states, but they have given up some of that power, as well as the citizenship and the sovereignty to the federation.

While global cooperation has increased it would, however, be a mistake to see the present situation as a new world order. Most institutions are inter-governmental or demand unanimity
for decisions to be taken. In some cases powerful states have had their authority denoted through the granting of vetoes or special voting rights in line with the Westphalian thinking.\(^{15}\)

I will, in this more principled discussion and for the sake of simplicity and clarity, regard the nation-state as the constitutional level. That level is defining the legislative and judiciary power of other societal systems. Such powers are in the case of cities and regions within a nation-state given through law. International bodies, such as the European Union, which have both legislative and judicial powers and the World Trade Organisation that has judicial powers, have been assigned those powers through treaties.

Polity is as mentioned frequently defined as a public order which has the authority to regulate the relations between citizens living within its reach. The political scientist David Held notes\(^{16}\) that a common claim is that the polity has *territoriality*, i.e. makes claims to territories within exact borders, a monopoly on *coercive actions*, an *impersonal structure of power* and some form of *legitimacy*. The political scientists John S Dryzek and Patrick Dunleavy offer a more elaborate definition of the state.\(^{17}\) They separate coercive powers in two defining characteristics – the first is that the role of state is to reach collectively binding decisions that are obeyed by those living in the territory claimed by the state; the other is the monopoly of the legitimate use of physical force within the state territory. The state must according to Dryzek and Dunleavy also claim sovereignty, which in their definition is unconstrained power over all other institutions. This is a far-reaching claim that no longer seems to be true. States have in an irrevocable way given up much of the power over institutions to international bodies through treaties and to city and council administrations and the like through laws. What remains of the sovereignty is the constitutional power (only states can extend powers to other institutions), the territorial integrity and the right to offer citizenship.

The relation between the polity and the civil society has also become more blurred, if it ever has been clear. Dryzek and Dunleavy are noting that the state helps define a ‘public’ realm, a part of social life different from the ‘private’ sphere of concern only to the individuals or organizations involved. According to them, the public realm includes not only strictly governmental activities but all political activities aimed at influencing state institutions and changing or stabilizing how the society operates. This claim is following an important modern discussion within political science about how the decision-making within states actually works, the role of cultural and social diversity, ‘interest groups’, the elite, the media, the ‘market’ and other factors. There are many such links between the formal decision processes within the state and the society as a whole and they are important. However, what is

\(^{15}\) Held, 1995, p 97  
\(^{16}\) See e.g. Held, 1995, p. 48-49  
\(^{17}\) Dryzek and Dunleavy, 2009, p 2-3
concerning us here are processes leading to binding conditions, institutional or not, from which there is no opt-out for the individual.

**The nation-state is not the only societal system**

The nation-state is thus no longer the only public order. The nation-states have more or less freely given legislative and judiciary powers to other levels that also have substantial power in relation to the individuals. While there are good reasons to build upon the philosophical heritage from e.g. Locke and Nozick and while Held, Dryzek, Dunleavy and many other political scientists have developed the theory around the state in a substantive way it is to my mind necessary to recognize this new reality and leave the idea of the one ‘polity’ behind us. We have de facto several ‘polity’ levels and systems. Building upon this reality and the theoretical heritage I will use the term societal system as a label of systems, which are part of the societal governance order. Keeping as much as possible of the definition of polity I have defined a societal system in the following way:

A **Societal System** is an order that regulates the relations between individuals and that is
- central to the life, health and property of people
- on which the individual has no direct influence,
- which has no opt-out
- covers a certain territory, and
- has coercive powers and
- has a recognized legitimacy

The definition is aligned with the definition of polity, but deviates slightly for reasons I wish to explain. The first is that I want to make the purpose of the societal systems somewhat more clear. Liberal philosophers who have defended the justification of a nation-state have claimed that it is ‘central to the life, health, liberty and property of the citizens’; the nation-state is needed especially to protect people from harm. What makes a societal system ultimately justified is thus to my mind its ability to help people to meet their needs.

An important issue is to sort out the relative importance of the different needs, their interdependence and how they relate to the nation-states, the market economy and the civil society in general.

Another characteristic of polity, in the quoted definition, is that it is a ‘public order with authority’, which means that the individual has little direct influence on the societal system; he may have indirect influence (voting rights etc.), but he cannot impose his personal will on the public order which in practice has an authority that is independent of him.

The perception of one polity has had the implication that one obvious feature of a societal system seems to have been understated and that is that there is no opt-out. The opt-out
criterion is important in a discussion around separate systems. There are many associations within a society of which an individual can be part and that have the right to make decisions that influence the life, health and property of the individual. Churches and sports associations are two examples. Those are not societal systems with the definition used here as they have opt-outs. It is generally regarded as an important task for the nation-states to guarantee the freedom both to join and to leave such associations of which there are so many in the civil society.

The territoriality can, as already noted, vary between the societal systems; the nation is one level, federations and unions another and the global level a third.

There are two aspects of polity that are left out in this definition of a societal system. The first is the existence of ‘an impersonal structure of power’, the reason being that a societal system can have authority and exercise coercive actions outside the control of an individual without having an impersonal structure of power.

To be ‘legitimate’ a societal system needs a structure and governance that meets ethical standards. The liberal tradition frequently demands some form of public consent, e.g. a social contract, in order for the polity to have legitimacy. The perception of legitimacy has changed over time and the way a societal system is governed, and its output from an ethical point of view has become increasingly important. Legitimate governance is an issue of great importance.

With this definition of Societal System it is obvious that not only states are such systems but also the federal levels in e.g. the US and Germany, the European Union and many regional and city administrations. The line of reasoning, that I will pursue, leads to the conclusion that the global market economy has developed into another such system that has become more and more independent of the nation-states.
The marriage between the public order and the market economy

The first wave of industrial capitalism was developed in the Western world in the late nineteenth century and it benefitted from the technological progress of the time – the steam machines, the railways, the electricity etc. New products and services were developed and they found new markets. The industrial revolution was full of promises, but the unregulated capitalism, on which it was based, also displayed some negative features. There were especially four shortcomings that became apparent:

- Exploitation of some workers, while others were left unemployed
- Unreasonably skewed distribution of wealth
- Tendencies to establish monopolies and block competition
- Exploitation of nature and natural resources

The drawbacks created a popular reaction that inspired the development of the modern democracies and the creation of labour unions. The democratic nation-states developed ‘top-down’ measures to address the problems of an un-regulated ‘bottom-up’ capitalism. And there was real progress made in many nation-states. Health and environmental issues were addressed, labour conditions regulated and a more fair distribution of the production values initiated. But the development was early on affected by an increasing globalisation based on an unstable colonialism. Nation-states lost control of the development, followed by a financial meltdown and the Great Depression.

The new world after the Second World War gave democracy and capitalism the chance to redeem themselves, this time inspired by a new generation of economists led by John Maynard Keynes, and driven to a considerable extent by the confrontation with the Stalinist empire. Financial markets were regulated; policies for full employment were introduced and Roosevelt’s New Deal showed the way towards a fairer allocation of resources. Protectionism slowly gave way to free trade, enabling more countries to benefit from the value creation that the market economy system enabled.

A fairly successful marriage between the capitalist system and democracy was formed, sometimes called ‘democratic capitalism’. It is a marriage of convenience and it has never been an easy marriage. Capitalism and democracy are two completely different projects that only have the label ‘liberal’ in common. They have also different philosophical backgrounds. Democracy and human rights are inspired by philosophers such as John Locke and Immanuel Kant, whose focus has been on social arrangements. Capitalism with Adam Smith and Marquis de Condorcet as somewhat of ‘fathers’ is on the other hand highlighting the role of continuous comparisons for the realisation of ideas and projects.

One should remember that the marriage between market liberalism and democracy is a recent achievement. The founders of the American Revolution did not recognize that they were
building a democracy and while representation was at the heart of the constitution it was originally only men with properties that to a certain degree were represented. James Madison, whose influence on the US constitution was considerable, insisted that they were creating a republic, not a democracy. In *The Federalist 10*, published in 1787, he wrote that ‘democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property, and have in general been short in their lives as they have been violent in their deaths’.\(^{18}\)

The fear of the rule of the ‘masses’ has been a recurrent theme in philosophical and political discourse, and it has never really disappeared. John Stuart Mill, who is seen as the most democratic and progressive of the nineteenth century liberals wrote 1859 darkly of ‘the tyranny of the majority’ and proposed weighted voting in order to restrict the power of the masses. Habermas is accusing the European politicians to take decisions behind closed doors and see this tendency as an expression of a political fear for the public scrutiny and debate that is a necessary part of a democratic process.\(^{19}\)

The uneasy marriage between market liberalism and democracy that has developed over time is a marriage of market liberal rights, such as property rights, freedom of contract, and unrestricted private markets, protected by law and an independent judiciary, with civil and political rights and formal democratic procedures. The economist Dani Rodrik explains the raison d’être: “The only countries that have managed to become rich under capitalism are those that have erected an extensive set of *formal* institutions that governs markets: tax systems that pay for public goods such as national defense and infrastructures, legal regimes that establish and protect property rights, courts that enforce contracts, police forces to sanction violators, bureaucrats who design and administer economic regulations, central banks that ensure monetary and financial stability, and so on.”\(^{20}\)

The marriage has taken many forms. Political scientists often make a difference between the Anglo-Saxon version and the ‘corporate’ European, especially Nordic model. Neo-pluralists, elite theorists and Marxists highlight the influence of the business elite on the decision processes in the Anglo-Saxon liberal democracies, while the more classical pluralists see a balanced influence of different interests in the European welfare states. A post-Marxist sceptical take of the corporate model is that it is a means of disciplining labour, while the bargain necessarily is favouring business.\(^{21}\) Some, like TM Marshall, highlight a development of rights in three steps as part of the road to a welfare state: Legal and civil rights, political rights and effective economic and social rights.\(^{22}\)

\(^{18}\) Dryzek and Dunleavy, 2009, p 21


\(^{20}\) Rodrik, 2011, p 15,16

\(^{21}\) Dryzek and Dunleavy, 2009, p 138

\(^{22}\) Dryzek and Dunleavy, 2009, p 41-42
The discussion about Social Rights led during the 20th century to the formulation of a more social set of value-based rights. John Rawls has been given most of the credit for the development of the philosophy of social human rights but many of his ideas had actually started to be adopted in European charters before he wrote his famous “Social Justice”. The UN Charter on Human Rights initiated by Eleanor Roosevelt after World War II also contained many rights that can be seen as social. Man has according to this thinking not only the right to expect the state to protect him and his property but also to provide him with the necessary conditions for a good life. Such rights are often called social human rights. In the UN Universal Human Rights Declaration unanimously adopted by the 2005 UN World Summit, the following rights are asserted:

“Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing, and medical care and necessary social services, and the right to security in the event of unemployment, sickness disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.” These rights are reflected in The Charter on Human Rights that has been adopted by the European Union and has been accepted by almost all members of the Union.

Formulated the UN way the social rights can be seen as a safety net available to everyone, but the level of the safety net is a contentious issue. Two types of critique are common. The first is the view that there should be an exact correspondence between the rights and correlated duties, and such correspondence is lacking in social rights. The other critique is the feasibility issue. There is a question if some of the rights are possible to realize at all, at least not everywhere.

The marriage between the market liberalism and democracy has gained support not only from democrats but also from some outspoken market liberals. Hayek wrote 1944: “There is no reason why not in a society that has reached the general level of wealth which ours has attained…. some minimum of food, shelter and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody…Nor is there any reason why the state should not assist the individuals in providing for those common hazards of life against which, because of their uncertainty, few individuals can make adequate provision. Where, as in the case of sickness and accident, neither the desire to avoid such calamities nor the efforts to overcome their consequences are as a rule weakened by the provision of assistance, where, in short, we deal with generally insurable risks, the case for the state helping to organize a comprehensive system of social insurance is very strong.” There may be disagreement about the details, Hayek notes, especially how to ensure competition, but there is no incompatibility

23 The most notable exception is the UK. The reason, at least officially, to be found in special UK objections related to labour market conditions.
with the preservation of individual freedom.\textsuperscript{24} He expressed less certainty on how to handle the large-scale unemployment of the time, an unwillingness that was shared with many politicians and that paved the way for the totalitarian regimes of the thirties. I will come back to the lessons we can learn.

There has been a recurrent debate about the risk that the balance between market liberalism and democracy gets disturbed, especially the risk that the liberal democracies should turn into socialist states. What makes a state socialist? Hayek claims that it above all are the methods, i.e. the central planning of the economic activities and the public ownership of the production, that define the socialist state and he shows convincingly, and in this respect history has vindicated his views, that those conditions if fulfilled in all their consequences with necessity will lead to totalitarianism, a loss of individual freedom and a form of serfdom.

But the view of what a state can do and not do without “destroying” the wealth creation of the competitive market system has varied over time and Hayek is himself a bit unclear about his position. On one hand, he argues that the dogmatic approach by the early twentieth century market liberal economists to the problems of the day paved the way for socialism and totalitarianism; on the other hand, he stretches the demand for a hands-off state much further than the methods he so vividly, and correctly, opposes.

One example: Hayek mentions that the fact that the central and local authorities in Germany as early as 1928 directly and indirectly controlled the use of 53\% of the national income as evidence that they controlled almost the whole economic life of the nation.\textsuperscript{25} He also mentions Sweden in a negative context as “a model country to which progressive eyes were directed”\textsuperscript{26}, most likely because of the relatively high portion of the GDP that passes through the public system.

But is the percentage of GDP that passes through the public system really a measure of “socialism”? In the case of Germany in 1928 there was most probably a correlation, but that does not make it true at all times.

Rodrik notes: “Governments are bigger and stronger not in the world’s poorest economies but in its most advanced economies. The correlation between government size and per capita income is remarkably tight. Rich countries have better functioning markets and larger governments when compared to poor ones… Markets and states are complements, not substitutes, as simplistic economic accounts often have it”. \textsuperscript{27}

\begin{footnotes}
\item[24] Hayek, 1944, p 125
\item[25] Hayek, 1944, p 64
\item[26] Hayek, 1944, p 3
\item[27] Rodrik, 2011, p 16
\end{footnotes}
Rodrik refer to a study that shows that “Governments had grown faster in those economies that were the most exposed to international markets. Some countries are naturally more sheltered from the forces of international competition, either because they are large or because they are distant from their major trading partners. This is exactly the case of the small government economies (investigated) (Japan, United States and Australia). Small economies close to their trading partners, by contrast, engage in much more trade and have larger public sectors (such as in Sweden and The Netherlands).”

A comparison between countries show that a major part of the difference in public expenses, in percentage of GDP, often relates to the role of women. Sweden has taken the view that women should have the same right as men to participate in the labour market. They should not be ‘locked in’ with their children or with their elderly parents. Therefore there is an elaborate system of paid parental leaves, nurseries and care of the elderly (often run by private companies). This is costly and it is paid in two ways: The high female participation in the market economy is leading to more hours worked per capita and year than in any other Western country and the other way is through somewhat higher taxes. The result is a society that in a huge international sociological study has been ranked as the most individualistic and pro-change country in the world.

This discussion may look as a diversion, but it goes to the heart of the question, whether there is any realism in a global society with a global democracy. In another language: Can we solve the problem with a growing territorial mismatch between the nation-states and the market economy by expanding the nation-states geographically, by building a “global state”? The answer by Hayek is no, and I share that view. As Hayek points out: “The belief in the community of aims and interests with fellow-men seems to presuppose a greater degree of similarity of outlook and thought than exists between us merely as human beings. If the other members of one’s group cannot all be personally known, they must at least be of the same kind as those around us, think and talk in the same way and about the same kind of things, in order that we can identify ourselves with them. Collectivism on a world scale seems to be unthinkable – except in the service of a small ruling élite”

The point is that every country should have the right to develop its own social and cultural system without interference from anyone else and that whatever road it chooses this should not make it a less valued member of the global market community.

It is also dangerous to only adapt a Western perspective. There are many other forms of states and governance. The Russian President Boris Jeltsin was democratically elected, but was running the country through decrees that often violated both economic and political liberal

---

28 Hayek, 1944, p 144
rights. The Russian *iliberal democracy* stands in contrast to the *liberal authoritarianism* of General Pinochet in Chile, who implemented property rights, freedom of contracts and unrestricted private markets while vigorously suppressing civil and political rights.

All the types of co-existence of market liberalism and different forms of state governance that have developed over time are built upon one simple assumption: The state can create and steer the conditions for the markets within its territory. This presumption is less and less credible.

**A marriage in trouble**

The problems in the marriage between the public order and the market economy have not evolved over night. The political scientist Wolfgang Streeck has in an interesting analysis shown how the marriage between capitalism and democracy has gone from crisis to crisis. The first severe post-war crisis developed during the 1970s as labour unions demanded higher increases of the wages than the productivity gains motivated. The result was severe inflation which was not halted until the chairman of the Federal Reserve Bank Paul Volcker raised interest rates to an unprecedented height, causing unemployment to jump to levels not seen since the 1930’s. Streeck writes: “[T]he conflict re-emerged in the electoral arena. Here it gave rise to growing disparity between public spending and public revenues and, as a consequence, to rapidly rising public debt...When efforts to rein in public debt became unavoidable, however, they had to be accompanied for the sake of social peace by financial deregulation, easing access to private credit, as an alternative route to accommodating normatively and politically powerful demands of citizens for security and prosperity.”

The financial crisis of 2007 exposed the hollowness of this approach and nation-states had to socialize the losses that banks and other financial institutions had encountered, when lending carelessly. The issue is that countries have taken on more debt than they can handle.

The power balance in the marriage between democracy and capitalism has been reversed. The governments are no longer in control; the financial markets are. Streeck asks: “Now the issue is how far states can go in imposing property rights and profit expectations of the markets on their citizens, while avoiding having to declare bankruptcy and protecting what may still remain of the democratic legitimacy” and he ends by giving a fairly negative prognosis.

Nation-states can, as pointed out by the philosopher Robert Nozick, force citizens to contribute to causes or actions they dislike. The citizens have historically de facto had no possibility to say no. There are especially two types of situations that are the most common.

29 Streeck, 2011, pp 23,24
30 Streeck, 2011, p 24
31 See e.g. Nozick, 1974 pp 173-174. The de facto situation occurs e.g. when the citizens concerned are in a minority in a democracy.
In the first kind, which can occur in democracies, and which is the one Nozick discusses, it is in principle demanded of those who are better off to transfer some of their created wealth to those who are less well off. Experience shows that the rich within reason are prepared to do that. But if they are pressed too hard they can and do revolt. That happened in many of the European welfare states in the 80’s. Many of the rich moved their money and themselves to countries with a more “reasonable” taxation. The rich voted no with their feet. This has become possible in a market economy that is increasingly global. The rich are not “locked in” the way they were in the 70’s when Nozick wrote his famous book. It took a while but the countries with the high taxes on the rich have now adapted to the reality that they do not control their rich citizens and have lowered the capital taxes on fortunes; with the result that the rich sometimes are moving back, but not in a scale and a form that has made them as taxable as other citizens. The finances of the Western states have been undermined by the regulatory arbitrage that global companies and wealthy citizens have been able to exploit and this is one underlying reason for the crises that Streeck have identified.

The simple truth is that there is a growing mismatch between the territoriality of the nation-states and the market economy. While most states have boundaries that are stable and uncontested, at least externally, the market economy has outgrown those boundaries and become more or less global. This is putting a strain on the marriage between market liberalism and democracy that has become a hallmark of the Western world. The German philosopher Jürgen Habermas who uses the term ‘embedded capitalism’ to describe the European form of ‘liberal democracy’ is arguing that the epoch of the embedded capitalism is over and that the globalized markets are running away from politics.

The European Union was originally envisioned as a peace project, a way of ensuring that Europe would not be the cause of a Third World War. But over time the benefits of a common marker and a common approach to the market economy has become apparent. Besides agricultural policy the EU of today is mostly concerned with the four freedoms of movement – the free movement of people, of labour, of capital and of goods and services. Europe has developed a Single Market that is an astounding success in itself. But the European Union has, with the exception of trade, not been able to act as one in the global arena and has not been able to create an alliance on global level that would pave the way for proper governance of the global market economy. The latest euro zone crisis has shown both how much that still needs to be done internally as well as a European dependence on and weakness in relation to the global financial markets. And now we see the return of mass unemployment in Europe, a widening of the gaps between the have and the have-nots, unfair global competition and unaddressed global environmental challenges – all the hallmarks of an unchecked capitalism.

The failing marriage between the public order and the global market economy ought to be of concern to everyone in the political spectrum from the Right to the Left. Libertarians ought to be among the first to recognize the problematic development. The vast majority of market
liberals have historically recognized that there is a need for a state to fulfil some important roles

1. Defining and protecting property rights
2. Establishing and enforcing laws of contract
3. Preventing overt coercion of individuals by others
4. Issuing and controlling money
5. Regulating monopolies that cannot be avoided
6. Providing some minimum basic infrastructure and ‘public goods’
7. Protecting people who are unable to take care of their own interests
8. Organizing national defence
9. Collecting sufficient funds to finance these activities

The states’ ability to offer clear legislation and conditions on this narrowly defined role of government has clearly been undermined by the development of a global market economy. Property rights cannot be appropriately defended on national level. Laws of contract need global recognition. Overt coercion is a global problem, especially on the financial markets. Many countries can issue money, but they have little control of their use. Monopolies often stretch cross borders, as the recent case of Microsoft has shown. Defence cooperation is more and more of a ‘must’ in order to ensure collective security; national defences are not enough.

The collecting of sufficient funds to finance the state activities is undermined by the possibility of wealthy individuals and companies to use regulatory arbitrage. The states’ sovereignty has been reduced to the providing of some minimum of basic infrastructures and public goods (even if many public goods, such as clean water, cannot be ensured nationally) and to protect people who are unable to take care of their own interests (and even if this last point is questionable as the state is unable to protect the individual towards abuses by the financial markets).

Given that the libertarians recognize that the state ought to take on these nine roles and that the roles if to be fulfilled in most cases demand global approaches, the market liberalists ought to be positive to the development of an international order that addresses concerns related to those roles. Hayek that is regarded as somewhat of a beacon by many market liberalists also recognized the need for an international approach early on. In his The Road to Serfdom he predicts the need for an international “federal” approach to the regulation of the market economy based less upon “declarations” and more on firm legislation and an international independent judiciary. I will come back to that proposal.

32 Dryzek and Dunleavy, 2009, p 108
33 Hayek, 1944
34 Although some may claim that this was the view of the young Hayek and that the old, more disillusioned, Hayek had a more restrictive view on public governance.
III. INSUFFICIENT INTERGOVERNMENTAL GOVERNANCE

The present governance of the global market is in practice based on two pillars. One is the exercise of military power; the other is an inter-governmental order.

It can be perceived as a bit controversial to recognize that military power has an important role in the steering of the global market economy, but it is a historic fact. The latest globalisation period that ended a hundred years ago was driven mainly through military conquest, colonialism and the exercise of imperial powers. The role of military power did not end with the end of that period. It still plays a role, especially in the access to commodities and the exploitation of natural resources. Many bilateral trade agreements in which military strong powers get preferential treatment are connected to security arrangements and arm sales. The US has a position in international affairs that is stronger than its role in the global market economy and it is, besides by history, motivated mainly by its superior military strength.

The role of military power was recognized in the old Westphalia international order, but the role survived to a certain extent in the inter-governmental order created after World War II. The US was given a leading role in that order, a role that for many decades has remained unchallenged although the relative importance of the US economy has declined.

The issue now is that the two complimentary orders are insufficient in order to steer the increasingly complex global market economy system. I will come back to the role of military power in the discussion around alternative future governance models. For the moment I want to highlight the obvious shortcomings of the inter-governmental order.

The Challenges of 1944

In 1944 representatives of 45 countries met in the town of Bretton Woods, New Hampshire, in the northeastern United States in order to restore a globally open economy after the failure of the protectionism of the thirties that had deepened the Great Depression. The brilliant economist John Maynard Keynes, representing the interests of the UK, and the likewise knowledgeable economist Harry Dexter White, representing the interests of the US, had a central role in the negotiations that took place in a difficult environment; the interests of the US and the UK differed, not all countries wanted to open up their economies and many gave priority to solving domestic issues. The socialist countries had in principle closed their borders and were mostly outside the scope of the negotiations.
The outcome was, given the preconditions a stunning success. Two international bodies were created – the IMF and the World Bank. A third body the International Trade Organization (ITO) that besides trade should stabilize commodity prices, enforce international antitrust and fair labour standards was rejected by the US Congress. What remained of the ITO was a General Agreement on Tariffs and Trade (GATT). A small secretariat was set up and became the embryo to a factual third organization.

The countries that joined the IMF agreed to keep their exchange rates pegged at rates that could be adjusted only to correct a "fundamental disequilibrium" in the balance of payments, and only with the IMF's agreement. This par value system - also known as the Bretton Woods system - prevailed until 1971, when the system of fixed exchange rates collapsed. The oil shocks in the seventies led to an international debt crisis that IMF had to address. The IMF has later played a central role in helping the countries of the former Soviet bloc in their transition from central planning to market-driven economies.

The IMF had a less visible role during the late nineties and the early part of the new century. But as the finance crisis turned into a sovereign debt crisis the IMF got a new prominent role. The IMF has together with EU stepped in to help finance debt-laden Euro zone countries. The end of that engagement is not known or foreseeable when this is written, and new challenges are around the corner. As the IMF points out on its website: "The implications of the continued rise of capital flows for economic policy and the stability of the international financial system are still not entirely clear. The current credit crisis and the food and oil price shock are clear signs that new challenges for the IMF are waiting just around the corner".

The decisions in the IMF are formally based on a voting system in which countries have a vote in relation to their economic power. The decision rules have given the US a practical veto. This voting system has just recently been changed and China has been given increased representation. In reality the decisions are dependent on the resources that the fund can attract from the members in a given situation.

The GATT was an immediate success and was able to rapidly reduce tariffs, especially on industrial goods. The present World Trade Organization (WTO) was created on the basis of the GATT in 1995 as a result of the Uruguay Round of trade negotiations. Membership of the WTO is not automatic; countries have to have a recognized market economy to join. The WTO is a rules-based organization where all members have the same formal say. The decision-structure is thus different from the IMF and reflects the situation in the UN General Assembly in which all countries have one vote each. The negotiations are however in reality reflecting the relative economic power of the signatories.

35 www.imf.org
The WTO is an organization with teeth. The member countries are held accountable; if the trade agreements that have been signed in the WTO are breached, the trading partners, which have been damaged, can be given the right to retaliate, after an open legal process in which all parties are heard. The WTO is thus an organization with authority that matches its global reach, which makes the WTO different from most other international organizations. In international relations countries can all too often sign up to far-reaching undertakings without being held responsible for keeping their promises. Declarations signed by the participants at UN conferences or meetings like G8 seem sometimes to have been forgotten the moment the signatories have returned home.

However, a worrying fact is that the WTO has encountered increasing difficulties to conclude the negotiation rounds. The latest round, the Doha round, has been delayed several times, although the major countries repeatedly have agreed to make new efforts. The wish to lower the trade barriers to the export of agricultural products from the developing countries is perhaps the most controversial remaining issue. There is a political pressure in Europe and the US to protect the farmers from competition. Northern Europeans have difficulties to understand this pressure given the very high price they have to pay for this policy every time they go to the supermarket. There is also certain distrust between the participants that contributes to the lack of progress in the Doha Round. It is not necessarily a question of clash between personalities; the problem is of a more formal nature. China among others has quite openly questioned the mandate of the US President, given the situation in the US Congress and recent experiences. There is some progress made in international trade relations, but they are mainly achieved bilaterally or between trading blocks.

Not everything the WTO does is uncontroversial. Stiglitz\textsuperscript{36} criticizes e.g. how the intellectual property regime – Trade-Related Aspects of Intellectual Property Rights, so called TRIPs – have been used to create unfair conditions for the developing countries.

\textbf{The Challenges of 2008}

The latest financial crisis has added a layer to the global governance in one important way. At the outbreak the leaders of the main economies acted in concert. A so called Group of 20 consisting of the largest economies and the largest emerging economies was created on the initiative of the French President Nicolas Sarkozy and the British former Prime Minister Gordon Brown. The G 20 has met several times in order to coordinate the national responses to the crisis and to strengthen global cooperation in managing the financial markets. The G 20 was instrumental in preventing the financial crisis to develop into a severe recession and has taken important initiatives to address pressing issues.

\textsuperscript{36} Stiglitz, 2007, p 119 - 132
The G 20 set out an impressive agenda from the start. A comprehensive action plan was agreed at the Washington meeting in November 2008\(^\text{37}\), outlining deepened cooperation between the twenty countries. The countries agreed that this work, mostly organised by a new body dominated by central bankers – the Financial Stability Board - should be supervised by their finance ministers. Besides short term actions to increase liquidity and stimulate growth the G 20 agreed on more cross border cooperation between regulators to supervise internationally active actors, to prevent tax evasion and market manipulations. A review of the scope of financial regulation should be undertaken, with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions such as the rating institutes are appropriately regulated. Global accounting standards should be aligned; particularly the evaluation of complex securities. The G 20 also called upon more transparency of off-sheet balances and of credit derivatives markets to reduce their systemic risks. The G 20 members committed to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of national regulatory systems. A review of the differentiated nature of regulation in the banking, securities, and insurance sectors was to be undertaken. National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions. Strengthened capital requirements for banks and structured credit and securitization activities were proposed. Risk management was to be improved; especially the systemic risks of credit default swaps (CDS) and over-the-counter (OTC) derivatives transactions were to be reduced. The role of the IMF and the Financial Stability Forum (FSF) were expanded but not their authority. The FSF was expected to increase the membership of emerging economies and a redistribution of votes in the IMF should take place. The IMF with its focus on surveillance, and the expanded FSF, with its focus on standard setting, were expected to strengthen their partnership and be more active in giving recommendations related to regulatory issues and standards. The IMF was to conduct vigorous and even-handed surveillance reviews of all countries.

The work on new financial regulations has, since this comprehensive start, been remarkable and the recommendations reached by the new Financial Services Board often far-reaching. Substantial financial commitments have also been made to the IMF (and the World Bank), something the leaders probably have been happy to have done as the sovereign debt crisis in the euro zone has been evolving. The G 20 has also sought to ensure that the nation-states do not have to socialize the debts of banks and households if and when a new financial crisis occurs. Banks and other financial institutions will be forced to increase the quality and the quantity of their reserved capital, according to an agreement reached in Basel by bank

\(^{37}\) Published on www.whitehouse.gov. Retrieved the day after.
supervisors and endorsed by the Financial Stability Board. Another proposed action aims at preventing households from borrowing more than 75-80% of the values of their houses, giving them space to absorb a future loss of value on their properties.

The G20 Group has under the French Presidency also discussed and initiated actions by many of the UN organizations on issues such as food shortage, commodity prices, immigration, and currency imbalances. The German Chancellor has in another initiative called upon meetings with the leading international organizations to discuss the possibility of a Global Charter to address the current challenges. The result of this initiative has, however, so far been meagre, as the organizations seem to have been more focused on defending their respective turfs than on finding common ground.

**The Challenges of 2011**

Some impressive progress has been made by the G20, but the general feeling is that the momentum is fading away as the financial crisis is starting to become history and the G20 members are focusing on domestic (and euro zone) consequences of the crisis. Papantoniou is proposing a permanent secretariat of G20 in order to reinforce economic policy coordination. The secretariat should in cooperation with the IMF present world leaders with policy options addressing problems of stability and sustainable growth in the global economy. The immediate task should be to address current account imbalances by promoting exchange rate realignments combined with appropriate adjustments in fiscal policy.38

The proposal that originated from ideas floated by the French Presidency can be seen as a pragmatic way forward; it may seem simpler to build upon what has already been created in a “bottom-up” process and not try to create something completely new through a more “top-down” approach. Even this moderate proposal has, however, been met with resistance. The "bottom-up" approach is in the present climate a slow and cumbersome process.

The British Prime Minister David Cameron was asked by the then Chair of the G20, President Sarkozy, to report on global governance to the Cannes Summit in November 2011. His main conclusion was that the answer to better global governance is not to be found in elaborate new institutions and global architecture. He claimed: “We have the machinery that we need already. No, what we need above all is the most precious and intangible commodity – political will. Political will to act together, and to build the consensus we need to confront squarely the problems before us so that we can return our economies to health and vigour. Political will to keep tackling poor regulation, barriers to growth and global disparities in wealth. That is what our citizens are entitled to expect of us. And that is what we must deliver.”39

---

38 Papantoniou, 2011, p 14
39 Cameron, 2011, foreword
Cameron continues: “The G20 is unique in bringing together the political leaders of the world’s major economies – advanced and emerging alike – on an equal footing. From its birth in economic and financial crisis, it has been an informal and Leader-driven group focused on building political consensus…Informal mechanisms to generate and sustain political consensus are a valid and essential part of global governance, working alongside and complementing the work of institutions whose members have more formal rights and obligations.”

The G20 that represents 85% of the world economy must become much more consistent and effective at engaging non-members, international institutions and other actors, welcoming their effective participation in specific areas of the G20’s work, Cameron suggests.

Cameron is highlighting improved monitoring and surveillance. The IMF should e.g. enhance its surveillance role by updating and codifying its multilateral surveillance function to drive further improvements in its ability to monitor global risks, he says.

Cameron recognizes: “The financial markets have become the most integrated and interlinked part of the global economy. International coordination of financial standards and of their implementation by the competent authorities is critical for the maintenance of financial stability. A number of bodies have evolved over time to promote and contribute to such coordination, but the crisis demonstrated that they were unable to sufficiently resolve conflicting regulatory standards, to drive action to respond to significant lags or gaps in the development of these standards or to prevent arbitrage caused by their uneven implementation in different jurisdictions.”

At the same time he sees progress made under the leadership of the FSB and suggests that the way forward should be to strengthen the FSB, to let it become a legal entity and be given a permanent secretariat so that it can continue to effectively address some of the underlying problems that led to the crisis. These include reviewing and coordinating the work of SSBs; undertaking surveillance of macroeconomic and financial risks together with the IMF; and supporting contingency planning for managing cross-border financial crises. Cameron recognizes that regulatory arbitrage in the global financial system remains a real threat that undermines market and economic confidence. To counteract this, he suggests that the FSB should more clearly exercise its mandate to advise on and monitor the meeting of regulatory standards. The FSB could also play a more central role in providing authoritative assessments to prevent allegations of non-compliance in some jurisdictions as a justification by others for not acting.”

\[40\] Cameron, 2011, 2.12
\[41\] Cameron, 2011, 2.16-2.24
He also wants to enhance the WTO’s efforts to monitor free trade agreements, identify protectionist measures and recommend remedies to rectify them. The international institutions, especially the Sectorial Standards Boards should promote future standards to become more global in nature.

He proposes that the issue around a secretariat of the G 20 is solved by secondment from the member states and that a Troika consisting of past, present and future presidents is created.

Cameron’s proposals are to summarize built upon two pillars: Political will on one hand, and monitoring and surveillance on the other.

Cameron recognizes that “looking more broadly at the institutions grappling with the current and future challenges of economic globalisation, there is clearly a need to strengthen their overall coherence. This is a much larger subject than can be addressed in this report.” He defends his limited proposal: “There are a large number of established institutions and processes, especially those tackling challenges in cross-cutting areas such as energy, the environment and development: the essential challenge is to make these institutions work better together. The solution in many cases is not formally changing mandates or creating new bodies. Such changes can consume huge amounts of political energy. And in today’s fast-changing world, challenges often evolve more quickly than institutions can be restructured to address them. Rather, existing institutions must be given clearer and stronger political direction to work together, analysing global problems and proposing actions in a more joined-up way to achieve common goals.”

Dryzek and Dunleavy reflects upon the situation: “The international system has sometimes been described as ‘an anarchical society’ because historically it has achieved a large measure of cooperation without much in the way of central institutions at the system level. International law is very weak compared to its domestic counterpart, and there are few ways for international institutions to force compliance with their decisions.” They note that political scientists are increasingly discussing the legitimacy of this order. A question posed especially for the liberal democratic states is if the rise of networked governance is democratic. Dryzek and Dunleavy write: “Electoral democracy means accountability of governments to the voters; but if collective outcomes are not in the end produced by the sovereign state, it is hard to see how such accountability can be arranged… Sometimes the very informal character of networks means that it is hard to determine where decision making authority actually lies.” However, ”some theorists insist that all governance really represents is a flexible way for governments to operate that retains ultimate government control”.

42 Dryzek and Dunleavy, 2009, p 17
43 Dryzek and Dunleavy, 2009, p 148, 149
claim that, however, raises another question, namely the lack of coherent implementation of agreed actions.

Post-structuralists see a sovereign state dissolved into power networks that do not stop at national boundaries. Marteen Hajer “suggests that contemporary processes of ‘globalisation on the one hand and individualisation on the other’, multi-level governance, complexity, novelty in the character of policy problems, new sites and forms of political action and undermining of expert authority, often lead to an ‘institutional void’. That is, when a problem arises on the political agenda, it may be unclear where (if anywhere) responsibility for its resolution can be located, and the character of the polity itself must be negotiated along with the nature of the problem and possibilities for collective action”44

**What the global market economy is lacking**

The actions Cameron proposes are mainly in the form of more monitoring and reviewing. That is a far cry from the international legislation and rule of law as advocated already by Hayek in 1944.

The market economy is a bottom-up system and, as such, it mainly needs predictable and transparent rules, not intervening institutions. But it does need the rules; a level playing field is a precondition for effective markets. As long as the market economies were mainly national the nation-states could offer such rules and also ensure that they were followed, but the possibilities for the nation-states to offer such stable environments are getting weaker as the globalisation process proceeds.

The development of the global market economy is demanding a similar set of rules that mostly exist on national45 level, the difference now being that they have to be applied globally. Global companies that are active in many countries as well as other exporters and importers need clear rules and a level playing field. A lack of governance shows up in transaction costs. Companies have to tackle not only transportation costs, but also costs for uncertainty in rules, in the stability of the financial markets, in the enforcement of contracts, patents and the like. The lack of governance also shows up in a diminished sovereignty of nation-states, especially if they are dependent on the global financial markets in order to finance public deficits. The nations-states find themselves in an unpredictable global environment on which they have little influence.

44 Dryzek and Dunleavy, 2009, p 297
45 In the case of EU on European level
That the state has a role in regulating the market economy is generally recognized. The following elements are central to a functioning global market economy and those are areas which the individual states cannot in a meaningful way control and regulate on their own (the list, which is in line with common views by market liberals on the role of the state, is not intended to be exhaustive, more to be illustrative).

- Regulation of the financial markets.
- Establishing and enforcing laws of contract.
- Preventing overt coercion of individuals by others.
- Rules for acquisition and sales of assets.
- A common foundation for the exploitation of natural resources.
- Harmonized competition rules and regulation of unavoidable monopolies.
- Agreed ways of internalizing "externalities", such as environmental impacts, into the market economy system.
- Enable nation-states to regain some of their sovereignty to uphold and develop social and cultural conditions anchored in the national and local traditions. Regulation of the financial markets.

The globalisation is in itself also demanding a regulatory framework that is outside the scope of the nation-states. Four examples are regulations that support

- Free and fair trade
- Basic labour and migration conditions.
- Stable currency relations and global money supply
- Fair domiciliation of companies and citizens for taxation.

**An order at the end of the road**

Can the present inter-governmental order with its focus on consultations and monitoring deliver the regulatory environment, of which I have given some examples, and which is needed in order to steer the global market economy in an efficient way? Prime Minister Cameron seems to believe that, and argues that more of political will is the main answer to the present challenges, not more power to global institutions.

However, there are some problems with the approach. The political will is defined not by the global needs, but by the mandate that the leaders have been given by their national constituencies. Recent history has for example shown that key countries have been easy victims of heavy-handed lobbying from the financial industry in the implementation phase of the financial regulations and standards that have been agreed upon in international consultations; the effect has been that the implementation has been incoherent and patchy.
it realistic to expect that more of consultations and increased monitoring and reviewing will change the influence over the decision-making by the financial elite in the individual countries?

When the world managed to get out of the 2008 financial crisis in a reasonable way, the world bought itself a couple of years to address the structural problems. Most economists were in agreement that those years had to be used well, but many are now starting to be concerned about what they perceive as an apparent lack of coordinated and coherent actions from the side of the main actors. The financial crisis, which started as a debt crisis with banks and households finding themselves with more debt than assets, has developed into somewhat of a debt crisis for states. Several developed countries, including more advanced economies such as the US and the UK as well as more traditional economies such as Greece and Hungary had undisciplined budget regimes already before the financial crisis. The problems have deepened as many countries have been forced to 'socialize' the bank debts in order to keep the banks solvent, and to take over some of the household debts for social cohesion reasons. Already debt-ridden countries have moved the total debt from one place in their economies to another. The Euro zone has been forced to fight off the distrust towards some of its members by issuing guarantees and loans and by establishing a new level of cooperation and discipline.

The fact remains that the Western economies as a whole are more vulnerable after the latest crisis and will have less resources to meet a new crisis. At the same time they are just like China becoming more and more dependent of the development of the global economy as the tendency is that trade is playing a larger role year by year also in their economies. There are no longer any "islands" in the global economy. The future of every single market is dependent on the development of the global economy as such.

The case of the former "tiger economy" Ireland is worth a reflection. It was a real estate bubble that pushed the economy into a dark hole. Before the event few saw any problems in lending money to the Irish state and the Irish banks. The economy had been steadily growing and had enabled the Irish state to reduce its debt to a comparatively low level, less than forty per cent of GDP. The rating institutes gave both the Irish State and the banks very high marks. OECD, the EU watchdog ECFIN and ECB warned about the asset price increases, but they were mostly seen as an unfortunate side-effect of the fact that Ireland belonged to a Euro zone in which countries were growing in different speeds. The banks in the City of London, who are supposed to be the most advanced in the world, and are geographically close to Ireland, were among those that lent the Irish banks the most money. They relied upon the rating institutes and saw no warning signals. When the asset bubble burst and several banks faced collapses the Irish state took over the debts and the state suddenly turned from a trusted solvent state to a debt-ridden one. To prevent something like this from happening again is a demanding proposition.
Would we be better off today if Ireland, Spain, Greece and others had let their banks and their lenders in mainly the UK, Germany and France take the fall? In hindsight, probably yes. It would most likely have been less costly for the British, French and German taxpayers if they had had to invest in the restructuring of their failed banks than to take the direct and indirect costs of the prolonged crisis.

All focus is now when this is written on the euro zone and there is a perception that the global challenges will fade away if the problems concerning the euro zone are solved. This is a potentially dangerous perception. None of the areas discussed above are regional in character; all are global. There are issues that relate to the Euro zone as such and to the fact that it is a currency union. Those challenges can only be addressed by the Euro zone countries themselves. On the global market not only companies, but also countries, compete, and there is a wide field of actions that countries (and regions) can undertake to become more competitive and to make their economies more sustainable. The US as well as all of the European countries have e.g. quite urgently to learn how to live within their means, to reduce their energy consumption and make better use of available resources for e.g. health care. China and Japan have to find ways to stimulate domestic demand and to reduce their dependencies on exports. If China can implement a coherent domestic pension and a healthcare reform, it would lower the need for private savings, increase domestic demands for products and services and consequently increase investments in China. China would also be able to appreciate its currency more substantially, which would have healthy effects on the savings balance and on the investment level in the West. If India followed suit the positive effect on the world economy would be strengthened, besides making India a more classless society. It does matter how nation-states act within the global market economy, but national initiatives cannot replace global regulations.

The globalisation is setting limits to what most individual governments can do, limits that create unrest among citizens. Those that are living old battles are often misreading the concerns of people. They do not recognize that it is the lack of a generally acceptable outcome that the mainly unregulated global economy offers that is the issue. History has a lot to teach us, and I will come back to that. Taxpayers have been forced to accept the socialization of bank debts and contribute to stabilizing the debts of other countries. They feel that they have to suffer for something they have no part in. Leaders in the developed countries have difficulties to respond to those sentiments and deliver the growth and jobs that their constituencies are demanding, simply because they do not have access to the necessary tools. They are dependent on a global economy on which they have little influence. The situation in developing countries is not all that different. It is not a coincidence that the uprising in many Arab countries has happened now. Their economies have been hit by the global financial crisis and by food prices sky-rocketing due to a combination of low harvests and an unfair global trade regime. Many protesters have succeeded in claiming more human rights and democratic decision-making, but it is not obvious to what extent the new leaders will be able
to meet the expectations. They have just like their counterparts in the more developed countries little influence on the surrounding economic environment.

There has been an ambitious work on the functioning of the global financial market that has been undertaken by the G 20 and the Financial Stability Board, but is likely to be insufficient to prevent a new crisis. The probable failure is partly due to a too limited scope: There are some remaining major issues. One of them is how to attend to the global imbalances. One proposal has been to put a "cap" on the current account deficits and surpluses, a proposal that has not been accepted; China and Germany have been the strongest opponents. Many economists have also questioned the cap method, arguing that it can lead to faulty decisions. That something ought to be done about the imbalances is obvious, but how to do it is less clear. The cap proposal has one oddity to my mind – and that is the link to the country level. The most obvious way to correct the imbalances is a structural change in the values of the currencies; it is an approach that is available to China, but not to countries such as Germany and France as they are members of a currency union, the Euro zone. I am not discussing the euro zone questions in this paper, as I see the management of the global market economy and a currency union as two very separate questions. A currency union is in my reasoning a federation of nation-states and should seek solutions as such. It can from this perspective be put in question if it had not been in the interest of the euro zone countries to act as a group in G 20 and not be represented individually. Such a representation would have better reflected their obligations and the reality on the ground.

There are other concerns left unsolved. The former Economy and Finance Minister of Greece Yannos Papantoniou, who has a first-hand experience of a failed economy, is in a recent report\textsuperscript{46} highlighting five issues:

- **Effective Regulatory Framework.** The Basel agreements needs to cover all institutions and purpose-built legal entities prevented
- **Strengthened Supervision.** Resources must be built up and independence ensured.
- **Resolution.** No institution should be allowed to be "too big to fail". The IMF has proposed a "pragmatic approach" to cross-border resolutions, still to be determined.
- **Regulating Systemically Important Financial Institutions (SIFI).** Extra surcharges for these institutions are discussed.
- **Reinforcing Market Infrastructure.** Better regulation is needed of over-the-counter (OTC) derivatives, naked short-selling and Credit Default Swaps.

\textsuperscript{46} Papantoniou, 2011, pp 10-12
Others express concerns over the counter-productive incentive structure that they claim not to have been addressed. The well-known and interesting libertarian economist Tyler Cowen is one of the critics.  

His main concern when it comes to the stability of the financial system is that financial actors are incentivized "going short on volatility". In his colourful language: "In plain English, this means that some investors opt for a strategy of betting against big, unexpected moves in market prices. Most of the time investors will do well by this strategy, since big, unexpected moves are outliers by definition. In bad times they won't suffer fully when catastrophic returns come in, as sooner or later is bound to happen, because the downside of the bets is partly socialized onto the Treasury, the Federal Reserve and, of course, the taxpayers and the unemployed". From the perspective of the "money managers that are investing other people's money... What's the worst that can happen? Your bosses fire you, but you will still have the millions in the bank...You may even get rehired at another investment bank, or maybe a hedge fund, within months or even weeks".

Roger Martin, the dean of the Rotman School of Management at the University of Toronto, has in an analysis of the latest crisis put the blame for the faulty incentive structure on a view that became mainstream in the 70's, namely that the managers should focus on maximising shareholder value. He claims that this is a naïve and wrongheaded linking of the real market – the business of designing, making and selling products and services – to the expectations market - the business of trading stocks, options and complex derivatives, and he shows how faulty incentive schemes based on this perceived linkage have led managers to take risky short-term decisions that have undermined the creation of long-term shareholder value. He proposes alternative incentive schemes that steers managers towards actions that are beneficial for the companies in the long run.

An additional problem is the counterparty risks that almost sank the ship in the first place and which remain mainly unregulated and without full transparency. The risks with the subprime mortgages were hidden for investors, who for many years, based on the triple A ratings from the rating institutes, thought they had invested in something both profitable and safe.

Another concern is the liquidity issue. Excess liquidity is driving incautious investments. Such excess liquidity was created by the Federal Reserve, ECB and others during the financial crisis. The purpose was to prevent a lack of liquidity to develop as distrust was spreading and inter-bank transactions dried up. It worked and as long as the money circulation in the global economy has been relatively low the policy has continued to be appropriate. But when the global economy is starting to pick up, so is the "recycling" of liquidity. If the emerging excess

47 Cowen, 2011, p.9
48 Martin, 2011
problem is left unaddressed the result can be inflation and new bubbles. The question is how to find a coordinated approach from the central banks in a multi-polar system.

There is to my mind an underlying problem. For several decades the official statistics have shown that the global savings have declined, at the same time as they have surpassed the investments that also have declined. The latter observation can be passed over as an optical illusion as savings and investments are supposed to match one another at the end of the day, but I believe that the figures signal underlying problems. The reasons are to be found both on the demand and the supply side. The demand for industrial capacity building has come down as the replacement investments in the East have been cheaper than the earlier investments in the West. The services sector that is playing a larger and larger role in all countries is also demanding less investment in relation to its contribution to GDP than the agricultural and industrial sectors. The investment opportunities in real capital in relation to the global GDP have thus decreased. However, those employed in the services sector are saving as much as those employed in industries or on farms, and they are doing it mainly to support their pension schemes. Those savings are substantial, but in a Chinese perspective they pale; the ordinary Chinese save as much as 50 per cent of their income. As a consequence of this development and the change of their relative competitiveness, some countries - China and the commodity-rich countries - have large saving surpluses, while others - the US, the UK and the Euro zone - are borrowing heavily. In a perfect market, this imbalance would be corrected by an adaptation of the exchange rates. The Chinese Yuan would appreciate and the dollar, the pound, and the euro depreciate, but this is not happening as the currencies are being manipulated. A second ‘automatic’ defence mechanism is the interest rates, but they are for other reasons not flexible enough.

As long as we are in a situation in which the global savings surpass the investments there will be a surplus capital looking for an elusive return. There is a lack of available investments to balance the savings and the market will answer by inflating the values of financial assets and by ‘inventing’ investment opportunities with perceived, but imaginary values. With a surplus of ‘easy money’ there will always be a temptation for someone responsible for capital return to take risks he would not have taken with a better balance between demand and supply; there will likewise be a strong enticement for financial actors to offer products with returns they are unlikely to be able to live up to. The savings and the investments will balance in the short-term, but it is an unsustainable balance. The asset bubble will eventually burst and the values of the savings will have to be written down. This pattern seems to be more or less inevitable as long as we do not have proper global market governance. It also signals a structural problem. If it is difficult to find investment opportunities for savings, mainly driven by people's wish to secure their pensions, we may end up in a crisis for the pension systems. The end game of the Euro zone crisis may also come to worsen the problem. Whatever the outcome the costs for Euro zone countries as a group to borrow money will be considerably higher than before the crisis, hitting not only long-term growth, but also the interest of individual countries to borrow. Countries that have been put under “guardianship” are
especially unlikely to want to borrow more on the international market than they absolutely have to. The demand for loans for investments in the Euro zone will as a consequence decline, further deepening the global imbalance between savings and investments.

I may be wrong in some of those pessimistic assumptions, but the concerns around the global financial system that I have reflected shows overall that there is much more that needs to be done if we are to avoid a new crisis and that there is a need both for common approaches and common implementation, something the present international order has difficulties to deliver.

The lack of a comprehensive agenda and the limited scope is the first problem. A second severe problem is the *uneven implementation*, which is dependent on decisions by the parliaments in every single country. Papantoniou expresses concerns that some countries, especially the US and the UK, have a too laissez-faire attitude and his concerns seem to be relevant. Basel Two has, according the Director General Jonathan Fall in the European Commission, who is a member of the Financial Stability Board, only been implemented as Basel One and a Half in the US. The light touch regulation applied by the UK has historically been seen as a competitive advantage for the City of London and many want to keep it. Lord Turner of the British regulator the Financial Services Authority (FSA) has in a testimony to a committee within the British Parliament⁴⁹ complained that he has been under pressure from the government to apply a light touch regulation and that he, before the latest crisis, was discouraged to intervene, although the excessive lending culture had created concerns within the FSA.

It is not fair to see the lack of coherent implementation as only a US-UK problem. The financial actors are resourceful and their heavy-handed lobbying has succeeded to water down the legislation in many crucial countries and to create unfortunate loop-holes. Banks and insurance companies may not thrive in an unstable financial climate, but their executives and traders, whose actions are steered by short-term financial incentives, do. Uneven implementation is also creating openings for *regulatory arbitrage*. Financial actors who are operating internationally can steer their activities to places with the most convenient regulations. The only way to avoid this ill-fated situation is to have global governance with legislative powers that can make the threats by financial actors to move their businesses to the country with the least rigid regulation ineffective.

There are other common challenges than the stability of the financial markets. All *externalities* are e.g. not automatically taken into account in the global market economy. The most obvious case is the effects on the global environment. Ruthless companies may, if not restricted, be polluting, destroying rain forests, using scarce natural resources in an irresponsible way etc. The on-going abuse of the environment is pushing climate change,

---

⁴⁹ *Daily Telegraph*, February 26, 2009, p 1
threatening access to clean water on a global scale and exposing large populations in
developing countries to poisonous chemicals and hazardous waste. It is more than an urgent
environmental issue to internalize such negative externalities in the global economy; it is also
a pre-condition for fair competition and fair trade.

Other externalities that are patchily addressed are the social conditions under which
production is taking place. Abuse of the local work forces is far from always prevented, child
labour is forbidden, but implementation is wanting, and minimum wages for exporting
companies are discussed, but not agreed.

The lack of a level global playing field when it comes to externalities, Intellectual Property
Rights (IPRs), competition rules etc. is an issue. A global IPR regime could e.g. improve the
interest worldwide in making real investments compared to financial investments.

An additional reason why the present order is offering insufficient governance is that the
organizations have different voting power systems. The UN organizations are in principle built
upon the idea of one country –one vote. Every single country has a veto, independent of the
size of the economy, or whether its governance is commendable or not. How depressing these
decision-conditions are has been abundantly clear during the climate change negotiations. It
cannot be expected that failed states will give up those veto rights, even if the Group of 20
exercise all its political clout to try to coordinate the actions within the UN family. The IMF
has another decision-structure that is more aligned with economic realities, but its scope is
limited and the organisation has a historic luggage that makes it an unlikely candidate for a
wider role.

The final reason is that the present order, which in practice is more of an inter-governmental
cooperation than global governance, is too reactive and, to a too small degree, pre-emptive.
The leading powers are sometimes surprisingly fast and decisive, but that is basically only
when the house is on fire. To build a future governance structure that can be pro-active,
coherent, transparent and effective on the basis of the existing organisations is an awkward, if
not impossible task.

To sum up: The conclusion is that the existing governance of the global economy is
insufficient. Some of the problems are

- **Limited scope.** A holistic approach to the world markets is lacking - an approach that
covers trade and financial markets in an adequate way, but also e.g. entails the right to
buy foreign assets, covers the need for coherent competition rules and an appropriate
protection of IPRs as well as addresses the joint responsibility for global climate and
environment and regulates the right to exploit valuable and scarce resources in
sensitive areas such as the Arctic.
• **Lack of authority.** Most decisions taken on international level need to be implemented on the national level to be enforced and by governments that for different reasons are susceptible to lobbying and "black-mail" from actors who oppose regulation.

• **Lack of transparency.** The populations in general feel excluded from the discussions and are suspicious of the motives of the participants. Meetings are surrounded more by rumours than an enlightened debate.

• **Lack of accountability.** Who is to blame if we enter into a new financial crisis? Who will take responsibility if climate change will become irreversible? In the present situation there is no one to blame, but the more or less unregulated global economy as such.

• **Undermining of nation-states.** The room for manoeuvre by nation-states has declined. Many Western economies are debt-ridden and in difficulties as a consequence of the mismanagement of the global financial system. The rulers have increasing difficulties to act to correct negative externalities when companies and wealthy citizens threaten to vote with their feet.

The present inter-governmental order is at the end of the road. It does not deliver the global regulation that is needed and it is dependent on a political will that is defined by diverse national interests, not by the common interest.
IV. WHAT HISTORY CAN TEACH US

It is always a good idea to look at history for lessons to be learned. So what can history teach us?

The first is that the marriage between market liberalism and the public order has been a marriage of convenience and of contrasts. A bottom-up, individualistic system has cohabited with a top-down, collectivistic system. The marriage has been through many minor predicaments and, in the early twentieth century, a severe calamity of an international scale, The Great Depression, an event that developed into a crisis of systems.

The Great Depression

The Great Depression and its aftermath came thus to challenge the legitimacy both of capitalism and democracy. The economist Peter F Drucker used 1939 the provocative language “The End of the Economic man”50 in his analysis of the crisis and the origins of totalitarianism. He saw the despair of the masses as the main reason for the breakdown of trust. While the politicians struggled to restore the economic and financial systems the masses experienced permanent unemployment, “too old at forty”, and economic sacrifices. The masses saw “The Return of the Demons” that the liberal democracies had promised to root out. “The masses joined fascism not because they believe in its promises, which take the place of a positive creed, but because they do not believe in them”51, Drucker argues and continues: Mussolini himself “repeatedly boasted that fascism, when it came to power, had no positive policy, no program, and no system.”52 Drucker notes that not even the best-organised Nazi mass meetings showed any enthusiasm for the worship of the old Germanic gods, the Nordic perfect man, the corporate state composed of self-governing, autonomous “estates” and the heroic family. What drew people to fascism were the refuting, fighting, and denying of all traditional ideas and ideologies, yes, of the very foundation of the social and political system. The experience of the nineteenth century, which attracted the emotional and sentimental attachment of the masses in Italy and Germany, was national unification, not the victory of the bourgeois, “democratic” order, Drucker writes. Democracy was installed “from the top” and not through revolution from below, which contributed to its collapse.

50 Drucker, 1939
51 Drucker, 1939, p 11
52 Drucker, 1939, p 11-12
The fascists may have lacked credible programs, but their relatively success, when taking over, should not be overlooked. They addressed the unemployment and gave everyone a role, a way of supporting himself and his family. Through *Wehrwirtschaft* the Nazis organised the German society as a military machine, where everyone had his place, with superior and subordinate “officers”. Non-economic incentives helped keeping people in line.

Hayek claims in his “The Road to Serfdom”\(^3\), published 1944, that the socialist thinking that politicians had started to adopt after World War One paved the way for the fascists. While Drucker highlights the despair of the masses as the root cause of the growth of the national socialist and fascist movements, Hayek sees the masses as followers “the docile and gullible, who have no strong convictions of their own but are prepared to accept a ready-made system of values if it is only drummed into their ears sufficiently loudly and frequently. It will be those whose vague and imperfectly formed ideas are easily swayed and whose passions and emotions are readily aroused who will thus swell the ranks of the totalitarian party.”\(^4\)

The German state controlled almost all aspects of the economic life already before the national socialists came to power, Hayek suggests. Nationalisations had taken place and protectionist moves had been undertaken that had deepened the economic crisis at the same time as the ‘planned economy’ thinking was established and created a momentum for the fascists. “The problem is not why the Germans as such are vicious, which congenitally they are probably no more than other peoples, but to determine the circumstances which … have made possible the progressive growth and the ultimate victory of a particular set of ideas…”\(^5\). “Hitler did not have to destroy democracy; he merely took advantage of the decay of democracy and at the critical moment obtained the support of many to whom, though they detested Hitler, he yet seemed the only man strong enough to get things done.”\(^6\) “In this stage it is the general demand for quick and determined government action that is the dominating element in the situation, dissatisfaction with the slow and cumbersome course of democratic procedure.”\(^7\)

Hayek partly blamed his fellow economists and the advices they had been giving to the politicians for the development. “There is much to suggest that we have in fact become more tolerant towards particular abuses, and much more indifferent in inequities in individual cases, since we have fixed our eyes on an entirely different system in which the state will set everything right.”\(^8\)

---

\(^3\) Hayek, 1944
\(^4\) Hayek, 1944, p 143
\(^5\) Hayek, 1944, p 7
\(^6\) Hayek, 1944, p 71
\(^7\) Hayek, 1944, p 140
\(^8\) Hayek, 1944, p 218
But where Hayek saw an ideological uptake of socialist thinking, Drucker saw a rejection. “The intellectual elite which, before 1914, had been mesmerized by Marxism, deserted it almost entirely after 1918 and flocked to new leaders and to new thoughts. Max Weber in Germany, the Neo-Thomists in France, or Freud in Austria…were not ‘anti-Marxists.’ They simply regarded Marx irrelevant, by and large. And Marxism itself, which had thrown up a galaxy of thinkers and of political leaders before 1914, did not after World War I produce one single figure, even of the second rank.”

While it is clear that many politicians lost the confidence of their people in the aftermath of the Great Depression, the role of economists during the crisis is somewhat contentious. Many see the stubborn defence of the gold standard, which was inspired by economists of the time, as a huge mistake that led to the unravelling of the British Empire, ended the nineteenth century globalisation period and made the Western economies more vulnerable.

At the same time economics evolved as a science based upon the concept of the Economic Man. Economists moved away from the “behavioural” thinking of Adam Smith and embraced with enthusiasm the new mathematical tools that the idea of the Rational, Economic Man made available. The perception of the time was that “economics as a social and ‘moral’ science dealing with the social behaviour of man and with institutions devised by him, can only claim to be a science if the economic sphere is regarded as autonomous, if not as supreme, and economic aims as desirable over and above all others. Otherwise…it can supply no ‘laws’ of economic cause and effect – the criterion of science.”

But the enthusiasm of the economists over the new theories was not matched by an analogous success in the real world. Drucker wrote 1939: “At first glance it might appear that the science of economics has never been more dominant than just now and that, therefore, the belief in the society of Economic Man could never have been stronger. Nation after nation has entrusted the management of its affairs to the trained economist. He is in demand as business executive and as political leader, as lecturer and as radio commentator. But this superficial appearance is deceptive. We have installed the economist in a last desperate effort to save the society of Economic Man, just as the eighteenth century installed the philosopher – the rationalist, ‘enlightened’, historically trained scholar on its shaky throne. And like the Philosopher-King in the eighteenth century, the Economist-Prime Minister in the twentieth century failed.”

So what, if anything, can we learn from this relatively recent history? It is not an as simple exercise as it may seem. It is easy to demand that we should learn from history, much easier

---

59 Drucker, 1939, xxv
60 Drucker, 1939, 47
than to actually do it; and it is easier to say at hindsight what one should have learned than to do it while there still is time.

It is necessary to make this qualification, for the simple reason that, even if history has a tendency to repeat itself, it never repeats itself in exactly the same way. There are similarities and there are disparities and to draw the right conclusions of those different observations is not a simple exercise.

Obvious similarities are the global interdependencies and the importance of global trade. The global trade was at the end of the nineteenth century of the same level in relation to the concerned countries GDP as it is today. But there is also a disparity; the global interdependencies were much less complicated then; there was a flow of commodities from poor, often colonized, countries to the recently industrialized Western economies and a trickle of industrial products going back. The trade pattern of the earlier globalisation period did not match the level of interdependencies we have today, the complex weave of supply-chains and markets enabled by an IT sphere in which we all are embedded.

A similarity is the role of economists and economic science. Politicians turned then as now to professional economists for guidance and the relative power of economists peaked. As this is written two economists with the background as Vice President of the European Central Bank and Competition Commissioner in the European Commission have been appointed Prime Ministers in the debt-laden countries of Greece and Italy.

The issue now as then is that the economic science is under development and that there are question marks around the conventional thinking. The recipes that the economists originally applied at the time of the Great Depression did not work, the gold standard had to be given up, desperate protectionist moves failed, industrial planning and nationalisations were unsuccessful. It was not until Keynes’ thinking started to spread that methods recommended by economists started to give positive results, but then it was too late. The distrust towards politicians and economists had already reached a level that paved the way in many countries for totalitarianism, for the national socialists and for the fascists. The decision-makers had for too long neglected the despair of the masses: the mass unemployment, the inability for men and women to support their families and their children, the horror of a new young generation growing up without future and hope.

**Will history repeat itself?**

Is there a risk that we are we facing the same scenario? Rodrik sees a difference. “Why didn’t the world economy fall off the same protectionist cliff that it did in the Great Depression of the 30’s?”, he and answers: “In the decades since, modern industrial societies have erected a wide array of social protections – unemployment compensation, adjustment assistance and other labour market interventions, health insurance, family support – that mitigate demand for
cruder forms of protection such as sheltering the economy behind high tariff walls. The welfare state is the flip side of the open economy. “

But as the crisis has turned into a sovereign debt crisis, especially in the Eurozone, economists have focused on meeting the perceived demands of the markets and not on “the despair of the masses”, especially not on unemployment. The objectives for the leaders of Greece, Italy, Spain and other countries burdened by debts are to implement austerity measures that can diminish the need for future borrowing and make it credible that the countries can repay their debts. There are a couple of intrinsic problems with that approach. The first is that the economists are using traditional models of the economy, which have proven to be inadequate, even misleading, at the time of crisis. The recipes that the models predict and that are recommended by e.g. the IMF to be followed by the countries concerned have been tested in a number of cases with mixed results. Financial balances have often been regained, but not until after a long period of decline in living standards and heavy unemployment. Joseph Stiglitz and others have criticized the prescribed methods because of their human costs. Some have pointed to the recent experiences of Argentina and Brazil; Argentina adopted the IMF way, while Brazil chose another route, prioritizing growth and jobs, and there is little doubt about which country that has been the most successful. The conventional economists on the other hand point to how Latvia has turned its economy around through heavy austerity measures; the price has, however, been a permanence of high unemployment, widespread criminality and prostitution. The Latvians re-elected their government, but many claim that it is the recent experience of an even worse system, the communist system, that has made the Latvians compliant; only 14 per cent in a recent poll believe market economy to be a good system. It is not a given that the Italians, the Spanish and the Greeks will be as submissive.

There is a need to improve the economic tools and get a better understanding of how the economy really works and there is a research, sometimes called Global Systems Science, that aims at giving a better representation of the world, to simulate the world as it is, rather than to assume that it can be represented by conventional and simplified theories.

The economist Dani Rodrik, whose theories I will come back to, claims that one should not draw the conclusion that inadequate models are the main cause of often questionable advices given by economists. It is a “common complaint against economists that they have a single, uniform model of the economy that relies on narrow and unrealistic assumptions”, he writes “This misses the true source of the problem… Keynes, Tobin and other economists who

61 Rodrik, 2011, p 19
62 See e.g. Stiglitz,1996
preferred restraints on global finance had models in mind that were quite different from those that animated financial enthusiasts”.

While the “gold standard” and the lack of recognition of the role of budgetary policies for growth and jobs were the blind spots of the earlier economists, Rodrik suggests that the effect of a basically unregulated global financial market is the blind spot of many in the present generation. He seems to me to make a valid point. Economists sometimes talk about the verdict of the financial markets as if they were guided by rationality and raised above suspicion, as if the asymmetric information, the lack of transparency, the mismatch of opportunities, responsibilities and consequences, and the perverse incentive structures were non-existent and not mainly unaddressed problems. Hayek already 1944 noted: "Even the most essential prerequisite of [the market’s] proper functioning, the prevention of fraud and deception (including exploitation of ignorance) provides a great and by no means yet fully accomplished object of legislative activity.”

If the economists and politicians now in charge in many European countries only concentrate their efforts on austerity measures in order to meet the concerns of the financial markets and neglect the mass unemployment there is a clear risk, to my mind, that we will see a repetition of the unrest of the thirties, and a popular rejection of the global capitalism and national democracies; and what is more: As the Prime Ministers put in charge can be perceived as instruments of Berlin, Paris and the Brussels Elite the anger may be directed towards the European Project as such. A lesson learned by history is that the power of “The Despair of the Masses” is not to be underestimated.

**The governance lesson**

Hayek drew 1944 another lesson:

“The need is for an international authority which, without power to direct the different people what they must do, must be able to restrain them from action that will damage others. The powers that must devolve on an international authority are not the new powers assumed by the states in recent times, but that minimum of powers without which it is impossible to preserve peaceful relationships, i.e. essentially the powers of the ultra-liberal “laissez-faire” state. And even more than in the national sphere, it is essential that these powers of the international authority should be strictly circumscribed by the Rule of Law.”

“We must not deceive ourselves that in calling in the past the rules of international behavior international law we were doing more than expressing a pious wish. When we want to prevent

---

63 Rodrik, 2011, p 132,133
64 Hayek, 1944, p 40-41
65 Hayek, 1944, p 238
people from killing each other we are not content to issue a declaration that killing is undesirable, but we give an authority power to prevent it. In the same way there can be no international law without a power to enforce it.”

“An international authority can be very just and contribute enormously to economic prosperity if it merely keeps order and creates conditions in which the people can develop their own life; but it is impossible to be just or to let people live their own life… if every spontaneous effort has to be “approved” and nothing can be done without the sanction of the central authority.”

“…there must be a power which can restrain the different nations from action harmful to their neighbours, a set of rules which defines what a state may do, and an authority capable of enforcing these rules. The powers which such an authority would need are mainly of a negative kind: it must above all say “no” to all sorts of restrictive measures.”

In a specific discussion about Europe he writes: “Nineteenth-century liberals may not have been fully aware how essential a complement of their principles a federal organisation of the different states formed; but there were few among them who did not express their belief in it as an ultimate goal.”

The Eurozone crisis offers a similar lesson, from which we should learn. The original set-up was a mainly inter-governmentally supported stability pact that several countries, including France and Germany, breached without consequences. The Eurozone countries have now come to realize that they need a community order, based upon a legislation that is enforced. As Hayek put it: “We must not deceive ourselves that in calling in the past the rules of international behavior international law we were doing more than expressing a pious wish…In the same way there can be no international law without a power to enforce it.”

The lessons learned from the failure of economists and politicians during the Great Depression and the handling of the Eurozone should be lessons learned for the governance of the global market economy.

---

66 Hayek, 1944, p 239
67 Hayek, 1944, p 234
68 Hayek, 1944, p 238
69 Hayek, 1944, p 241. Hayek make references not quoted here.
70 Hayek, 1944, p 239
V. THE IMPROPER, INADEQUATE OR IMPOSSIBLE ALTERNATIVES

The marriage between market liberalism and the nation-states is strained; the market economy has outgrown the territoriality of the nation-states and become global, and the inter-governmental order of which the purpose is to reduce the conflict has come to the end of the road. It no longer produces the necessary legislatively binding and enforceable regulations, and the more or less unrestricted global financial markets are of special concern. We need, to use the language of the complexity economist Eric D Beinhocker, *shape the fitness environment*,\(^{71}\) of the global market economy, nothing more, and nothing less.

I will discuss the alternatives that have been introduced in the debate, start with de-globalisation and re-nationalisation, then turn to the likelihood of a new imperial order, move from there to self-regulation and complete the tour d’horizon by addressing the recurring dream of a global government. After having critically discussed all the alternatives and having found them wanting I will introduce my suggested alternative: separate World Market Governance.

1. RE-NATIONALIZATION IS NOT THE ANSWER

There is no one (at least not to my knowledge) who has developed the arguments against the on-going “hyperglobalization” as convincingly and as coherently as the Harvard economist Dani Rodrik. I have already quoted him a couple of times and will continue to do it. In his latest book “The Globalization Paradox – Democracy and the Future of the World Economy”\(^{72}\) he sums up his research and offers an alternative, mostly evidence-based, narrative to the mainly belief-based narrative of the mainstream economists of our generation.

To me he is a modern Karl Marx: His analysis is sharp, identifies issues that many mainstream economists have put a blind eye to, and he invites a serious discussion. The problem is that Rodrik’s recipe, just like the recipe proposed by Marx, is unlikely to work. To be honest to the reader, I am convinced that it will not work and I will try to explain why.

Rodrik starts from where we are: "Unlike markets, which tend to be supported by domestic regulatory and political institutions, global markets are only "weakly embedded.” There is no global regulator, no global safety net, and, of course, no global democracy. In other words,

\(^{71}\) Beinhocker, 2006, p 426

\(^{72}\) Rodrik, 2011
global markets suffer from weak governance, and are therefore prone to instability, inefficiency, and weak popular legitimacy." Rodrik sees a Political Trilemma of the world economy. “We have three options. We can restrict democracy in the interest of minimizing international transaction costs, disregarding the economic and social whiplash that the global economy occasionally produces. We can limit globalization, in the hope of building democratic legitimacy at home. Or we can globalize democracy, at the cost of national sovereignty. We cannot have hyperglobalization, democracy and national self-determination all at once.”

Theoretically this leaves us with three alternatives according to Rodrik:

1. A combination of Hyperglobalization and the Nation State
2. A combination of Hyperglobalization and Democratic politics
3. A combination of the Nation State and Democratic politics

Let us start with the first alternative. In the present hyperglobalization the financial markets have the upper hand according to Rodrik, and I share that view. They put a “Golden Strait-jacket” on the nation-states, just like the in the periods when “the rules of the game – open borders, protection of the rights of foreign merchants and investors – were enforced by chartered trading companies or imperial powers.” “In this world, governments pursue politics that they believe will earn them market confidence and attract trade and capital inflows: tight money, small government, low taxes, flexible labour markets, deregulation, privatization and openness all around.” The financial markets are forcing a run to the bottom of social conditions, corporate taxes etc. In short they are undermining the possibilities of nation-states to fight unemployment and offer the citizens social protection. This is where we are today and I share the view that this is no attractive alternative.

In the second alternative the nation-states are “dropped” rather than democratic policies. “This is the “global governance” option. Robust global institutions with regulatory and standard-setting powers would align legal and political conditions with the reach of the markets and remove the transaction costs associated with national borders...Taking this idea to its logical conclusion, we can envisage a form of global federalism – the US model expanded on a global scale...or we can imagine alternative forms of global governance, not as ambitious as global federalism and built around new mechanisms of accountability and representation” Rodrik refutes this alternative not only on practical grounds, but also on substantive. “The democratic legitimacy constraint virtually ensures that global governance will result in the

---

73 Rodrik, 2011, p xvi
74 Rodrik, 2011, p 200
75 Rodrik, 2011, p 202
76 Rodrik, 2011, p 201
77 Rodrik, 2011, p 202,203
lowest common denominator, a regime of weak and ineffective rules”\textsuperscript{78}. I share the view that a global government that undermines the nation-states is an undesirable – and unrealistic – alternative. I will come back to why in a following chapter and will then use some of Rodrik’s arguments.

This analysis leaves Rodrik with the third alternative: To drop Hyperglobalization in favour of a “Smart Globalization”, a reinvention of the Bretton Woods- GATT regime for a different era. The alternative, which Rodrik calls Capitalism 3.0, could strengthen the national democracies, he claims. He bases the “re-nationalization” on seven principles.

1. Markets must be deeply embedded in systems of governance
2. Democratic governance and political communities are organized largely within nation states, and are likely to remain so for the immediate future
3. There is no “one way” to prosperity
4. Countries have the right to protect their own social arrangements, regulations, and institutions
5. Countries do not have the right to impose their institutions on others
6. The purpose of international arrangements must be to lay down the traffic rules for managing the interface among national institutions
7. Non-democratic countries cannot count on the same rights and privileges in the international order

His principles are followed by a number of concrete proposals. Rodrik especially argues in favour of export subsidies, and import-substitution policies. Rodrik also argues that all countries should be allowed to introduce their own financial regulatory regime and restrictions on cross border finance.

It is easy to feel sympathy for Rodrik’s proposals given the increased basically unrestricted power of the global financial actors, how unpredictable their actions are, and how helpless countries are in dealing with the effects of the unleashed “hot money” market. He rightly points out that the decision makers neglect “the system’s major defect, which is its lack of widespread support among ordinary people.”\textsuperscript{79} There is a legitimacy crisis in the making. But his recipe on how to address the problems will not work and this is why:

\textit{Military power}. The present multilateral, mainly inter-governmental order has replaced a Westphalian system, in which the relations between states were decided by their relative military strength. If we take away the inter-governmental order, we will not return to a system in which countries unilaterally can decide upon trade policies, financial regulations and the

\textsuperscript{78} Rodrik, 2011, p 204
\textsuperscript{79} Rodrik, 2011, p 252
like, but to a system in which military, and often financially stronger countries can impose their will on weaker countries. It is already happening. Bilateral trade agreements are often combined with security arrangements, arms sales and the like. Rodrik gives himself examples on how stronger parties are either forcing weaker nations to submission and/or backing up authoritarian regimes that lack popular support. “China is widely blamed for running roughshod over human rights and good governance in Africa in its quest for national resources”, he e.g. writes.

The Most Favoured Nation principle, which Rodrik wants to abolish, serves as a protection for developing countries against blackmail from the richer countries. They can often say no to indecent proposals by referring to that principle. With the dismantling of a multilateral trade regime and common financial standards the developing countries will on the other hand be easy victims of abuse.

*The power of financial actors.* Enormous fortunes have been assembled by a limited number of financial actors with the help of the unregulated market for “hot money”, and the actors are continuing to enrich themselves as they speculate on possible defaults and on future higher interest rates in debt-ridden countries. Rodrik recognizes the immense power of these actors, but at the same time blames economists for offering the politicians the faulty advice to deregulate the financial markets. Without those advices the financial actors would never have got away with it, he claims. It is a question of hen and egg. We are in a period in which economists play a major role, but I would claim that they would not have been able to play that role without the backing of Wall Street and the City. Rodrik’s work is impressive as it is mainly evidence-based but on the issue of democracy he is the victim of a belief system that has lost its appeal to political scientists. When Rodrik describes political processes he does it in the “pluralistic” tradition that dominated US political science during the 70’s and 80’s. Neo-pluralists and post-modernists would disagree with the perception that all interested parties are given the same due consideration in the political process. The US system would not pass a WTO panel test on democratic decisions as proposed by Rodrik.

*There are alternative industrial policies.* Rodrik quotes the Harvard Business School innovation expert John Lerner stating, “virtually every hub of cutting-edge entrepreneurial activity in the world today has its origins in proactive governmental intervention”. There is a lot of evidence supporting that conclusion, but when Rodrik wants to open the door for protective tariffs, undervalued currencies and the like he underestimates the space for industrial policy already agreed in the WTO treaties. Countries are allowed to support

---

80 Rodrik, 2011, p 274  
81 Dryzek and Dunleavy, 2009, p 131 onwards  
82 Rodrik, 2011, p 157
The second return of unchecked capitalism

The US, which is the home of the Washington Consensus that rejects industrial policies, is the country that has negotiated the widest exceptions to allow for the most advanced industrial policy of all Western economies. There is an alternative to the Rodrik proposal and that is to stop telling developing countries to “Do as we tell you”, but to allow them to “Do as we do”.

*Democracies are in a minority.* Rodrik’s objective is to give democratic states the possibility to divert from the free trade rules and other global arrangements. Authoritarian states are not supposed to have that opportunity. They will e.g. not pass the procedural tests for “opt-outs”. One of his main arguments is that relaxed global commitments will enable developing countries to adapt practices such as export subsidies and import-substitution policies that suit their individual situation. The catch is that very few of these countries are democracies, and if they can be regarded as such, they most likely still have miles to go in order to defeat corruption and ethnic discrimination. Rodrik claims that China could implement export subsidies that could enable them to revalue their currency and be more open to competition, but forgets that he has proposed procedures that make it impossible for China to implement such changes, as they will not pass the democracy test. The Western countries may like it in substance, but that is not what the test will be about. Finally – Rodrik’s proposed international institutions will demand a new treaty with all concerned countries as signatories, but he does not answer the obvious question why a country like China would accept a treaty that so obviously will give the US and the Western countries benefits from which China and most developing countries are excluded.

*The return of protectionism.* Rodrik argues that there is little to gain from more globalization, but does not answer the question what can be lost in de-globalization. The measures that Rodrik proposes in order to increase the competitiveness of individual countries and protect social and cultural diversity can easily turn into a snowball. Politicians will be faced by demands like: “If you protect them, why not us?” This is what happened at the time of the Great Depression and the risk is obvious that history will repeat itself. We have the same underlying problems with mass unemployment that is likely to increase and a growing distrust in our systems. Not even the powerful financial actors may be able to stop the snowball to turn into an avalanche.

*There are too many losers.* For anything to happen it must be possible to build a coalition of “winners”, the superior alternative being if they feel being in a win-win situation. But in Rodrik’s recipe there are too many on the losing side. The financial actors would be the main losers, not only those who speculate on the hot money market with their own money or others, but also all those who are employed to serve the actors. Managers will see their high salaries and huge bonuses wither away. (To be honest: This will be the case in any serious proposal). International companies that are the backbone of the global economy will also be losers and have all the reasons in the world to fight the re-nationalization. Developing countries will not be able to use their new freedom, as they have no international system to protect them from
the abuse of militarily and otherwise stronger countries. The emerging economies will feel discriminated against, as the rule book would exclude also them from using the “opt-outs”. In short there will be no queue of countries wanting to sign up to the treaty and there will be many lobbying against it.

*There is no trilemma.* My claim is that we do not have to choose between globalization, the sovereignty of nation-states, and democracy. What we need to do is to my mind to recognize that we have two different systems, one bottom-up market economy that has outgrown the nations and one top-down political system in which the nation-states is the most natural building block. They meet different aspects of human nature and serve different purposes. What we need is a regulation of the global market economy that enables it to do its job, while empowering nation-states to do their job.

2. A NEW IMPERIAL ORDER IS NOT IN THE WAITING

The human struggle for recognition will become a recurrent theme in this inquiry. Hegel saw the willingness to sacrifice one’s life as the feature that made man man. Physical strength has always been admired as well as feared, since the ownership of such strength implies the possibility of its use. This has been a permanent fact of life at individual level as well as at collective level. School children learn how to abuse to gain respect or how to avoid a conflict with the abusers. Criminal gangs have learned how to scare people into paying them for ‘protection’, and have also developed internal pecking orders based on the ruthless use of violence. Countries have learned how to use military force to conquer and colonize other less militarily strong, but often commodity-rich, nations. The exercise of military force can be seen as the ultimate expression of ‘collective thymos’, the wish of the citizens of one country to be recognized by the citizens of other countries as superior.

Scientists who have tried to understand the rise and fall of empires have made a connection between the willingness of the citizens to make sacrifices in wars and the build-up of the empires and, likewise, between the reluctance to make such sacrifices and the down-falls of the empires.

The citizens have not always wanted the wars. The Enlightenment movement saw the recurring wars in Europe rather as a proof of the ‘megalothymia’ of stubborn princes and fanatic priests.

It is a fact of life that the relative wealth of the Western world has been built partly on the use of military force. It is also the underlying presumption of the present Westphalia world order that the relative power of nations is decided by their military strength. The international institutions that have been built after World War II in order to avoid military solutions to all kinds of problems reflect the relative strength that the Westphalia order gives countries. The
more militarily powerful a country is and the more prepared it is to use that power, the more influential it is on the affairs of the world.

The intention of the UN was to create a mechanism to resolve world conflicts in a peaceful way, to offer an alternative to the way of war. Someone has called the UN ‘the indispensable organization’, an organization that would have to be invented, had it not existed. The existence of the UN has, however, not abolished the role of military power; it only offers a way of solving conflicts through the threat of use of military power. The Council must not be in agreement on the necessity of the actions, but its deliberations and the veto rights of the major military powers is a guarantee that all military actions undertaken by the permanent members are tolerated.

Developed governance of the global market economy would diminish the reasons for international conflicts as it could, if implemented in the right way, offer a peaceful way to resolve many clashes of interest. It would, however, not create a world free of conflicts in which military solutions can be totally excluded.

**Military power and the global market economy**

Military power plays, even when it is not used, a significant role in the global market economy. Many bilateral relations are a mixture of security guarantees and arms sales on one hand and preferential access to commodities on the other. Not only the US, but also countries such as Russia, China, France and the UK, who all are permanent members of the Security Council, have such arrangements with selected countries. Sometimes the commodity-rich countries have agreements with several of the military powers. China has, as Rodrik noticed, occasionally been criticised for making such deals with regimes that has a very poor record on human rights. The counterargument is that the West has a similar relationship with Saudi Arabia, another country without democratic credentials.

The Most Favoured Nation principle puts limits to how far the preferential treatment can be expanded to trade, but as practice has shown, and Joseph Stiglitz and others have offered a lot of examples, there is not seldom a way around that obstacle.

The Westphalian order is not dead. The climate change has enabled exploitation of oil and minerals in the Arctic, and that military power is one of the considerations in the on-going discussions around the exploitation rights seems to be obvious.

The conversation around global governance of the market economy is also a discussion on how to limit the role of military power in the affairs of the world.
The rise of China

A frequent suggestion is that China has the ambition to overtake the US as the world’s leading military power. They may want to do that in the longer term, but is a very far-fetched proposition that it could happen during the next decades. The cuts of military spending that are in principle (and I underline in principle) decided by the US Congress are miniscule in relation to the existing gap in military spending between the US and China. The Chinese perspective is furthermore that the build-up of its military resources is a defensive move; there are after all Tea Party members and other increasingly influential American politicians that suggest that a war between the US and China cannot be excluded. It may sound like an insane idea, but US voters seem to be increasingly attracted to candidates who make their decisions based on unsubstantiated beliefs rather than on a realistic view of the world. The Chinese build-up has as one major purpose to scare those nut-cases off.

If a military supreme China is a phantom, the rise of the financially supreme China is not. The imbalance between the surplus countries and the deficit countries is increasing and has trebled the last decade and a half. China has a financial power that the US and Europe lack. When the US is making financial undertakings in the Middle East and in other places it is with resources that are borrowed. The US’ ability to keep its commitments is dependent on the benevolence of its lenders, of which China is an important one. The US may have a GDP that is far above the Chinese, and it may, together with the UK, be the home of the global financial centre, but it has lost its imperial status.

A common gloomy prediction\(^3\) is that we instead of an End of History\(^4\) (e.g. the final victory of liberal democracy) will see an ugly struggle for world hegemony between a declining US empire and a rising Chinese super power. It may happen, but hardly because it would be something the Chinese would like or intend to initiate. The Chinese have a realistic view on their role in the world. They have no ambition to replace the US as the imperial power. They know that they cannot match the US militarily, at least not for many decades to come; they know that there are many other emerging economies and that demographic factors speak against them and in favour of a “multi-polar” world. The close cooperation between China, India, South Africa and (often) Brazil should not be seen as a tactical move but rather as a strategic positioning in a world in which several emerging economies will play a major role. To see China as the next imperial power is to see the development in too simple terms and to miss what is going on in other parts of the world.

---

\(^3\) See e.g. Hutton, 2007

\(^4\) Refers to Francis Fukuyama’s famous prediction after the fall of the Berlin Wall that the liberal project had won and that we were at The End of History. See Fukuyama, 1992
Neither will we see a G 2, consisting of only the US and China. It is not in the Chinese interest to have an exclusive relationship with the US. Besides, it is a development that is vividly denied both in Washington and Beijing.

A weakened US can understandably no longer offer a self-evident leadership. Many had the unrealistic expectation that President Barack Obama would take a major initiative in order to improve the world order when he took office, but the momentum, if there ever was one, was partly lost as the US Senate stalled and watered down his bills on financial regulations and climate change; actions that among other things have shown the Senate’s opposition towards global governance.

Europe is not without guilt. European weakness has, as much as the American hubris, contributed to the present dilemma. The European Union has after all been the largest economy in the world and the largest world trader for quite a while. Individual leaders have in critical moments stepped forward and the creation of the Group of 20 at the emergence of the latest financial crisis, and the actions that the French President inspired in cooperation with the American, British, and German leaders, was an exceptional show of leadership. But there is no real excuse for the lack of leadership that has prevented the EU as a union to act as one and to use its aggregate economic power to exercise a decisive influence on the global development.

However, the vacuum that the waning US and Western leadership is creating will not automatically be filled by China.

3. SELF-REGULATION IS NO OPTION

If you believe in the overall benefits of globalisation it may seem obvious that the conclusion you draw from the short-comings of the present inter-governmental order, especially when it comes to the global financial market, is that you need more efficient and comprehensive regulations. What speaks in favour of that presumption is that many well-respected economists, such as Alan Greenspan and Larry Summers, who argued in favour of the laissez-faire regulation of the financial markets in the 90’s, have changed their minds after having experienced the disastrous results. This is, however, not the case. The Washington Consensus and the Chicago School that developed the theories behind the deregulations are still very much alive. In the 2010 mid-term elections the aggressive Tea Party candidates, that are inspired by this school of economics and financially backed by Wall Street, managed to convince an impressive share of the US’ voters that the financial crisis was due not to too little regulation, but to too much government intervention; after the election success they have been able to persuade almost all Republican candidates to align their message with the Tea Party views in the up-coming 2012 elections. If government keeps its hands off, and Wall
Street is allowed to self-regulate, everyone will benefit, they argue, and if the polls are to be believed a majority of the Americans, or at least close to it, is buying into the message.

The idea that the market is best left to self-regulation has its roots in a twentieth century misperception of the nature of man. To counter the misperceptions it is not enough to say that the recipes that they have inspired have not worked. That will not convince the politicians, or the economists; history shows that they will meet any such critique by claiming that there was something in the political conditions that was the cause of the market failure, nothing in the market itself. Instead, it is the underlying assumptions of the theories that have to be addressed.

The emergence of the rational man

Something rather odd happened during the twentieth century. While the research on human nature evolved and scientists started to grasp how complex human nature is, economic and political theorists went the opposite way and adopted a simplified model of human nature, The Economic Man, as the rational man sometimes is called by economists, is thus a myth that has a recent birth. Professor Emma Rothschild has gone back to the texts of the “fathers” of modern economic thinking, Adam Smith and Marquis de Condorcet, and found that they had a far more realistic view of human nature. The reason why the misperceptions around human behaviour became widespread during the twentieth century was neither a lack of research focusing on human nature. Already during the first part of the century researchers started to gather evidence on the inconsistencies in human nature and on how we can be unduly influenced to take irrational decisions. This knowledge has been increasingly used when developing marketing strategies and political campaigns. Many economic and political scientists and intellectuals have also taken stock of the results of the research into human nature. The economist Herbert Simon wrote sceptically of the rational man. The Nobel Prize winner in Economy, Gary S Becker, found behaviours that cannot be explained by pure self-interest. The economists Amos Tversky’s and Daniel Kahneman’s research supported the psychologists’ findings around biases.

One reason for the twentieth century invention of the Rational Man may be a perception of necessity. Tom Atkins has offered the hypothesis that economists and other social scientists became infatuated by the successful use of mathematics in the natural sciences. It was seen as

85 Rothschild, 2001
86 At a conference with BEPA, European Commission, 2009.
a major task in economic and political theory to develop mathematical models that can predict the outcome of different decision situations, economic interventions and the like in a similar way that such models give predictions in natural sciences. To be able to use such models the economists needed a simplified model of man. The Rational Choice Theory offered such a man, and the use of him was eventually not lost on political scientists either.

The research based on the Rational Man theory has neither been a total waste. We humans are after all acting relatively rational, at least under ideal conditions. Some interesting insights have also resulted from the research, some that even have rendered the researchers a Nobel Prize.

The main issue is that the simplified model of man often has been misused and that far-reaching unsubstantiated conclusions have been drawn. The economists have “forgotten” to tell the politicians that the results are based upon ideal assumptions and the politicians have conveniently “forgotten” the footnotes. The economists have e.g. been able to show that economy will function as its best, in the interest of everyone, if man is left acting on his own in line with the Rational Choice Theory. The result is sometimes called “the trickle down” theory and the claim is that the fortunes made by the few will ultimately benefit all. It goes without saying that this theory has been embraced by the Political Right in many countries, mostly without the “footnotes”. For the Political Right the theory has offered a welcome support for the idea that the market economy is best left to self-regulation.

The belief that one person’s greed will automatically put the bread on another person’s table also solves a moral dilemma for financial actors. It has helped the Chief Executive of Goldman Sachs Lloyd Blankfein, to continue to insist that the financial wizards are “doing God’s work”. To believe that you are on the side of the good is a strong motivator, and it gives a clear incentive, especially for those involved in the financial markets, to keep the theory alive. There is thus not only the personal credibility of many economists, but also a huge political capital invested in the theory. A lot is at stake if the political economists of this dominating school are to recognize that the Rational Man is a modern myth. The uncomfortable situation became quite obvious in the running up of the recent financial crisis. The whistle-blowers were far from silent but the system governors, mostly belonging to the consensus school, refused to listen and do what would have been needed to be done in order to avert the financial meltdown.

**The invisible hand**

The mechanism that ensures the legitimate outcome is often called *the invisible hand*. The assumptions can be split up in steps:

---

87 In an interview in The Sunday Times of London as late as in November 2009.
There is an invisible hand that steers the markets towards equilibriums
As man is rational this hand, and the equilibriums it creates, will deliver an outcome that will benefit everyone
In addition a self-regulation will develop that will ensure an ethical outcome.

The first claim is in my view in principle true. The market economy is a dynamic system. Such systems have been studied theoretically by mathematicians and they strive under certain conditions towards different forms of equilibriums (that due to disturbances and external restrictions may never occur or offer several possible equilibriums; but that is another story). However, the fact that, within constraints, there are ‘invisible’ forces pushing systems towards certain equilibriums has nothing to do with values; it is a mathematical effect. An invisible hand is present in many systems, as Nozick points out\(^{88}\) in his defence for an unregulated market economy, but a closer look at his examples shows that there are no value aspects influencing the movements of the hand. Nozick’s examples are just other types of dynamic systems.

Adam Smith is often seen as the father of the concept ‘the invisible hand’. The Economist Emma Rothschild who has made a comprehensive inquiry into the Smithian thinking defends him and concludes: “What I will suggest is that Smith did not especially esteem the invisible hand. The image of the invisible hand is best interpreted as a mildly ironic joke. The evidence for this interpretation, as will be seen, raises interesting questions both about Smith and about the invisible hands of the twentieth century”\(^{89}\). The evidence she offers is that Smith used the term invisible hand only occasionally and then in a derogatory way. Smith was no believer in a divine invisible hand or a Stoic natural order, she shows. At one occasion he uses the term with irony when describing the political efforts of merchants to gain or retain monopolies, relying on an invisible hand to create benefits to society as a whole. The second argument is that man’s rationality will ensure that the invisible hand should guide the economy to an ethically acceptable outcome. Rothschild suggests that three conditions have constituted the modern conception of the invisible hand: The unintended consequences of actions, the orderliness of the ensuing events, and the beneficence of the unintended order.\(^{90}\) I will consider each of the points in turn.

On the first point she notes that Smith in his Theory of Moral Sentiments is preoccupied with what he describes as the “good or bad consequences of actions upon the sentiments both of

---

\(^{88}\) Nozick, 1974, p 20-21
\(^{89}\) Rothschild, 2001, p 116
\(^{90}\) Rothschild, 2001, p 138
the person who performs them, and of others.” The most forceful illustration of unintended consequences that he offers is, however, not good but frightful.

The attraction of the second condition, of orderliness – of orders that could have been designed – is obscure, Rothschild notices, from the perspective of the more secular thinking that dominated the twentieth century. One interpretation is that the idea supports non-intervention. “The outcome could have been planned; as it happens it was not; why therefore should we have a planner?”⁹¹ The second interpretation, as promoted by the leading economist Friedrich Hayek, is that human actions lead to spontaneous ordered structures that are “superior to conscious action”⁹² The problem with that interpretation is that it reduces the role of the independent actors, of their selfish and futile intentions, which is clearly un-Smithian.

The third condition of the invisible hand, whereby the unintended order turns out to be beneficial for the people whom it orders is even more problematic. The general equilibrium theories that have been developed in the twentieth century are making assumptions about the markets that are un-Smithian, Rothschild reflects. Smith believed that actors would take any chances to manipulate markets, create monopolies, influence politicians and the like in order to promote their interests. Smith thus not only rejected the idea about the rational economic man; he also refuted the idea of man as a genuinely moral being; he does not expect man to always act in a morally defendable way on the market place, rather the opposite.

The third argument about self-organization is developed by Hayek. He disdains the Smithian-Humian view of man as a reasoning being who is the best judge of his own interests. He believes man to be taking decisions on limited knowledge and without conscious thinking. (An interesting view as it in principle coincides with the findings that I am about to discuss). But he still believes that a beneficial self-organized social order would develop. Rothschild punctures his vision by pointing out that Hayek believes the spontaneous development of social structures to be guided by thoughtful “guardians” - scholars and judges - that give enlightened and respectful advice. The Hayek society is not, as many of his followers seem to claim, a truly self-organized society.

With the Smithian perspective and the views of Hayek there is thus no intrinsic structure in the market economy, no invisible hand that ensures a rational and ethical outcome. But what if Smith and Hayek are wrong? What if man is rational?

Wherever we turn this is the key question: The idea of the self-regulated economy that gives benefits to everyone stands and falls with the idea of The Rational Man. Without him we are back to Smith’s and Hayek’s analysis that there is a need for some form of governance. I will

---

⁹¹ Rothschild, 2201, p 139
⁹² Hayek, 1969, pp 104-105
therefore spend the rest of this chapter on the question of man’s rationality and I will freely quote from my paper “The Myth of the Rational Man”.

**Two different ways of reasoning**

The common perception is that man is one coherent person. Contemporary research shows that it may on the contrary be more accurate to view the human being not as one ‘system’, but as a ‘system of systems’, systems that are built according to different principles and that are in constant and potential conflicts, conflicts that we humans continuously struggle to reconcile. We humans are *inconsistent*. The most striking finding in the on-going research of human nature is perhaps the role of the subconscious. Much more is happening subconsciously than we have been aware of.

The researchers have especially uncovered how important subconscious processes are in most of the human decision-making. The conscious and subconscious processes often work in concert; sometimes conscious reasoning is activated, sometimes blocked. Conscious thought process regularly also involves subconscious processes, but there are also complete processes that are totally outside conscious attention. Such processes are fundamentally different from those of the conscious reasoning. They ‘short-cut’, use stereotypes, and work in a different way to the conscious processes. This is important to recognize as the subconscious decisions can be partly based on other values and desires than those we hold consciously. Values and desires are generally acquired and influenced by the cultural environment, in which we grow up, but not all values are easily internalized in a way that affects the subconscious processes and not all subconscious desires are accepted consciously. The conclusion we draw or the action we take is thus dependent on the complex interplay of the conscious and subconscious processes, giving the issue of ‘rationality’ an entirely new perspective. Risky or non-risky behaviour in the market may express subconsciously held values.

Both conscious and subconscious processes are usually involved in everything we do. The researchers are starting to uncover the complexity. The subconscious self is learning in a different way to the conscious self. The subconscious self is not only genetically coded, it also learns by experience (including imitation), by trial and error. That is how it learns how to walk and drive a car. On-line thinking does not have to result from culturally held values but simply from personal habits, from automatisms – from non-thinking.

As relevant information is encountered, the subconscious self makes an evaluative judgment, but only keeps the running tally, simply retrieving and updating the summary evaluation with later information but forgetting the actual pieces of evidence that contributed to it. When an external stimulus is evaluated in this way in relation to the subconscious memories and values

---

93 Dahlsten, 2011
and the evaluation is leading to an automatic and fast response the process is often called a shortcut. Shortcuts are thus a type of networks that can be described as a simplified thinking.

One example may be helpful: When you learn how to drive a car your conscious self is hard at work. Your conscious attention is on every detail of the driving. But after a while you need less and less of conscious decision-making. You drive more or less “automatically”. Experienced drivers can use the time in the car to relax or think of other things while the “subconscious” takes over the driving. How many of us have not experienced that we are suddenly on the street of our home when we were supposed to be at the supermarket and do some shopping for the dinner? Our “subconscious” has taken us to our home without disturbing us. The conscious self can intervene in the driving whenever needed. Anyone who passes from Dover to Calais or the other way around knows that you need to give the driving attention not to start driving on the wrong side. The subconscious can also alert the conscious self. It does it through creating emotions that are consciously noted. Fear or unease created by the subconscious can alert us that the situation demands our conscious attention. A helpful way of understanding emotions is to see them as a signal system from the subconscious self to the conscious self. If they are expressed as feelings or suppressed depends on how the conscious self reacts.

Consider Alice and Bob. They are two singles both living in cottages in a village outside London. They have the same academic background and they are both working in the City as accountants. They are both in need of a new car as their old ones are starting to cost too much to repair. Their need of a car is basically the same; they need to get to the railway station every day and they need a car for shopping and to meet friends. By chance they have come to the same car dealer to look for alternatives. When walking around Alice’s attention has been caught by a small red car with a very personal design and of a rather unknown brand. Bob has stopped in front of a larger grey car of a recognized brand with a distinctive presence and with a strong and fuel-efficient engine.

The emotions the cars have stirred have brought them to where they are. When they have been walking around in the premises of the car dealer their subconscious selves have been busy valuing the different options, signalling pleasure or displeasure at the different alternatives. Alice has painting as her secret hobby and is fascinated by the colour and form of things. She values beauty and is intrigued by the appearance of the small car. She can imagine herself seeing the car from the train when she gets home, feeling happy about owning such a work of art. Her value-scale and her associations are different from those of Bob. He is fascinated by mechanical toys and he is anxious to give the right impression, to be recognized by his peers. He can see his friends envy him for his new car and he can imagine the spinning sound of the engine when he accelerates from 0 to 100 km/h in 5,3 seconds. He really desires the car.

Alice and Bob happen to sit down with two different sales persons at the same time and as they are trained accountants they start to calculate the cost for owning the cars to find out if...
they can afford them. They both find that they really cannot meet the expenses of the new cars as things stand. They are experiencing a cognitive dissonance. On one hand they desire the new cars, an emotion inspired by the subconscious evaluation processes; on the other hand their conscious logical selves tell them they cannot afford them.

Alice that liked the red car very much, but not that much, decides to let her calculating mind win and abstains from buying the car. Besides, she did not like the sales person and she decides to go to another car-dealer next Saturday.

Bob, however, is hooked. He really desires the car and the car-dealer, who is very likeable and understands Bob, is describing the advantages of the car in a very knowledgeable way. He offers some extra features as part of the deal. They may not cost that much but they certainly increase the feeling of a very special car. The sales person has an authority about him and Bob wants to believe him. He starts to look at the calculations again: Maybe he has overestimated how much he will be driving, and perhaps he can take out costs for repair, for oil and the like; the car is after all new. And he will most certainly get a higher bonus next year, will he not? Bob has started a self-justification process to close his cognitive dissonance and to make him believe that the purchase of the car is a rational decision. He walks away happy with the contract in his pocket. The car is to be delivered in two weeks time. He is already preparing his story-line, his narrative. As his subconscious self only runs a memory in the form of a running tally it is up to his conscious self to “invent” a consistent justification.

The Alice and Bob example illustrates how intertwined the subconscious and conscious processes are and how present they are in most decision-making. The research has beyond doubt shown that rationality is a person-sensitive thing. It is obviously also a culture-sensitive concept. It is a question that begs an answer if Alice and Bob have been acting rationally in the given example. Both have been influenced by subconscious processes that are not necessarily logical in the choice of car to start with and finally when deciding whether to buy. Alice can by economists be seen as the more rational as she ends up taking a decision that is in line with her economic interests. Alice fits reasonably well into the Rational Choice Theory, while it is difficult to see Bob’s decision-making as rational in the way the theory expects it to be. Rationality is a relative concept. With 'rational', reasoned evidence-based decision-making we can understand processes in which conscious reasoning in the end is “winning” over emotional impulses created by subconscious processes. Decisions are deemed to be unjustified when the self-justification processes have made us believe that the decisions are rational although they are not based on sound reasoning.

The role of the subconscious self is steadily becoming more important as we need to make more and more choices in a short period of time and as modern societies become ever more complex. A professor in literature complained in a radio program: “I increasingly feel as if I am on auto-pilot. I don’t think, I don’t have time to think”. And she complained about the
blogging culture. “There is nothing reflected in the blogs. People write without thinking; they just express themselves”.

There seems to be a limit to how much we can consciously handle at a given moment of time. Some researchers are speculating that the reason why we have let ourselves be so influenced by branding and other emotional cues is the fact that we need that kind of short-cutting to manage our way in a society where the flow of information is steadily growing. The social psychologist Robert B. Cialdini explains:

“The powerful self-justification process

The fact that we can hold different values consciously and subconsciously often puts us in situations of cognitive dissonance, i.e. in a situation in which we can 'feel' that something is in a certain way, while consciously knowing that it is another way. We may be afraid of flying, while 'knowing' that it is less dangerous than driving a car. We may crave to light a cigarette, while knowing that the 'good feeling' has no support in science. Another anecdotal example: It is a well-known fact among market surveyors that they cannot trust the answers people give about their values. A broad majority in western economies answers that they are prepared to pay more for organic food and would chose that alternative if offered to them. But when people are shopping they act on 'auto-pilot' and most pick the cheapest alternative. They are steered by their subconsciously held values that differ from their conscious values. When people are asked why they have chosen the cheaper alternative a self-justification process helps them to invent an excuse to explain away the dissonance.

The findings that we humans are inconsistent, that we have a reasoning conscious self that can reach other conclusions than an on-line reasoning subconscious self is something that may be

94 Cialdini, 2001, pp 239-240
difficult to accept, particularly for us who are brought up in a Western culture. Consistency is a value that is held both consciously and subconsciously and when deciding, either through conscious reasoning or through on-line reasoning, we strive for consistency. That we in practice often take quite different decisions when acting on ‘auto-pilot’ than when reflecting is something we do not want to know as it threatens our self-image. Luckily for us we have the powerful self-justification process that ensures that we are kept in ignorance about our own inconsistency.

When the conscious and subconscious selves reach different conclusions (which they do every so often, on whether it is dangerous to fly for example) a complicated self-justification process sets in to protect thymos. The self-justification process both protects and cheats. The process is as much about protecting thymos and the self-esteem as it is about aligning the subconscious with the conscious self. It protects not only the self-esteem of the individual but also the esteem of the groups (“stereotypes”) with which he identifies himself. But it also cheats the conscious self. The researchers have shown the strength of the self-justification processes; in concrete situations the self-justification processes may end up blocking the conscious beliefs, initiating self-justification processes that “rationalize” its decisions, and making the conscious self believe it has taken a reasoned view. The reasoning part of the brain may even be shut down during such a self-justification process. When we are asked why we have done something without ‘thinking’ we have to ‘invent’ a justification as the subconscious self has no memory of the reason why it holds a certain belief. In this process the subconscious self can help by falsifying memories.

The market does not demand rationality

The market economy is not demanding rationality. When people are acting in their civil life and within the market economy they are mainly trying to meet their desires. The drivers in people’s daily life are first of all to meet the need for survival and for reproductive success. Many basic desires are part of a genetic inheritance, but they are expanded through experiencing and by valuing. The market economy is generally accepted to be the best system ever created to meet those desires, but it is also a bottom-up system that demands that people are making decisions swiftly and on a vast scale. The on-line processing capacity of the subconscious self that helps people cope with that challenge at the same time limits the role of logical reasoning in the process. Reasoning is most likely at work when people look at contracts and negotiate prices, but the market economy as a system does not demand people to reason logically. The system works because man can act within it with subconsciously held motives that may be obscure even to him as long as he follows some simple rules. It is also a place in which man can prove himself, be recognized and build up his self-esteem. The market economy would most likely work better if everybody was well-informed and acting rationally all the time, but as every man is his own master it is not something the system demands of him.
The death of the Myth of the Rational Man

It is a paradox that, while many economic and political theorists have dug themselves into a hole from which some of them do not want to escape, the issues around reasoning and rationality have attracted a wide inter-disciplinary attention. The philosophers Richard Samuels, Stephen Stitch and Luc Faucher have in an overview⁹⁵ found it helpful to mention especially three types of projects – descriptive, normative and evaluative projects.

I have already discussed the descriptive projects pursued mainly by psychologists, anthropologists, and neuroscientists. They have aimed at characterizing how people actually go about the business of reasoning and to discover the psychological mechanisms and processes that underlie the patterns of reasoning that are observed. The conclusion that can be drawn from their work is that the way we ‘reason’ and reach conclusions is dependent on the relative involvement of conscious and subconscious processes. A more ‘high level’ question is of course if man is rational at all. The issue is whether he has the competence and the answer to that question is not straightforward. The ability to reason is something with which we are born, but how to do it correctly is something we are trained to do; that is after all what schools are about. The competence level varies of course between individuals due both to genetic conditions and the training or lack thereof. Experiments show that the competence with which we respond to a challenge depends also on the circumstances in which we answer. We can be distracted, deliberately manipulated, feel our self-esteem to be under threat etc. In most non-theoretical situations subconscious processes are also involved which may or may not contribute to a rational decision. There is nothing absolute about our competence to reason rationally; it is a person and context sensitive ability.

The normative projects are concerned not so much with how people actually reason as with how they should reason. The goal is, following Samuels et.al, to discover rules or principles that specify standards against which the quality of human reasoning can be measured. Edward Stein has defined these standards in what he calls the Standard Picture:

“According to this picture, to be rational is to reason in accordance with principles of reasoning that are based on rules of logic, probability theory and so forth. If the standard picture of reasoning is right, principles of reasoning that are based on such rules are normative principles of reasoning, namely they are principles we ought to reason in accordance with.”⁹⁶

The Standard Picture is clearly met only under certain specific conditions. More of interest is if we meet the demands for consequentialism, that is on how to reason correctly in such a way that you are likely to attain certain goals or outcomes. The Rational Choice Theorists are generally seen as belonging to this school of thought. Political theorists also often seem to have this approach, which makes sense as the purpose of both democracy and market

⁹⁵ Samuels, Stich and Faucher, 1999
⁹⁶ Stein, 1996, p 4
economy after all is to meet the needs of people. To quote the Rational Choice proponent Michael Allingham: “My choice is rational, or supported by reason, if it coheres with what I prefer”\(^97\). To see rationality as a means to an end has a long philosophical tradition. Aristotle\(^98\) saw rationality as an instrument for achieving ends that are not themselves determined by reason. He saw choice as desire and reasoning with a view to an end. David Hume went even further making a strong separation between means and ends claiming that “reason is and ought only to be the slave of passions”.\(^99\)

This brings us over to the third type of project identified by Samuels et.al.: The evaluative approach, i.e. to determine to what extent human reasoning accords with appropriate normative standards.

However, even with the wide interpretation of rationality applied by the Rational Choice theorists the idea of the Rational Man runs into deep problems, when evaluated in relation to what we know today about human nature. The fact that there is an inconsistency between conscious goals and objectives on one hand and subconscious desires on the other is obviously problematic. Which are the “rational” preferences? In the case of conflict it seems logical to give priority to consciously held objectives and regard conflicting subconscious desires as “irrational”.

Eric Beinhocker, one of the new school economists, notes that preferences are tricky, more of a logical construct than an empirical law. They are mostly, he observes, only possible to identify post facto.\(^100\) The reasons are, as is explained by modern research, that the preferences are not only person but also context sensitive. To what degree we desire one product or service is decided on the spot by the relative involvement of subconscious desires and values in relation to conscious beliefs. The key critique is that conscious and subconscious objectives and desires are inconsistent and that the “rationality” of an action is impossible to predict. When we act without conscious reasoning and on the basis of subconscious processes the inference is that we may act in conflict with our conscious objectives, a fact that undermines the idea of the Rational Man.

In short – it is time to take a step back, to retrace the analysis from where the nineteenth century philosophers left it and to go beyond the twentieth century perception of The Rational Man, and as a consequence forget about self-regulation of the global market economy.

\(^{97}\) Allingham, 1999, p 2
\(^{98}\) Aristotle, transl. 1985, p 139
\(^{99}\) Hume, 1740, pp 415-16
\(^{100}\) Beinhocker, 2006, p 319
4. NO APPETITE FOR A GLOBAL GOVERNMENT

The dream of a global government seems to be almost as old as mankind. It has never materialised; the closest we have got are periods of imperial orders. The giant Immanuel Kant belongs to the many philosophers who have discussed a cosmopolitan world order as in present times another German philosopher Jürgen Habermas. This philosophical tradition has connected a global and, in the case of Habermas, also a European order with the exercise of some form of natural or legal rights.

*The dream*

A democratic global government is a dream nurtured mainly by the Political Left; the contemporary Left seems to be split between two contrarian visions – de-globalisation and a global government.

Interesting enough leading philosophers within the Political Left also seem to have accepted the idea of the Rational Man. Marx based his thinking on a rational “scientific” approach that also influenced political philosophers leaning to the Left in the Post-Socialist era.

It is thus not just the Political Right that got it wrong. None of the dominating political philosophers of the late twentieth century, the left-leaning John Rawls and the libertarian Robert Nozick, seem to have chosen to question the accepted view of the 20th century that man can be seen as a rational being. But the mood seems to be changing. The twentieth century obsession with The Rational Man has been increasingly questioned. The Nobel Prize Winner Amatrya Sen, in a debate with John Rawls, criticised the assumptions around man's rationality that Rawls made in his famous work on Social Justice and in his response Rawls wrote that he regretted the presumption. Another Nobel Prize winner, Paul Krugman has in different ways tried to expose man’s irrationality and inconsistency. The philosopher and economist Richard Bonk has in a recent book shown how traditional economic teachings miss the fact that humans are more than “rational choice machines”. They are driven by an array of sentiments and creative intuition; they seek self-esteem and pride in what they do and future pleasure in imaginatively projected future selves.

The reasons why a global government has not emerged and why it will remain a futile dream is to my mind, however, not linked to man’s lack of rationality. It is to be found in other aspects of human nature. I will try to show, why this is the case and once more freely quote my paper on “The Myth of The Rational Man.”

101 Bonk, 2009, pp 2, 3, 296 ff
102 Dahlsten, 2011
Man in the philosophical tradition

There is an on-going philosophical discussion in the West on how to understand man that finds its roots, as so many other philosophical debates, in the ancient Greece. Socrates famously envisaged a tripartite division of the soul\(^\text{103}\). He claimed that the human soul has a desiring part, which is made up of many desires, the strongest of which are hunger and thirst. In the Socratic tradition desires were perceived as “static” while philosophers that have followed Rousseau and Hegel\(^\text{104}\) have been highlighting the dynamic nature of desires.

But, Socrates notes, man can control his desires. There is, Socrates concludes, a second part of the soul, a reasoning and calculating part, which may induce man to act contrary to desire – for example when the thirsty man abstains from drinking water that he knows is contaminated.

Socrates called the third part of his tripartite soul “thymos”. This is the alleged feature of man that has perhaps created the most controversy over time. In modern language it can be translated as self-esteem and pride, when using a positive language, or to vanity and “amour-propre” when highlighting the negative aspects. To Georg W F Hegel this third dimension of the human nature is central. He calls it the struggle for recognition. And he takes it very far, claiming that no man can be seen as a full man, a “master”, if he is not prepared to sacrifice his life to be recognized.

The philosopher John Locke, who is seen as one of the founders of the Anglo-Saxon liberal movement, tried to pit the fulfilment of the desiring part of human nature against the aspirations of thymos, hoping through social engineering to master the latter. David Epstein\(^\text{105}\) has in an analysis of the Federalist Papers found that the importance of finding constructive and peaceful ways of meeting the need of man for recognition and prideful self-assertion was on the mind of several of the founding fathers. The Founding Father James Madison saw popular government – the process of running for office, debating, voting – as a benign way to indulge man’s natural pride and need for self-assertion.

The struggle for recognition

Contemporary research has vindicated Socrates. He has been proven right in his assumption that thymos is a central human feature, but also in his perception that it can be tamed; the way to tame it is through the internalization of values. The internalized values define the self-image in relation to which thymos is measured and they steer the subconscious evaluation

\(^{103}\) Plato, 1968, trans A Bloom, 435c-441c
\(^{104}\) Hegel, 1967, trans TM Knox, paras 190-195
\(^{105}\) Hepstein, 1984
processes. The self-image is at the heart of the struggle for recognition and the self-esteem (thymos), as it is the self-image that we want to protect and strengthen.

Hegel was right in his criticism of the liberal suppression of ‘thymos’, but wrong when claiming that the willingness to sacrifice one’s life was what made man man. The latter is a value-based assumption and values are acquired. That Europeans and Americans have different views on conflict-solving may thus be linked to the fact that the thymos seems to be “tamed” in different ways in the Anglo-Saxon and the continental European cultures.

The thymos is continuously exposed when man is acting on the market, as an employee or employer, as an entrepreneur or a trader. The market is a place where every day he gets feedback that affects the self-esteem and where he gets recognition by others. It is also a space in which a man’s thymos can thrive, especially if he has internalized values that highlight the fulfilment of material desires as a sign of success. Thymos seems, however, for most people (those that are not obsessed with megalothymia, i.e. a wish to dominate at any cost) to demand satisfaction, not maximization.

**Group identity**

The need to get recognition and to protect the self-esteem also includes the family and the communities with which the individual identifies himself. How the family concept is defined and how large the communities are is affected by the culture in which the individual is brought up.

Our need to identify ourselves with a group is also linked to the way the brain works. In the discussion on the rationality of man I tried to explain how the subconscious does “online reasoning” or short-cutting. To shortcut the subconscious self is helped by stereotypes. The stereotypes are energy-saving devices that allow man to make efficient decisions on the basis of past experience, help to quickly process new information and retrieve memories, make sense of real differences between groups, and predict, often with considerable accuracy, how others will behave or how they will think. Stereotypes and the information they give helps man to avoid danger, approach possible new friends, choose one school or one job over the other or to identify that person who may be the love of his life.

It matters how close a stereotype is to the self-image. Man feels stronger identity and empathy with other persons the closer his stereotype of them is to his self-image. Evolutionary treats, such as ‘Inclusive Fitness’, contributes to his identifying himself strongly with those with whom he shares genes.

106 Macrae, Milne and Bodenhausen, 1994, pp 37-47
Automatic, stereotyped behaviour is often the most efficient form of behaviour\textsuperscript{107} or simply necessary\textsuperscript{108}. That is, as Tavris and Aronson point out,\textsuperscript{109} the upside. The downside is that the stereotypes flatten out differences within a category and exaggerate differences between them. Studies have shown that man attaches very positive sentiments to the words \textit{us, we} and \textit{ours}, while being more restrictive when it comes to \textit{them, they} or \textit{theirs}.

The contrast between the “we” and the “they”, the common fight against those outside the group, seems to be an essential ingredient in any creed which will solidly knit together a group for common action”, Hayek notes.\textsuperscript{110}

A negative side of stereotypes is thus that they create \textit{prejudices}. Such prejudices can be possible to diminish: when the economic competition subsides, when a truce is signed, when the profession is integrated, when they become more familiar, when ‘\textit{we}’ are in a position to realize that they aren’t so different from ‘\textit{us}’. \textit{Exposure} can affect the subconscious beliefs and thus also the stereotypes. If you are white and get to know a black man and start to realize how much alike you are, your stereotype of black men will be affected. People who regularly meet people from other nations, other religions or who are ethnically different are less likely to have prejudices than those that are living only among people who are like themselves. Cognitive dissonances are not always solved; the self-justification process may just manage to explain them away. In some cases, as when it comes to stereotypes, they are kept, partly because the stereotypes are needed. When the dissonance occasionally is brought into the open it will be up to the conscious self to override the emotions the subconscious has created.

Prejudices are very difficult to eradicate for the simple reason that the stereotypes are needed to make quick decisions. In fact, there are limits to how broadly we can develop trust with other people. Fukuyama has found that societies with strong family-centric values, while having deep bonds of trust within families, tend to have narrower radii of trust outside families.\textsuperscript{111} This limits the economic networks. As examples Fukuyama cites the large proportion of small-scale, family-owned businesses in China, Korea and Italy and the low number of global enterprises relative the size of their economies in comparison with e.g. Holland with another culture. Karla Hoff of the World Bank and Arijt Sen of the Indian Statistical Institute believe that overly strong family ties can have a negative impact on development, as extended definitions of family create incentives for free riding and low returns to work and savings.\textsuperscript{112}

\textsuperscript{107} Gigerenzer & Goldstein, 1996, p 650-669
\textsuperscript{108} Bodenhausen, Macrae &Sherman, 1999, pp 271-290
\textsuperscript{109} Tavris and Aronson, 2008, pp 57-67
\textsuperscript{110} Hayek, 1944, p 143
\textsuperscript{112} Hoff and Sen, 2001, quoted by Beinhocker, 2006 p 434
**No global society**

We need our stereotypes, and we automatically identify ourselves with people that are like us. This makes the development of a global society with common values a highly unlikely if not impossible proposition.

The social psychologists Carole Tarvis and Elliot Aronson have shown in their research how consensus cultures can develop in a group to protect the collective thymos and create unwillingness from a group to face new facts and to reason logically. They have shown how child psychologists, who dealt with incest cases during the 80’s, as a group refused to face the fact that their therapeutic methods may have induced false memories in the children; many prosecutors and judges as a group have in a similar way rejected new DNA evidences that have shown that they have convicted the wrong person by coercing false confessions. The Founding fathers of the US Constitution had an intuitive understanding of this effect and therefore tried to build in a number of checks and balances in the governance in order to avoid such consensus cultures to develop.

Group conformity is strengthened by the way we learn. Imitation is one way in which man learns, especially during his first years. The ecological inheritance is often a result of imitation. But the influence of people around the individual does not stop there. When he is uncertain he looks at what others do.

Sales people know that group dynamics works even better if the “group” consists of people who are like the targeted object for the sales and thus uses references to friends or other of the object’s “stereotype” as social proofs to influence him. The more we can identify ourselves with someone the more likely we are to have a positive opinion of him or her.  

Contemporary research also seems to indicate that we have a tendency to overestimate the role of the genetic inheritance and underestimate the importance of the ecological inheritance. This has in my understanding to do with how we remember. The subconscious memories are functioning as a running tally; they are updated with new experiences and knowledge, but we do not remember why we have come to have the beliefs we have. They all form an intrinsic knowledge about life and the fact that most of this knowledge is acquired is not something we are aware of.

The subconsciously stored knowledge relates to our immediate situation and the relations to others such as our parents, friends etc., but it has also a considerable component of knowledge around the relations to the collective other. An important part of that knowledge constitutes what is sometimes called common sense. It is a concept that summarizes our internalization of cultural and ecological prescriptions on how to respond in different situations to external

---

113 Cialdini, 2001, p 176
114 About human awareness in a societal context see Markova, 1987, ch. 7.
stimulus and to changing environmental conditions. The development of a common sense is part of our socialization process. What is common sense in Texas is, however, not necessarily what is common sense in Tokyo or Islamabad. The cultural conditions in which we are brought up have thus a major impact on how we act when on ‘autopilot’.

Rodrik warns: “A strong sense of global citizenship tends to be confined, where it exists, to wealthy individuals and those with the highest levels of educational attainment. Conversely, attachment to the nation state is generally much stronger (and global identities correspondingly weaker) among individuals from lower social classes. The cleavage is perhaps not surprising. Skilled professionals and investors can benefit from global opportunities wherever they may arise. The nation-state and what it does matters a lot less to these people than it does to less mobile workers and others with fewer skills who have to make do with what’s nearby. This opportunity gap reveals a certain dark side to the clamour for global governance. The construction of transnational political communities is a project of globalized elites attuned largely to their needs.”

No common value base

It is not only the evolvement of a global society based on a global feeling of togetherness that is an unlikely proposition, so is the idea of a common value base.

There is little, if any, evidence supporting the perception that values should be genetically inherited. While evolutionary biologists claim that we are born with features that support survival and reproductive success - among them core ‘family values’ such as ‘inclusive fitness’ that strongly attaches us to those with whom we share genes - there is no evidence that more general values such as the equality of men, fairness and honesty are to be found in the genes. The finding offsets the idea that man is born with the innate moral value that we are all equals.

The values we hold consciously also differ from those that are supported by the subconscious processes. They are acquired in different ways - the conscious self through processes of reasoning and the subconscious mainly through internalizing. The internalizing can be of values that first are held consciously. The subconscious self of a child internalizes values by imitating, by being rewarded and punished. Values are taught by parents; they can be part of an ecological inheritance such as the language; languages emphasize different values; they can be strengthened by the culture of a local community or be a national heritage.

---

115 Rodrik, 2011, p 231
The stereotypes that the subconscious selves are using when ‘short-cutting’ are thus culture-sensitive, as are the values we internalize. The fact that we as collectives are so strongly affected by our ecological inheritance puts limits on how far we can hope to come in issues around global governance. A shared value-base cannot be taken for granted. It also explains why people in general want social conditions to be decided as close to them as possible and within their own cultural framework.

Democracy is a vulnerable concept

Our tendency to form groups and strong national identities are two main reasons why a global government that would replace the role of the nation-states will remain an un-implementable vision. Another reason why the idea of a democratic global government is likely to go nowhere is that democracy as a concept is extremely vulnerable given the nature of man, and that it needs a steady nurturing and almost ideal preconditions to work well. Democracy has always been a debated system of governance. It is, as Held draws attention to, not until the last decades that democracy has become the norm and rulers have strived to portray their regimes as ‘democratic’ regardless of the real situation.

Democracy is on the surface placing few demands on the citizen; he is not expected to make decisions every minute of the day. Democracy is not primarily aimed at fulfilling individual desires; it is supposed to be a value-based system that recognizes the equal value of man and ideally leads to collective rational solutions to collective issues. Once in a while people have to take a stance, vote in an election or take part in a referendum. It may seem that they are given ample time to make the choices, all the time they may need to reason deductively and reach considered decisions. In practice it does not work that way. Subconscious processes play a strong role also when we act as citizens in a democracy.

In order to thrive, democracy needs an environment that supports the development and maintenance of shared values and a rational reasoning based on shared knowledge; such conditions are difficult to create given the nature of man. Political attitudes and values are internalized together with other values early in life and they create what is sometimes called symbolic preconditions. Those preconditions can form a confirmation bias that blocks rational reasoning. With restricted or “blocked” knowledge the “power” of an individual’s conscious self over the subconscious diminishes.

The idea of reasoned beliefs that is central to democracy also demands a media environment reasonably free from intimidation and manipulation and it demands active efforts to spread and share un-biased knowledge and values. Contemporary research has shown how people can be subtly manipulated. The knowledge gained around mechanisms such as anchoring and priming or the exploiting of group conformity and psychological reactance are not lost on politicians who want to win elections or companies who want to sell products or services. Whether a person is in fear or in a happy mood also affects his reasoning. This increased
understanding of how to manipulate people is a challenge to democracy, especially as the knowledge gap between the informed elite and a less informed population seems to be increasing in many countries. The risk that the research results will be used to benefit the interests of the privileged few by manipulation of the ordinary citizens is obvious. Tendencies in that direction are noticeable, especially in countries where media are owned by individuals with political ambitions.

The UN is no alternative

Many who are engaged in the idea of a future global government see the UN as an instrument to create the vision. By strengthening the UN they hope to create the preconditions for democratic global governance. Held among others argues in favour of a new global order that recognizes the need of separate bodies with different geographic reaches acting in parallel.116

Besides the fact that the end goal is an impossible dream, the road is filled with too many blocks.

The creation of the United Nations was negotiated more or less in parallel with the negotiations that created the IMF, the GATT and the World Bank. It was no easy ride and progress demanded sometimes that the US used the language of the victor. To reach consensus the UN was built upon two principles, none of which is applicable for the governance of the global market economy. The Security Council reflects the military realities and the General Assembly gives each country one vote. In the Security Council there are veto rights and in the Assembly (and other UN organization) there is a demand for unanimity if any resolutions are to be binding. The UN plays an important role in the areas for which it has been created, but none of the decision conditions would be workable if efficient and timely governance of the global market economy is to be achieved. The UN-led negotiations on Climate Change show the short-comings of the UN model. Following the disappointing result of the UN climate negotiations in Copenhagen renewed calls have been made by international think-tanks117 for a new global world order, but the expectations of advancement are generally low.

Government by reasoning

A softer form of “democratic” global governance has been proposed by the Nobel Prize Winner Amartya Sen. He is in his brilliant "The Idea of Justice" criticizing the "overpowering

116 Held, 1995, p 219 ff
117 E.g. by the Tällberg Foundation.
concentration on institutions (where behaviour is assumed to be appropriately compliant) rather than on the lives people are able to lead".\textsuperscript{118} The process to create a stable societal system based on just institutions as proposed by Rawls and his many contemporary followers is according to Sen flawed in the sense that it cannot be expected that a consensus can develop that will withstand time. There is as already discussed a plurality in reasoning that has to be recognized and that will defy any attempts to create forever just institutions. Sen’s criticism of the “transcendental institutionalists” is supported by the interpretation of human nature based on contemporary research.

Sen is instead arguing in favour of a "public reasoning" in which the focus is on comparative analysis, reasoned scrutiny, and on the social realization of justice rather than on the arrangement of institutions. "Any theory of justice has to give an important place to the role of institutions, so that the choice of institutions cannot but be a central element in any plausible account of justice. However…we have to seek institutions that promote justice rather than treating the institutions as themselves manifestations of justice".\textsuperscript{119} The idea of a "final" society with just and settled institutions is a false dream. Institutions have to evolve with the demands of the time and advance based on the same comparative scrutiny as in the public reasoning on policies, Sen claims.

Sen points out that social realization can take place in the civil society without the involvement of institutions. This is true for many of the relations he mentions such as those between men and women, parents and children. But many issues are of societal and systemic character and need institutions to be implemented.

Sen’s idea of reasoned scrutiny and a global public discourse can be very helpful in the build-up of better functioning nation-states, and a useful instrument for the spreading of “best practices”, but it offers no solution to the governance of the global market economy. In the case of the global market economy there are many policies and actions that have gained broad support in the public debate and that are not implemented because of the lack of proper institutions. I have already discussed many of those areas of concern – the lack of sufficient regulation of the financial markets, the lack of a level global playing field for companies and other actors, unaddressed environmental challenges etc. We need institutions that can turn the reasoning around those issues into actions. The Euro zone crisis is an illustrative example.

The lack of proper rules and institutions have created uncertainties, and when getting their act together the Euro zone countries have often been one step behind the market development, which has created new uncertainties, and demanded new actions in a vicious circle. “Too little, too late” has often been the verdict. What the Euro zone needs are institutions that can

\textsuperscript{118} Sen, 2010, xi
\textsuperscript{119} Sen, 2010, p 82
act decisively and pro-actively. The Euro zone countries have learned that lesson the hard way.

The Euro crisis is instructive also in another way. The day traders acting on behalf of banks, funds and other investors do not have the time to sit down and reason before taking their decisions. They have to rely upon their “on-line reasoning” capabilities. Seasoned central bankers know that it is meaningless to try to reason with the financial markets and that what the actors need are unambiguous messages. If you as central banker want the markets to respond you have to bring out your sledgehammer and your axe; you have to make your points crystal clear and decisively cut off all alternatives.

Such clarity has been sorely missing during the Euro crisis. After a number of unfortunate slips in communication the chairman of the Council of the Euro zone Finance Ministers Jean-Claude Juncker declared that the meetings with the ministers must be conducted in absolute secrecy. He was never obeyed.

You can reason about the financial markets, but you cannot reason with the markets is a lesson learned for all concerned.

There is a strong linkage between the public reasoning and the institutions also the other way around. A Public Information Space, to use the terminology of Will Hutton, is a precondition for public reasoning and the space needs an institutional support, even to be seen as an institution, in order to enable a free exchange of views. It is easy to recognize malfunctioning in the present public reasoning due to information overload and manipulation. People are forced to put their trust in information sources that are not always reliable. Public reasoning cannot replace institutions but needs them to be free and open. A conversation around social ethics can produce results, but need a platform to reach people.
VI. THE JUSTIFICATION OF WORLD MARKET GOVERNANCE

The need of proper governance of the global market economy should be seen in the light of a dramatic development of the world economy in which actions of individuals, companies and states all around the world have become increasingly intertwined. The market economy as a concept has gained support around the world; the alternatives that have been tested have failed to deliver outcomes in line with people's expectations. This acceptance, together with the aspirations of the populations in the emerging and developing countries, the surfacing of a global financial market, and the development of information technologies that enables supply-chains to cover the globe, have contributed to a globalisation that has created a truly global market economy. The globalisation process is, if anything, gaining speed and involving more and more countries. While globalisation is offering many benefits it is at the same time undermining the authority of the public order. The global market economy has outgrown the territoriality of the public order and the market economy can no longer be controlled by the individual states. The marriage between nation-states and the market economy, which has created liberal democracies, is facing a difficult period due to the increasing mismatch between the partners’ territorial reach. The finances of the nation-states are under-mined as wealthy citizens and global companies, especially the financial actors, are exploiting the possibilities of regulatory arbitrage.

The existing basically inter-governmental governance that was created in the post-WWII world has as a purpose to attend to issues related to the market economy, which cannot be properly addressed by the individual states. As the globalisation has progressed, it has been increasingly difficult to reach conclusive decisions through this order. The governance model has become insufficient in meeting the challenges that the rising global market economy offers. The scope is too limited and the way to reach decisions too cumbersome, there is a lack of authority, lack of transparency, and lack of accountability. The implementation of often unsatisfactory compromises is patchy and inconsistent. The proposals to strengthen the order that the British Prime Minister David Cameron has tabled on the request of the Group of 20 are incremental and not likely to change the unsatisfactory situation. Cameron highlights the importance of political will; the underlying problem is that the politicians are held responsible by their national constituencies, while the challenges they are facing are global.

Two alternatives to the present insufficient governance have been favoured by the Political Left. One is a de-globalisation followed by a re-nationalisation of decisions concerning the market economy. The economist Dani Rodrik has developed ideas on how a reduced globalisation, or “sound globalisation”, as he calls it, could look like. In my analysis I have concluded that his alternative is unstable. It can lead to a return to the disastrous protectionist
ways that deepened the Great Depression following the latest globalisation period, it can lead to the exploitation of developing countries by militarily strong countries, or it can simply fail.

The other favoured alternative of the Political Left is a *global government*, which is understood to be democratic. The development of a global public space and the strengthening of the UN are often seen as stepping stones on the route towards the ultimate goal. The weakness of the alternative is that it expects the global government to take over many of the social and cultural responsibilities that the nation-states have taken on as part of the marriage between market liberalism and the nation-states. I have tried to show that such a globalisation of the social conditions is unsupported by human nature and that this is the main reason and not the resistance expressed by the financial elite, why the alternative has no future. There is an increasingly global market economy, but there is no appetite among people around the world for a global society. On the contrary, when the external pressure declines people want to see a break-down of “constructed” states into natural nation-states with coherent cultures. It has happened in Czechoslovakia, it is discussed in Belgium, Spain and the UK.

The favourite alternative of many in the Political Right has historically been *self-regulation*, and the belief system on which it is founded seems to gather an increasing number of followers in the US. The idea is that the economy left to its own will produce a result that benefits everyone. The global market economy is facing problems, but they are according to the believers not due to too weak regulation, but to too much regulation. The economic theory on which this alternative is built has as its underlying assumption that man is rational. The “invisible hand” and the “trickle-down” that are part and parcel of the theory stands and falls with this perception. The Rational Choice Theory, which is the intermediary between this simplified idea of man and the economic science, is giving reasonably good predictions for the real economy in normal times, but it fails to predict the performance of the financial markets and has given unreliable forecasts for the real economy in times of turmoil. The reason is that the Rational Man theory is a too simplified understanding of man, and that especially the day traders on the financial markets are acting more on basis of their subconscious on-line reasoning capabilities than their conscious reasoning. The debate has shown that to counter the idea of self-regulation it is not enough to point to all the cases in which the market has responded irrationally; economists need to discuss the underlying assumptions.

*The purpose of the alternative*

There is a growing feeling among both economists and politicians that something more needs to be done to govern the global market economy properly, but few are happy with the alternatives on the table. The real challenge is not only how to keep, but furthermore how to strengthen the states and federation of states, while creating a governance of the global economy that is effective.
The purpose of the World Market Governance (WMG) that I will introduce is thus to

- create a separate, effective, comprehensive and transparent governance structure for the global market economy,
- strengthen states and federation of states in their abilities to develop social and cultural conditions in each country in line with the aspirations of their citizens.

I will first develop the reasons why the global market economy can be seen as a separate, societal system although intertwined with the nation-states and then why the nation-states at the same time are important societal systems that need strengthening.

The global market economy - a separate societal system

To answer the question whether the global market economy is a ‘Justified Societal System’ as defined earlier the following criteria have to be considered: Is the system central to the life, health, liberty and property of the people living within its reach? Has the individual little direct influence on the system? Is there an opt-out? Is there a defined reach? And finally - does the system have coercive powers?

For their outcome most people are relying on the market. Already the early liberal philosophers recognized that the market economy is an efficient way of meeting man’s desires. Desires are just like internalized values engraved in the subconscious; they are essential for survival and the meeting of almost all evolutionary drivers, especially Reproductional Success, and Inclusive Fitness; they are stretched in scope as people are experiencing more and more products and services to long for. Market economy is in contrast to the nation-state a societal system in which the individual can have variable and evolved desires met every day and in which he is a constantly present main actor. He has little influence over the system as such but the system allows him large space to act, regardless whether the actions are based on conscious value-based reasoning or on subconscious processes driven by desires and values of which the conscious self even may be unaware.

The market economy is also the perfect scene for gaining recognition, for thymos. The market is an arena in which man, in order to gain recognition, has the right to compete and be superior, even be admired for it. No man is equal and in an ideal situation any man can live his dream. He can get recognition in a democratic system too, but only if he competes for public office.

I will come back to the value aspects when I discuss the question of legitimacy, but it is clear that the market economy, in another way than the state, meets the first criteria of a societal system. It is central to the life, health and property of individuals within its reach. Man can act quite freely within the market economy. If he has economic power he can also influence the way the system works; he can dominate a local market, create geographical
monopolies, price cartels etc. While the system can be used or misused, the way it is built is less easy for most individuals to influence, at least not directly or on their own. Most individuals have *little, if any, direct influence* of the functioning of the market economy system as such.

The third question is if there is an opt-out from the market economy, and the answer is that there is *no opt-out*. Anyone can in theory live isolated from the market - there are after all those living and surviving in jungles or in swamps - but man cannot without help meet more than very basic needs outside the market. While a nation-state in theory could intervene and support those opting-out from the market economy most states, if not all, are demanding the individual to try to find ways of supporting himself on the market.

The *territoriality* of the market economy has increased rapidly. As a system it is much more widely spread than democracy. 153 countries are when this is written recognized market economies and members of the World Trade Organization and 30 more are observers who are negotiating membership. Globalization is enabling work-sharing, distributed production and trading, a strong motivator for countries who have less developed economies to become full-blown members of the global market economy.

The nation-state is, as noted, de jure the only one who can inflict harm (in the form of punishments) or refer such rights to another body without risking retaliation. The next question is whether the nation-state also has a de facto monopoly. It has already been described how the nation-state has granted legislative and judiciary powers through law and treaties to other levels. The global market economy has not been granted any such rights. Can the system as such still inflict harm without the risk of retaliation?

The answer to that question is in my opinion in the affirmative. An example of how harm can be inflicted without risk of retaliation is the present financial crisis. Numerous people have lost their properties, their homes, their pensions, and their savings capital without being aware of having taken any risks. It can be claimed that they can sue those that have “cheated” them and some will certainly try to do that. But the truth is that the abuse has happened as a consequence of a series of decisions in a system over which neither they nor the state has a de facto control. Who is to blame? The real estate agents who inflated the values of homes, knowing that they could fix higher mortgages than even those inflated values, the brokers that arranged the loans, the home-buyers that accepted them without having any possibility to pay back, the financial institutions that split up the loans in pieces and sold them off as structured products, the rating institutes that put triple A’s on the products, with the small print that the rating was based on ‘historic performance’, the institutions that bought the products without reading the small print and who used the products to secure the savings and the pensions? Or should the Federal Reserve be blamed, which boosted the US economy with low interest rates at the same time as the Congress stimulated it with a huge financial deficit? Or the Chinese that let their economy slip into a dangerous dependency on export? Or the young guys of
Harvard and Yale who got hundreds of millions in bonuses and who invented the 'structured' products in the first place? Or the 'fools' who should have put their money in the mattresses instead of buying into the schemes?

Clearly ‘the fools’ are not the ones to be blamed. The market economy would not function if money were kept in mattresses and not put to work. And it is hard to lay the responsibility firmly on anyone else. The harm done is mainly due to a systemic failure, seldom the result of single actions in bad faith. Such have been identified, and some of them are and will lead to prosecutions or litigations. But they concern less than one per cent of the losses that have occurred.

Is then not the state to blame? Is not the state, to use the language from the Lord of the Rings, the Ring to Control Them All? Theoretically and de jure, it is correct. But there are some significant objections to that conclusion. First. The market economy is a huge and complex system in which millions of decisions are taken every minute. To really control it would demand a state of gigantic proportions. There are countries that have tried to exercise that kind of control; countries such as the old Soviet Union and China. Their planned economies collapsed under the pressure of the increased complexity caused by the technological development and the emergence of mass markets. Secondly, while the nation-states have geographical borders the market economy knows no such barriers. The chain described above may have started in a small city in Oklahoma but have ended up in lost savings for an Italian shopkeeper, lost pensions for a Swedish plumber and unemployment for a Chinese worker in a textile factory.

The conclusion is therefore that the nation-state, due mainly to its territorial limits, does not have a monopoly on a systemic level when it comes to inflicting harm on individuals. Also the global market economy system and other societal systems have that power. The issue is that there is no governance to control the power.

To conclude: The global market economy meets the criteria of a justified societal system. It steers just like the nation-states the relations between individuals and it is central to their life, health and property. The participants have no direct influence on systemic level and no real opt-outs. The territoriality is global and the market economy has de facto coercive powers on systemic level.

\[\text{\underline{\text{120}} That the market economy as a system can inflict harm is recognized by Habermas, 2011.}\]
The indispensable nation-states

Proper global market governance is needed that ensures financial stability, well-functioning global markets and a level playing field, but also allows nation-states to have their own social systems and make their own decisions on issues such as re-distribution of wealth.

The minimal state, in favour of which Locke and Nozick argued, meets people’s need for security, liberty and justice in a very formal sense. The liberty the state offers gives the individual the right and possibility to freely search his outcome on the market, to make contracts with whom he likes, to produce, acquire and sell goods, services and property. The modern welfare states have become more than guardians of those basic rights. They have expanded the Lockean value-base to include equality, which also has given the concept security a broader meaning. Welfare states are offering support if you are taken ill, when you are too old to take care of yourself or vulnerable in other ways; they support education and other human need. There is a clear link between social programs, such as education, health care, pensions, and employment policies, and the expectations on the nation-states.

The wish to protect and develop the social conditions within a culturally coherent group seems to be anchored in human nature. The way the subconscious works, creates a "ranking" between our different identities; the ability to identify with other people depends on how far away they are from us genetically and culturally. The globalisation process is in general met with both apprehension and scepticism; people embrace new cheap products at the same time as they are afraid of losing their jobs and some of the comfort of "belonging". Companies have identified this complexity in the well-known "glocal" strategy and although many would argue in favour of "fair" social conditions all around the world there is reluctance from citizens to allow decision-makers, who are too far away from them, to have a final say on issues that concern their social conditions, such as education, health, pensions etc. The tendency is rather that people want to see such decisions to be anchored even more locally, driving decentralization in Spain and the possible "break-up" of Belgium.

The role of nation-states is of course affected by the emergence of the global market economy as a separate societal system. The nation-states will remain as the constitutional level for the foreseeable future and they will continue to have an important role to set the rules for the civil society in accordance with the national culture and habits. But it is, as has been described, increasingly difficult for them to impose unilateral rules for the functioning of the market economy. Even their role as implementers of globally agreed standards and

---

121 I continue with the simplified description of the public order. The nation-state may have delegated some of its functions to regions and communes; it may have entered a federation or a union such as the European Union and transferred some its decision power to the federation or the union. Such conditions do not change the principle arguments.
regulations are under pressure. Just one of many possible examples: The UK government has recently quite openly been challenged by the financial actors in the City to withdraw plans to implement more strict financial regulations, especially rules for capital requirements. The CEO of USB has threatened in Financial Times to move his 3000 employees in the City to New York, where there according to him is a more relaxed implementation of the financial regulations, if the government insists.122

A severe problem for the Western hemisphere is that the financial status of the nation-states has deteriorated as they during the latest financial crisis in many cases have been forced to socialize debts originating from banks and households. They are in addition often burdened by a trade deficit. Their financial standing is not seldom under-mined even further by the fact that governments have found it increasingly difficult to tax its global companies and rich citizens, who with the deregulated financial markets have no difficulties to vote with their feet and to move their profits and wealth. Many countries are in practice restricted to a redistribution of wealth between the more well-off "ordinary" citizens and the less well-off; their possibilities to finance the social programs asked for by their citizens have been undermined. In short, they are looking forward to a troubling future.

How to strengthen the states and the federation of states and ensure their sovereignty is a question that has to be addressed sooner rather than later.

The need for social institutions

Many researchers have highlighted that the market economy to develop its full wealth creation potential needs functioning social institutions such as a developed rule of law. It will be an important objective for nation-states, the European Union and other public orders to also in the future ensure the effectiveness and independence of such institutions, but it is more than a formal task. The political scientists Bo Rothstein and Johannes Lindvall have in a book Roads to Welfare123 (my translation) shown how dependent the effectiveness of the institutions is on the national situation. They note that there is little evidence that democracy in itself is enough to create conditions that, for example, will lead to less corruption. It is sadly on the contrary the case that countries that have new-born democracies often become more corrupt after the introduction of democracy; it is only countries with a long democratic tradition that in general have a low level of corruption.124 What they show is that it is not enough to build institutions; you also need to focus on the building of shared values and of trust, in short the development of the social capital. Michel Foucault has introduced the notion of governmentality in which he combines government, rationality and mentality. It is a

122 FT 2011-03-10
124 Lindvall and Rothstein, p 37, 2009
concept that highlights the interconnectivity between the formal structure of governance and the social and cultural environment.\footnote{Dryzek and Dunleavy, 2009, p 294}

The Commission on Growth and Development, with members from the donor community, sees the social capital issue as being as central as the institutions. With social capital they mean the extent to which people feel that other people can be trusted and how many contacts they have outside their close family group and with people of other ethnic background.\footnote{Lindvall and Rothstein, p 40, 2009}

How important trust is in a society is shown by the success of countries where there is such a social capital. According to the World Value Survey about 60 per cent of the population in the Nordic countries feel that you in general can trust other people. In continental Europe the figure is 40 per cent, in Southern Europe 25 per cent and in countries such as Brazil, Romania, and Turkey around 10 per cent.\footnote{Lindvall and Rothstein, p 42, 2009} There is a clear correlation between the level of trust in a society and economic success. Where there is no trust there is corruption. If you do not trust others to play by the rule, you do not do it yourself. In countries in which the market actors are powerful there may also develop a legal corruption; the World Bank economist Daniel Kaufmann invented this term to describe the influence of powerful financial actors on the lack of regulation in the up-running of the latest financial crisis.\footnote{Kaufmann, 2008}

The nation-states will continue to have a central role in the building of social capital. The Argentinean scholar Mariano Grondona has proposed three broad categories of cultural rules that build social capital and support economic development\footnote{From Harrison and Huntington, 2000, pp 44-55, quoted by Beinhocker, 2006.}

In the first category are norms related to individual behaviour. These include norms that support a strong work ethic, individual accountability, and a belief that you are the protagonist of your own life and not at the whim of gods or Big Men. Economically successful cultures appear to strike a balance between optimism that improvement is possible, and realism about one’s current situation. In the second category are norms related to cooperative behaviour. Foremost is a belief that life is a non-zero sum game and that there are payoffs to cooperation. It is important that the culture includes norms that value generosity and fairness, but also sanction those who free ride and cheat. The third category contains norms related to innovation. Cultures that look to rational scientific explanations of the world rather than religious or magical explanations tend to be more innovative. The culture needs to be supportive of competition and celebrate achievement, since overly egalitarian cultures reduce the incentives for risk taking. Finally, cultures that live for today (or, conversely, are mired in
the past) have problems across the board, ranging from low work ethic; to an inability to engage in the future.

**Countries, not only companies, compete**

The states and federation of states play an important role in the market economy. There are issues concerning the market economy and the way it functions locally and nationally, which can be successfully regulated by a state, protection of competition and consumers on domestic markets e.g.

A perhaps even more crucial aspect is that countries, not only companies, compete. The nation-states compete through creating a business climate that supports competitiveness; they compete with education, research support and innovation-friendly policies. The role of the nation-states in the process of generating businesses is recognized in the WTO negotiations and a line in the sand has been drawn. It is accepted that the interests of the nation-states and the business community are intertwined until the point where a company has produced the first commercial series – as long as the company is not overcompensated. After this line in the sand the company is on its own and has to abide by the international rules for trade.

This line in the sand is a natural starting point for the division of labour between the governance of the global economy and that of a nation-state. How the interaction between the two levels plays out is crucially important. The global governance needs not only to create the right conditions in order to stabilize and develop the global economy; it also needs to create the right conditions for the nation-states to fulfil their important roles.

Rodrik is in his argumentation for a re-nationalization highlighting this role of the nation-states. Some of the space for actions he wants to create would come in conflict with free trade and open markets, but many are possible to develop within the existing framework. Industrial policy may be an ugly word for many believers in the Washington Consensus, but the truth is that their home country is the world-leading nation in industrial policy, far ahead of the European Union for example. The US historic successes in innovation are especially linked to the advanced American pre-commercial procurement programs. The US Defence has identified its long term needs and has challenged the market to come up with solutions. The famous Darpa program under the Department of Defense can proudly claim an important role in the creation of supercomputers and Internet, and of companies such as IBM, Microsoft and iRobot. Parallel programs in other ministries, such as the Departments of Energy and Health are filled with similar success stories. The US Congress has been active in other ways in creating excellent conditions for US companies. A success story of late is the saving of the American car industry. A message from Washington with the content “Do as we do, not as we say” would go a long way in creating a better global dialogue around the governance of the global market economy.
VII. OBJECTIVES

The overall objective of WMG is twofold: To create a long-term stable fitness environment for the global market economy and to strengthen the sovereignty of states and federation of states.

In the chapter on what we can learn from history I reminded that FA Hayek 1944 called upon “an international political authority which, without power to direct the different people what they must do, must be able to restrain them from action which will damage others. The powers which must devolve on an international authority are not the new powers assumed by the states in recent times, but that minimum of powers of the ultra-liberal ‘laissez-faire’ state.”130 For that purpose Hayek proposed a federation in which the Rule of Law was the centrepiece.

What would it mean if the objectives of the World Market Governance were to ensure an international order as proposed by Hayek? I have already discussed the tasks of a state with only market liberal objectives and concluded that there are few of these tasks that a nation-state (or the EU) can perform on its own in this new era of globalisation. We have reached the level of international interdependence that Hayek predicted and there is a need for global governance. We should, however, not stretch that governance further than necessary, as we also want to strengthen the national and regional levels and enable them to form social and cultural conditions in line with local and national preferences.

There are thus good reasons to let us be guided by the agenda of the market liberals and to define the objectives of the World Market Governance in line with the Hayek’ vision of an ultra-liberal global federation. The focus on the roles of states has changed slightly since Hayek developed his vision, especially when it comes to the necessity to take a joint responsibility for the global ecosystem and the objectives he had in mind have to be adjusted to that new reality. How such an adjusted agenda could look like has already been discussed in Chapter II and I use that discussion as a starting point for this more developed, but still tentative, proposal:

The World Market Governance would thus have the following objectives:

- **Regulation of the financial markets.** The financial markets are global and the regulations invite regulatory arbitrage if they differ in scope and content. One

130 Hayek, 1944, p 238
important and urgent objective should be to stabilize the financial environment and get the market of ‘hot money’ under control. The financial markets are a cornerstone in the global market economy that needs proper regulation and oversight to work in an efficient way.

- **Establishing and enforcing laws of contract.** Contracts do not only have to be harmonized, they also need to be possible to enforce.
- **Preventing overt coercion of individuals by others.** Fraud and undue exploitation of ignorance must be possible to pursue.
- **Rules for acquisition and sales of assets.** More and more companies and investors are active across borders.
- **A common foundation for the exploitation of natural resources.** The countries in demand of commodities are often not the ones with the resources. Common rules would help to avoid unfair conditions.
- **Harmonized competition rules and regulation of unavoidable monopolies.** A level playing-field for companies and other market actors with as far as possible equal and predictable rules is important. The US and the EU already have different competition rules and, above all, they implement them in different ways. China is now about to set up a third similar competition authority that may come to another set of conclusions, making the life of international companies even more difficult.
- **Recognition of Intellectual Property Rights.** Harmonization work is under way, but there are many areas where the rules differ, and, specifically, patents and other protective measures that are recognized by one country are not automatically recognized by other countries.
- **Free and fair trade.** Free trade is the ultimate goal and multilateral trade agreements that balance the interests of different countries the fairest way to reach it.
- **Basic labour and migration conditions.** Fair markets demand that basic legal conditions are harmonized, and that in particular the access to labour and the basic labour conditions are agreed.
- **Stable currency relations and global money supply.** Countries need to cooperate within a common framework to control money supply, create stable currency relations and solve national default situations.
- **Agreed ways of internalizing “externalities”, such as environmental impacts, into the market economy system.** We have a joint responsibility for the world we are living in and have to address environmental and health challenges and future scarcity of commodities together. The most efficient way to take externalities such as pollution of air, water and soil, and other environmental issues such as climate change and deforestation into account is to ensure that the effects are internalized into the global market economy in a way that does not cause unfair conditions.
- **Enable states and federation of states to regain some of their sovereignty to uphold and develop social and cultural conditions anchored in the national and local traditions.** The benefits of the global economy that the few now are assembling have
to be shared with the many and the increase of the gap between the ‘have’ and the ‘have-nots’ be brought to a halt. A fair domiciliation of companies and citizens for taxation is one condition that is important to avoid some of the regulatory arbitrage that undermines the finances of nation-states.

Finally- not all countries are yet part of the global market economy and need help to help themselves. Governments in developing countries that govern with the consent of their people need to be supported.
VIII.  THE RULE OF LAW - A CENTREPIECE

Besides a more defined scope, what is it that the present inter-governmental order is lacking, and that World Market Governance could add? Hayek argued that the main short-coming of the inter-governmental order was the lack of Rule of Law. I am not going to claim that I am a follower of Hayek (there are a lot of things we probably would not have agreed upon had we had the chance to meet) but also on this point I want to support his fore-sighted vision. To quote Hayek once again: “We must not deceive ourselves that in calling in the past the rules of international behaviour international law we were doing more than expressing a pious wish.”\footnote{Hayek, 1944, p 239}

Lord Bingham of Cornhill\footnote{Lord Bingham of Cornhill, Speech on November 16, 2006 for the Sir David Williams Lecture in the Law Faculty of Cambridge University} has in a famous speech developed his idea of the Rule of Law. It demands, he claims, that the law must be accessible and so far as possible intelligible, clear and predictable; questions of legal right and liability should ordinarily be resolved by application of the law and not the exercise of discretion; the laws of the land should apply equally to all, save to the extent that objective differences justify differentiation; the law must afford adequate protection of fundamental human rights; means must be provided for resolving, without prohibitive cost or inordinate delay, bona fide civil disputes which the parties themselves are unable to resolve; ministers and public officers at all levels must exercise the powers conferred on them reasonably, in good faith, for the purpose for which the powers were conferred and without exceeding the limits of such powers; adjudicative procedures provided by the state should be fair; the state must comply with its obligations in international law, the law which, whether deriving from treaty or international custom and practice, governs the conduct of nations.

This is a definition that contains a number of value statements about equality, reason and fairness. Such value propositions are usually found in constitutions, in legal code of conducts and in oaths taken by servants of the judiciary and of the courts. The objectives of the rule of law are, in the version of Lord Bingham of Cornhill, also made clear. Laws are created to support human rights, the well-functioning of the civil society and to uphold international obligations and should be implemented in a fair and reasonable way. The courts can apply laws that concern relations between the individual and the public; they can also take on cases that relate to the market economy to the extent that they are regulated by law or are referred to the courts by the parties concerned.
A Rule of Law as a pillar of World Market Governance would thus contain three elements.

- The first is an international legislator. The legislator must be accepted and respected.
- The second is a set of international laws. The laws have to be binding.
- The third is an independent judiciary. The laws must be interpreted and enforced in an impartial way.

The Rule of Law puts high demands on the legislator, and I will come back to how they can be met. The continental European tradition with unambiguous laws that do not allow the courts the space to take political or nationalistic decisions seems to be one way to ensure that the laws are respected and that the independence of the Judiciary is protected.

**An independent Judiciary**

The standards for the Judiciary must be set high. The Rule of Law is a government of laws, not of men the US Supreme Court has stated several times\(^{133}\). The implicit meaning is that the Judiciary should be guided by reason, not by emotions. Neither should it be intimidated by man, by his power, his standing or his money. The Judiciary is expected to rise above prejudice and emotional constraints, to be guided only by facts and to play by the rules. This is a strong value proposition. The rule of law also resonates with another value, fairness, as people are expected to be treated alike. The rule of law also offers the thymos an alternative to physical aggression, a peaceful way of problem solving. It is worth noticing that the definition that is used above strongly underlines those values: “{…} clear and predictable {…} application of the law and not the exercise of discretion {…} apply equally to all {…} exercise the powers {…} reasonably, in good faith”.

A crucial part of the WMG is thus a functioning Judiciary. Without such an independent body countries and companies may be drawn into backdoor negotiations and the legislations risk lacking teeth. A strong Judiciary ensures transparency and equal treatment. As the legislation would have a global reach and therefore be imposed on different levels, local and national courts would normally have to be the first instances, and more often than not the last; not all cases should or could be handled by international courts. The international courts can mostly be expected to deal with complaints by states or complaints by a company or an individual that is supported by a state. Experiences from the European Union show that it would make sense to have two levels of courts within the international system, giving the opposing parties the chance to appeal. To give the highest court a name I will henceforth call it the International Market Court.

\(^{133}\) First stated by John Adams in draft to Massachusetts Constitution, Part The First, art. XXX (1780).
The role of *prosecutors* should not be underestimated. National prosecutors should have the right to bring breaches of the international legislation to national courts. International prosecutors could support the national prosecutors and address complaints that should be handled by the international courts. They must also be appointed in a transparent way, perhaps approved by the International Market Court.

To have a procedure for the *recruitment and career development of the judges* that is reasonably independent seems also to be important. If the appointment of judges is transparent and non-partisan it allows judges, who otherwise may feel that their job security or career chances are under threat, to follow the law and their conscience. But the independence must not go too far. A balance must be struck between the interest of checks and balances and the overall interest of coherent and accountable governance.

Real independence demands more than a separation of formal roles and transparent and non-partisan recruitment procedures. The courts must also be protected from *intimidation*. Courts can be swayed and have historically been swayed when put under pressure, both before and after Herodias asked the Publicus whom to spare.

Not only the independence but also the *authority of the courts* needs to be protected. Countries and companies must be obliged to implement and abide by the Court decisions and the consequences if they do not follow the Court decisions must be discouraging.

**The Rule of Law meets most objectives**

Most of the objectives listed in the former section can be met by a clear application of the Rule of Law.

The implementation of international regulation of the financial markets can be done mainly through national regulators. Their decisions can be challenged in the courts and if there are good reasons in the international courts.

The enforcing of contracts that today sometimes is done through arbitration would be an obvious task for the national and international system of market courts. Frauds and undue exploitation of ignorance can be challenged in the market courts even when the alleged perpetrator is in another country.

Common rules for acquisition and sales of assets can be enforced and suspected breaches prosecuted.

The possibility for an international company to challenge a competition ruling in an international market court ensures equal treatment.
An international legislation on Intellectual Property Rights and the possibility to raise complaints in a court would also support a level playing field.

There is already a system through which complaints related to trade agreements can be brought to a judicial hearing, and the final decisions have so far been respected by all parties also by the US. This shows the strength of the Rule of Law.

Basic labour and migration conditions. Fair markets demand that basic legal conditions are harmonized, and that in particular the access to labour and the basic labour conditions are agreed.

Legislation on how to internalize "externalities", such as environmental impacts, into the market economy system can be enforced by national agencies and breaches be brought to the Judiciary.

**International execution sometimes necessary**

Not all execution can be entrusted national agencies or judiciaries. There are some areas that demand international institutions and many such institutions are already created. The WTO is one of those and it is the organization with the most experience of execution. Another is the IMF, the role of which has been expanded to cover issues around failing states as well as currency imbalances and global money supply. A developed IMF could become a lender of last resort and an international financial regulator.

The FSB and FSF have oversight over financial services regulations and standards and would have a natural preparatory role when it comes to international financial legislation.

The World Maritime Organization has taken an active role in the rules for exploration of the oceans, but there is no similar organisation for land-based exploitation of commodities. The International Energy Agency has e.g. no role in that respect. If legislation on the exploitation of natural resources was to be created there is thus a need to reflect upon the execution.

Another example: If a legislation on fair domiciliation of companies and citizens for taxation is to be created there is a need for some form of international authority. Not all disputes can be settled in court.
IX. LEGITIMACY

Legitimacy lies in the eyes of the beholders and the perception of legitimacy has changed over time. Military conquest and domination has historically given rulers legitimacy in the view of the international community more or less automatically. Until a couple of decades ago, it was enough for a ruler to control a territory, and the people in it, in order to receive diplomatic recognition and take a seat in the UN General Assembly. It is still the case that most governments in the world are recognized on that basis and not on how they rule their countries. The management of the sovereign nation-states has for a long time been seen as an internal affair and of no concern to people in other countries. While Locke argued that countries should be ruled with the consent of its people and defended revolutionary methods to rid the citizens of a ruler that abused his power, he also seems to have regarded this as an internal matter.

However, to be legitimate a system has increasingly not only to be justified in relation to its purpose and to human nature; it also needs to meet ethical standards. In that respect it matters to the public opinion how it is governed. It may be due to the information age, it may have to do with the globalization process and the flow of migrants, but whatever the reason the public opinion is less and less inclined to regard governments that abuse human rights or corruptly capture the riches of their countries in their own pockets and keep their people in an artificial poverty as legitimate rulers. Politicians in the Western sphere are nowadays often using the language failed states about states that do not put the welfare of their people first. The government of North Korea may claim that it is the legitimate ruler of an independent state, but it finds little support for that claim in the public opinion of the Americas and of Europe. The uprisings in Northern Africa have on similar grounds gained a lot of public support in the Western countries. This new perception of legitimacy is also moving the borders between what is regarded as internal state issues and a concern of the world community. A widespread abuse of human rights is e.g. increasingly seen by the Security Council as a reason to intervene in what earlier was perceived as internal affairs of a state. Gradually, good governance has become the most important factor for the legitimacy of a rule and not the control of a territory in itself. In a similar way, the legitimacy of the global market economy cannot be judged without a discussion on how it is governed. It is a combination of a system and its governance that can give it legitimacy.

However, the discussion on legitimacy has to start with a discussion around values. The proposition that a system to be legitimate needs to ensure an outcome that is defensible to most people given shared values is forcing a discussion on values and their role in relation to human nature and the societal systems. The questions are: What values are really shared and what values should decide the legitimacy of the different systems? How shall the potential
conflict between consciously and subconsciously held values be reconciled? And should more strict demands be applied to the governors?

**Key values**

My view is that it is futile to claim that the values that are shared in the Western world should have a logical or ‘natural’ justification. The same, I claim, is true for values in the Asian and specifically Chinese tradition. This is only the first problem in the search of ‘shared values’. The second problem is that values are generally less shared than we want to know. Any meaningful discussion, which has the purpose of being inclusive, has therefore to be restricted to such key values that are an essential and relatively unproblematic part of the cultural heritage in most countries. For this discourse it is necessary to separate between the developed contentious political values we may hold and that can influence policy decisions taken within the systems on one hand and such basic values that are shared by a broad majority (which includes internalization) and that should influence the systemic level on the other. I will somewhat incorrectly call the latter values Key Values for short. The reasoned values, which I have chosen as a possible basis for World Market Governance (WMG), are selected with no other justification than that they seem to me to be part of a generally accepted philosophical heritage that finds it roots both in Western and Asian traditions. The selected values are: Trust in reason and evidence, liberty, security, and equality.

The Key Values relates to the conscious and subconscious selves in different ways. Trust in reason and evidence is a value we can hold consciously, but bear little consequence for subconscious processes that do not do reasoning. It is a value that thus is unsupported by the subconscious processes. This can, as the example I have offered on the fright for flying shows, create cognitive dissonance in cases when the beliefs we hold subconsciously differ from those we hold consciously. If we want reason and evidence to steer how the market economy is governed we need to create environments in which the subconscious processes play an insignificant role.

The WMG should thus strive to steer the market economy in a direction of an outcome that

- is based on reason and evidence i.e. decisions should be taken after open and reasoned scrutiny and the consequences examined

There are many ways to reason that meet this criteria. To show the plurality of reasoning Amartya Sen has offered an enlightening example:

Three children – Anne, Bob and Carla – are arguing about who should get a flute. Three compelling cases are made. In the first Anne gets the flute because she is the only who can play, in the second Bob gets the flute because he is poorer than the others and cannot afford to buy a flute on his own and in the third Carla gets the flute because she has made the flute herself. Bob could expect support from the economic egalitarian, Carla by the libertarian and
Anne at least to a certain extent, by the utilitarian hedonist. None of the arguments can be easily discarded as "irrational".\textsuperscript{134}

Sen used the example to show that it is likely that people will come to different positions on what is fair and just in many situations when they reason based on their respective values. To reason rationally is also to retain an Open Impartiality, to use the language of Sen. With that concept Sen aims at highlighting the importance not to be over-confident in your own opinions but to be prepared to accept the views of scrutinizers, also when they come from other cultures. Such Open Impartiality seems especially important in the governance of the global market economy.\textsuperscript{135}

The traditional liberal view is that liberty contains man's right to fully control his possessions and protect his privacy. Freedom ensures that he can do what he likes as long as he does not hurt the interests of other men without compensating them. Freedom gives him the opportunity to pursue his objectives, but also ensures free choice, a lack of dependence and of interference. Liberty has many facets that are open to public debate and scrutiny and a pluralistic definition. A common denominator could be that the WMG should strive to steer the market economy in a way that

- supports liberty, especially man’s right to privacy and the civil right to fully control his possessions and do what he likes as long as he does not hurt the interests of other men without compensating them.

There is a clear conflict between privacy and security, more on nation-state level than in the global market economy, although many policy issues have to be addressed in the latter case too. A tentative formulation of the objective could be that the WMG should strive to steer the market economy in a direction of an outcome that

- supports security, i.e. as far as possible protects everyone from systemic harm as well as harm from other market actors.

Liberty and security are part of the ecological inheritance in most countries and are in principle supported both consciously and subconsciously.

\textsuperscript{134} Sen, 2010, 13
\textsuperscript{135} Sen, 2010, ch 6. Open Impartiality is not uncontroversial. On p406 Sen recalls a confirmation hearing with the new US Chief Justice John G. Roberts . Jr, in which he rejects an earlier decision by the Supreme Court because it referred to the reasoning of a German judge.
Equality - a contentious value

FA Hayek recognizes that liberty, equality and security¹³⁶ have been the values that have attracted the most interest from liberal philosophers during the 19th century, but also how difficult they are to define, especially equality¹³⁷.

Equality is a problematic value. Man is definitely not born with the idea that all men are of equal value and deserve the same dignity and respect; those are values that he may or may not have acquired as he grows up. Man is on the contrary born with a brain that creates stereotypes that he attaches to groups of people, to those that are like him, as well as to people who have another colour of the skin, that speak or dress differently, or worship in another way. Prejudice is another word for stereotypes that are irrationally diverse.

Equality is thus a concept with many layers. Equality can for example mean equal rights, equal dignity, equal opportunities or equal outcome. It is not as easy to agree upon as many would wish. It was less than a hundred years ago that it was accepted in Western countries that women could be as suitable as men to participate in the governance of the nation-states and it was hard for the great-grandchildren of many of the former slave owners to accept that black men should have equal rights. I will here discuss some of perceptions around equality and their possible implications.

Equal value

To assign all men equal value is a central thought both in the democratic concept and in the Chinese socialist tradition. For the Levellers and the Puritans, who had a significant influence on the US Constitution, the intrinsic equality of man was a fundamental belief. The Leveller Richard Overton wrote: “all men are equal...delivered of God by the hand of nature into this world, everyone with a natural innate freedom and propriety.”¹³⁸.

The idea of everyone’s equal value is close to Rawls view on ‘justice as fairness’. Central to fairness is to take note of other people’s views and concerns and not be steered by prejudice or vested interests. It is linked to the demand for impartiality in the exercise of power by the public servants. Rothstein and Lindvall see impartiality in the implementation to be crucial to the perceived legitimacy of a regime.

---

¹³⁶ Hayek, 1944, p 208
¹³⁷ Hayek, 1944, p 116
¹³⁸ Woodhouse, 1938, p 69
Equal social rights

The concept equality becomes immediately more problematic when equality is defined as *equal social rights*.

I have chosen to see the rights not as a systemic issue but as a policy question, to be debated in the pluralistic public reasoning that is an essential part of the governance.

Equal outcome

The political scientist Robert A Dahl\(^{139}\) criticizes the concept intrinsic equality for being too weak and argues in favour of a ‘Strong Principle of Equality’ that recognizes the need both for political and economic equality. Held is propagating a ‘Principle of Autonomy’ and argues that autonomy demands equal opportunity to participate in public affairs and claims as Dahl that political and economic equality is a prerequisite. This is a very challenging proposition, which in practice is demanding equal outcome for the citizens both in relation to the public order and the market. We are far from that situation in the modern democracies and it is hard to see how we can get there without imposing conditions on the market economy that are far-reaching and that would alter its character – something any individual nation-state that wants to be part of the global market economy would be unable to do anyway. I also believe it to be a claim that is unsupported by human nature.

Equal recognition

One of the findings around human nature is that our need for recognition is an important driver. But do we need equal recognition? In a contemporary definition by Dworkin\(^{140}\), ‘moral equality’ is to be understood as prescribing treatment of persons as equals, i.e., with equal concern and respect. Humanitarianism, on the other hand, which recognizes that human beings are all of equal value, does not demand that they are treated uniformly in any respects other than those in which they clearly have a moral claim to be treated alike. Stanford Encyclopaedia of Philosophy notes: “Present-day philosophical debates are concerned with the kind of equal treatment normatively required when we mutually consider ourselves persons with equal dignity.”\(^{141}\)

Fukuyama uses the term *isothymia*\(^{142}\) to describe an all-pervasive desire to be recognized as the equal of other people. This is according to Fukuyama a futile desire. While capitalism is capable of creating enormous amounts of wealth it will, Fukuyama recognizes, continue to fail to satisfy the human desire for equal recognition. “With the division of labour come

\(^{139}\) Dahl, 1985
\(^{140}\) Dworkin, 1977, p 370
\(^{141}\) http://plato.stanford.edu/entries/equality/
\(^{142}\) Fukuyama, 1992, p 190
differences in the dignity of different occupations”, he notes. “In prosperous democracies, the problem of poverty has been transformed from one of natural need, into one of recognition.”¹⁴³ But, he argues: “No existing liberal society is based exclusively on isothymia; all must permit some degree of safe and domesticated megalothymia, even if it runs contrary to the principles they profess to believe in.”¹⁴⁴ The market economy gives unequal recognition and it cannot work in any other way. The only option left is to opt out from the global market economy and we all know how unsuccessful such attempts have been.

**Common ground**

Can these different views on equality be reconciled? More precisely: Can common ground be built on how to perceive the relation between the value ‘equality’ and ‘the global market economy system’?

There is an assumption underpinning the value Equality: People are to be seen as ends, as goals, in themselves. It is an assumption that can be broken down in two: Man has himself as an end and, secondly, man should treat other men as ends, not as means. Most liberal philosophers have that in common that they claim that man is an end in himself. Their basic criticism of other alternatives is often that they deny the individual the right to be the best judge of his own fortune. The libertarian Nozick argues e.g. in favour of “an end-state maximizing view”¹⁴⁵ - i.e. that man should as much as possible be seen as an end and not as a means - with the sole restriction that aggression against another being is forbidden. He claims that utilitarianism in contrast is a philosophy in which people are seen as objects, as means.

When trying to apply the value equality on the market economy it is to my mind necessary to withdraw somewhat from the assumption that man always should be seen as an end in himself. There seems to be ample evidence that our expectations are context-sensitive. We have internalized one set of expectations in relation to the public order and another in relation to market. Man expects to be treated as an equal when voting or when in front of a judge, but can do that without demanding to be regarded as an equal in every other sense. Man can specifically accept to be treated as means on the market, if that ensures that his desires are met to a greater extent, as long as he is treated with sufficient respect and, receives sufficient recognition.”¹⁴⁶

¹⁴³ Fukuyama, 1992, p 292
¹⁴⁴ Fukuyama, 1992, p 337
¹⁴⁵ Nozick, 1974, p 33
¹⁴⁶ It should immediately be granted that what is sufficient respect and recognition is an issue affected by the situation of the persons concerned. Sen writes about the Objective Illusion, through which people in awkward situations try to see positive values in the tiniest of recognitions. Sen 2010, p 165
In support of this claim I offer the following evidence:

Human labour is as a means at the market place. Human labour is a production factor, just as land, factories, and other capital. In agrarian countries the land is the most valued factor. Farming represents often ninety per cent of the economies and to own land is to ensure your own support and the future of your offspring. The development of the feudal system was very much linked to the role of land in the economies of the time. Wars were fought to gain land and which of the feudal lords won was decided not in relation to the number of men whose lives they sacrificed, but in relation to how much land they had after the war in order to support future generations compared to how much they had before they entered into it.

When handicraft and trading started to be important those who were the main players in the emerging new economy were given influence, with the implicit purpose to ensure future provisions for the community. With the industrialization the new important production factor was the capital invested in factories and machines, in electricity and transportation systems. Man was initially expendable, a means to an end. The mechanization of the agriculture made most workers unneeded in the country side, forcing them to offer their labour to unhealthy and dirty industries in the cities. Modern democracy in Europe did not begin to evolve until the steady flow of new workers dried up and the workers started to organize themselves.

In a global perspective, the process of urbanisation has not yet finished. It is still on-going in countries such as China and India where millions every year have been leaving the farming areas for work in the cities. During this process, they are in practice means, production factors, non-essential and replaceable.

Agriculture and industry have continued to mechanize in the most developed countries and produce steadily more with fewer employees; agriculture is employing less than three per cent of the total workforce in those countries and industry less than 20 per cent. The vast majority is starting to be employed in the services and knowledge industries and in those the human capital is the totally dominant production factor. Real estate is still a valuable asset in the service economies, especially if it contains natural resources, as is capital and factories that are crucial for industrial production and for export and import, but human capital has for a long time not played such a large role. The term ‘human capital’ is, however, another euphemism for humans as means, and not as goals. Human feet can in principle be replaced by a truck, arms by a robot, and brains by computers. From the perspective of the market humans are exchangeable with other means of production.

Industrialisation and globalisation have not taken place without conflicts. Trade unions and political parties have been created as an expression of anger over disrespect and unfair distribution of wealth. But the workers have seldom demanded a strictly egalitarian distribution of power and resources. They have asked for better conditions as they have felt that their desires have been insufficiently met and that they have been given insufficient
recognition. Seeing the wealth creation potential of an increasingly global economy people in emerging and developing countries have been prepared to make a trade-off between their wish for equal treatment and the fulfilment of their desires. People have recognized the power of capitalism as a means to meet those desires. The reconciliation is that they accept being treated as means as long as their desires are reasonably met and as long as they are met with sufficient respect and are given sufficient recognition. The definition of what sufficient means is context-sensitive and obviously varies over time.

Forty years ago I wrote a thesis on ‘The value of human life in theory and in practice’. The subject was chosen as it was the clearest case of conflict between seeing man as a means or as an end that I could figure out. The result of the investigation was quite enlightening; man is evaluated after his market value when the context is of market character, while he is attached an ‘eigenvalue’ when the context is public services. In other words, by market actors he was treated as a means and by public services as an end. A couple of examples: In the analysis related to traffic safety the cost of the loss of a life has to be evaluated. In the first generations of the macroeconomic cost-benefit calculations, when such analysis became trendy, the loss of human life was valued at the loss of production value. The consequence was that the society gained every time anyone in retirement or close to retirement was killed. When the calculations started to be understood by politicians they reacted and the economists added an ‘eigenvalue’ to the human production value in order to neutralize this effect. Ethical restrictions imposed by the politicians thus ‘corrected’ the economic analysis but they were not part of the original market-based analysis. I also found that there were different levels of safety standards for elevators in industrial buildings and office buildings reflecting the different production values of the blue-collar and white-collar workers. Another example: As part of the war in Vietnam, the Pentagon had to calculate the cost for losing a soldier and they only included the training cost of a new soldier; for a pilot that was quite a high cost; for a foot soldier it was negligible. The soldiers’ lives were means, resources, not goals. That way of calculating has changed as the US public has become much more concerned about the losses of lives.

In publicly owned hospitals that were part of the Swedish general welfare system there was found to be another culture. When having to decide which patients were to be given regular dialysis for kidney failure, or in more concrete terms, which patients would have to die and which were to be saved, the doctors needed ethical guidance. The principles that were followed were that those that had dependent children had the first priority, that young people were given priority over older, and those ‘important’ for society priority over those less important. Important could be anything from a company manager, to a doctor or a painter. The last criterion was the closest to market economy thinking they came.

147 The thesis is only available in Swedish. Dahlsten, 1970
The fact that unrestricted actors are guided by market economy principles, in different countries and in different environments, when they count the value of a human life as the production value, is evidence of the conflict between perception and reality. An unregulated market is not producing the “end-state-maximization” that Nozick predicted.

Another evidence of anecdotal character can be offered: I have been involved in a number of deregulations of public markets and have repeatedly found that people’s expectations change when the service no longer is a public service, but a service offered by a liberalized market. Air carriers were before the deregulations expected to have unity prices that were the same for all passengers. Today, almost no one who is boarding a low-cost airline can tell if he has paid more or less than the passenger on the adjacent seat. Telecom operators had before the deregulations fixed prices; today they vary from company to company, from campaign to campaign. We do not expect it to be in any other way. When a service is offered by a public body we count on equal treatment, when the service is offered on the market we are looking for the best offer.

The reader may ask how these findings relate to the interpretation of human nature that has been introduced. One of the arguments in favour of seeing the global market economy as a separate societal system has been that the market economy relates more to subconscious processes, while a democratic nation-state is demanding more of conscious reasoning. The critical observer may notice that especially the last example shows that we have internalized opinions not only on market-driven services, but also on public services. Why would we otherwise react with anger if a public service provider is treating us in a different way than other users? The first answer is that subconscious processes are involved in almost all conscious reasoning. The subconscious biases are e.g. influencing our actions when we act in the public domain. There is nothing black and white about our relations to the public order and the market. The second answer lies in the stereo-typing that is a typical element of the subconscious processes and is part of our inconsistency. We have all of us internalized some belief of what a public service and a market service respectively should look like, including its relation to the equality aspect. When a service is moved from the public sector to the private market it is also moved from one of our stereo-types to another.

The resolution entails that the concept of equality should not be stretched in a way that comes into conflict with other human needs. That man wants to be treated as an equal in affairs of the state and in front of the law does not imply that he has to be treated the same way when participating in the market economy. This can be seen as an inconsistency, and of course it is, but I prefer to see it as an acceptance of man as he is.

A careful reading of Kant’s second postulate shows that the distance to his views may not be all that far. He does not claim that man should in all respects be treated as an end. He only
claims that man "must be treated never as a mere means but as the supreme limiting condition in the use of all means, i.e., as an end at the same time."\textsuperscript{148}

The WMG should thus strive to steer the market economy in a direction of an outcome that

- supports \textit{intrinsic equality}, i.e. that all men are of equal value and ensures that man, when he is prepared to be \textit{a means to other men’s ends}, in order to better meet his \textit{desires}, is given \textit{sufficient respect and recognition}.

\textsuperscript{148} Kant, Foundations, pp. 437–8.
X. THE LEGISLATOR

The market economy is not very demanding on how we act as participants in the system. There is nothing saying that we on individual basis have to be rational or act in accordance with certain values as long as we follow the rules of the system.

The same freedom cannot be automatically granted those that have the responsibility to govern the market economy system. For the system to be legitimate they have to ensure “an outcome that is defendable to most people given shared values”. I have already discussed some of the demands that should be put on an independent judiciary and on executors within World Market Governance, but the main issue is of course the legitimacy of the legislator as that is where the real power will be located.

The most common proposals for governance of different aspects of the global market economy are, besides self-regulation, democracy and guardianship. I will, for reasons I will explain, add republicanism to the list of models worth considering.

Self-regulation has already been discussed in an earlier chapter and found to be wanting. I have also tried to show why a global democratic government is an impossible dream and would be unsupported by human nature. I will shortly discuss why democracy also is an unrealistic form of governance even when limited to the global market economy. There is finally the alternative with mixed models, such as the European Union. The recent development in the Euro zone has shown the shortcomings of such models. The inter-governmental element in the EU governance would, if it was to be copied, leave the global market economy with a management that has many of the same short-comings as the present governance. Any governance model that demands unanimity and an implementation depending on the will of the individual nation-states would be deficient in addressing the burning issues of the global market economy. We are thus left with two major alternatives – guardianship and republicanism.

Guardianship

A perennial alternative to democracy has, as Dahl points out, been government by guardians, the notion being that ordinary people cannot be counted on to understand and defend their own interests – much less the interests of the larger society. People are just not competent enough. Confucius and Plato belonged to those who saw a system with knowledgeable and trained guardians (or mandarins as they are called in the Confucian

149 Dahl , 1995, chapter 4
tradition) as a better alternative. Confucianism has still a huge influence over the Chinese thinking and Plato’s book *The Republic* has inspired many followers; hierarchy has in fact been a more common way of governing in the history of mankind than democracy. In the thinking of Confucius and Plato, care should be taken in the selection and education of the guardians. They ought to be trained in the art of governing which was seen by Plato as a science. Both Confucius and Plato highlighted their dedication to the common good and their virtue. The citizens, recognizing the excellence of their rulers, were expected to give them their loyalty and support, implying that the guardians were expected to rule with the consent of their people.

The idea of government by guardians has been criticized from different angles. While sharing the view that the people cannot rule on their own, the Republicans have claimed the idea that the guardians would be guided only by virtue and a commitment to the public good to be unrealistic. Democratic theorists such as Dahl have focused on the argument that guardians should have special knowledge claiming that there is scarce evidence showing that some people are more apt to govern than others. He calls this the Presumption of Personal Autonomy: *In the absence of compelling showing to the contrary everyone should be assumed to be the best judge of his or her own good or interests.* Dahl claims first that there is no evidence that moral knowledge should be a science in the sense that there is an ‘objective truth’. His view is supported by our findings regarding human nature. Values are mainly acquired and they are not set in stone. Dahl also attacks the notion that there should be a public good that is anything more than the interests or the good of the persons who compose the collectivity, or are affected by it. While he notes that a person’s interests may be broader than merely one’s private or self-regarding interests, he asks, why human beings should value a human system above and beyond the value it has for them.

Dahl also attacks the guardianship view that some people should have *instrumental knowledge* making them more apt to be decision-makers. Quoting Georges Clemenceau’s famous aphorism that war is too important to be left to the generals he gives a number of examples on military issues with strong moral implications on which generals are no more apt than the ordinary man to make a judgment. He also reminds us of research that has shown that experts are no better at forecasts than people in general.

On this latter point Dahl’s arguments are less convincing. They are basically anecdotal and are contradictory to other modern ideas on how to create efficient social institutions. A well-functioning public order is based not only on the notion that all have equal rights but also on

---

150 Plato went as far as suggesting that the gods had mixed gold in the nature of guardians, silver in the nature of auxiliaries and bronze in farmers and other workers.
151 Dahl, 1995, chapter 5
152 Dahl, 1989, pp 99-100
the heralding of reason over prejudice and science over ignorance. Basic learning and training is generally seen as a social right and general education a prerequisite for an effective participation in public affairs. So why should the knowledge of the individual not matter when governing? The argument is confusing.

It is also easy to find anecdotal evidence that shows that individual knowledge does matter. It is e.g. obvious that some CEOs have been more successful in running their companies than others, that some doctors have a higher success rates in the operation theatre and that trained plumbers, electricians and carpenters do a better job.

Part of Plato’s criticism of the Athenian democracy was that it was a regime of rule by raw, unmediated, uninformed public opinion. Our inquiry into human nature shows that he makes a valid point. When a populous is gathered on a square to make an immediate decision there is a great risk that the judgment will be irrational. People will be influenced by the situation, by the inclination to abide to authority, intimidation, group conformity and other biases. They may end up taking an ‘on-line’ decision rather than making a considered reasoned judgement. The self-justification process ensures that they are unaware of their failure.

The way modern representative democracies work diminishes this risk, at least in theory. As Dahl points out: “Modern democracies, with their elaborate systems of representation, delegation, committee specialization, and administrative expertise, have enormously increased the amount and quality of information and understanding brought to bear on decisions.” It could be added that the system with representatives holds them accountable to those who have elected them. When taking a stance the representatives know that they have to be able to defend the decision to the electorate at a later occasion; at least that is the way it is supposed to work. All these safeguards are in principle supporting a more conscious reasoned decision-making.

The ambivalence in Dahl’s reasoning around the importance of knowledge seems to stem from a theoretical distinction that he makes between knowledge available to the representatives and their own knowledge. His view appears to be not only that all citizens should have the same right to participate in the election of representatives; they are also in principle equally electable and capable of holding office. The individual knowledge is deemed to be of little concern as the lack of such knowledge is expected to be compensated through the procedure. This is a discussion that brings us back to the points made earlier in this chapter around the different understandings of the equality of man.

The unresolved issue around individual competence makes the role and character of the representatives in modern democracies a contentious issue. In many countries with party

---

153 Dahl, 1989, p 77
systems and proportional representation it has been seen as desirable to have candidates that as a group are not only representing but also representative of the electorate. There should be 50% men and women, young candidates as well as older ones, representatives with all kinds of working background, from the countryside, small and big cities etc. The idea is that the parliament should be a “mini-electorate” and the presumption is, following Dahl, that all citizens in principle are equally fit to govern.

Other countries, which also regularly have political parties, have procedures in which the electorate chooses between different candidates. The presumption is that it matters who is President, Governor or Mayor and that not all candidates are equally fit to hold office even if they have similar ideas. Such representative democracies have combined the ideals of the Athenian democracy with the idea of guardians. Instead of being selected by the gods as proposed by Plato, or their predecessors as proposed by Confucius, the guardians are elected by the citizens. Also democracies with proportional representation have come to accept that individual knowledge and abilities matter and ministers are therefore often chosen outside the parliaments.

The return of guardianship as an element of the modern democracies is bolstered by the mounting complexity of the societies and the increasing role of the public sectors. This development is putting demands on the politicians that they sometimes have difficulties to live up to. The politicians are in many fields feeling forced to leave the real decisions to experts, giving them only vague direction through legislation. Dahl is arguing that policies should remain with the legislators and that the delegation to experts should be restricted to the choice of means. But the reality is different. The delegation has in many cases gone quite far. This development is especially present when it comes to the market economy. In most democracies the elected representatives have abstained from regulating the money market and left it to the Central Banks to make the decisions. The decision-making Governors of those banks consist regularly of seasoned experts with a long experience of the functioning of the financial markets. The presumption is that there is an objectively best way of managing the market and that the selection of a group of independent guardians is the best way of ensuring that objectively correct judgements are made. This way of thinking has also influenced the organisation of global institutions such as the World Bank and the IMF. Dahl recognizes this development and concludes later: “With respect to decisions on crucial international affairs, then, the danger is that the third transformation will lead not to an extension of the democratic idea beyond the nation-state but to the victory in that domain of de facto guardianship.”

\[154\] Dahl, 1989, p 320
The second return of unchecked capitalism

The few and the many

Ever since Plato and Aristotle the role of the ‘few’ has been a contentious issue. It seems that all countries in all periods of time have had a tendency to develop some sort of aristocracy, oligarchy, nomenclature or whatever the ‘few’ might have been called. In the earlier days the ‘few’ were owners of physical property, of real estate, and they were often easily identifiable and recognized.

The issue is now that the development has created a new group of ‘few’, this time defined by their financial assets, and that this group has a vested interest in the governance of the market economy, an interest that may differ from the interest of the ‘many’. Karl Marx would have claimed that the answer to the question is obvious. A capitalist economy creates capitalists and they are getting increasingly powerful if their power is not hampered. There is nothing really wrong with this analysis; the problem was that the prescription did not work. Marx’s mistake was to believe that you could plan the economy top-down. Lenin’s that he, in order to move into a society without the ‘few’ - the society of dreams - saw the need for a guiding role of the enlightened Elite. One of the faulty perceptions were that the ‘few’, the nomenclature, would be prepared to give up their new-won privileges; as we all know, they were not.

The tendency of all societies to develop a group of ‘few’ has been mostly ducked by democratic theorists, the assumption being that the problem can be handled through social engineering or by a radical transfer of economic resources from those with too much to those with too little. The claim of this inquiry is that the idea that nation-states could master the global market economy that way is presumptuous and that it is unlikely that a global ‘super-democracy’ will ever develop.

The interesting libertarian economist Tyler Cowen has gathered some data on the surfacing of the new financial elite in the US. The "share of pre-tax income earned by the richest 1 per cent of earners has increased from about 8 per cent in 1974 to more than 18 per cent in 2007. Furthermore, the richest 0.01 per cent (the 15,000 or so richest families) had a share of less than 1 per cent in 1974 but more than 6 per cent in national income in 2007". Based on partial financial records one will "find a very strong role for the financial sector in driving the trend toward income concentration on the top. For instance, for 2004, nonfinancial executives of publicly traded companies accounted for less than 6 per cent of the top 0.01 per cent income bracket. In the same year, the top 25 hedge fund managers combined appear to have earned more than all of the CEOs from the entire S&P 500. The number of Wall Street investors earning more than $100 million a year was nine time higher than the public company executives earning that amount".155

______________________________

155 Cowen, 2011, pp 2, 4
It can be seen as being in the interest of these, the ‘few’, to keep the myth of the rational economy led by an invisible hand alive. The myth ensures that the governance of the market economy is seen as a ‘technical’ issue best left to experts; it also ensures that no demands stemming from ethical values are put on the guardians. As a consequence there will be few restrictions on the possibilities of the ‘few’ to enrich themselves further. As most people want to see themselves as moral beings with high ethical standards the easiest way to reconcile the personal ‘greed’ and the ethical values is to support the myth; the self-justification processes that are so forceful are helpful in achieving such a reconciliation; capitalists don’t have to be acting in bad faith, even if many do; they may just fool themselves. There is an old saying that ‘the interest never lies’; a more proper formulation given contemporary findings about human nature is that ‘your interests may make you believe anything that helps you manage a cognitive dissonance’.

The fact that the old consensus culture is supported by the interest of the ‘few’ is important to grasp as it defines the uphill struggle for change. The link has been strengthened by the common background of the guardians and the economic elite. They are all most likely to have studied in the same business schools. Such personal links reinforce the group conformity. Many informal meeting places and societies have not only a social role; they also reinforce a common view. Similar forums have been created on a world-wide level in the wake of a more and more global market economy. The World Economic Forum and the Bilderberg Group are two examples of such places for the exchange of views across national borders. There are many conspiracy theories around those meetings; some even claim them to be meetings of a ‘Secret Society’, a form of informal ‘World Government’. As a participant in many such meetings I can testify that this perception is faulty; if anything the meetings share best practices, allow for diverse views to be debated, and create awareness of common problems. The fact that many participants listen more to some of the arguments is more due to the preset minds with which they attend the meetings than how the meetings are organized. The reinforcing role of these conferences on common perceptions is much more subtle than the conspiracy theorists realize, and the sceptics can be reassured that the present crisis has created vivid debates at these kinds of meetings.

A developed guardianship of the global market economy is against this background unlikely to be regarded as legitimate “by most people”. Given the history there will be a suspicion that the guardians will give priority to the interests of the few. However, everyone is in my mind better off accepting the reality that the combination of best practice systems that we in the Western world embrace, democracy and market economy, with necessity will lead to the emergence of a financial elite with resources to influence both how the markets work and the democratic decision-making; man is after all prepared to be treated as a means if sufficiently respected in order to get his desires met and he accepts that there are those who may be more lucky on the market. The influence of the few on public affairs, especially the functioning of the markets, is a price that has to be paid if everyone wants to benefit from the wealth-creating capabilities of the market economy. It is to an external observer obvious that the US
democracy already works in such a way and that it balances the interests of the many and the interests of the few.

It should also be noted that while people may react negatively to an order in which only the interests of the few is taken into account, they are likely to react negatively also towards an order in which citizens of all nationalities are given the same influence regardless of the size of the economies. The development in the Eurozone is in this respect offering some valuable insights. It is clear that the German population would feel it “unfair” if the Greeks and the Italians had been given the same influence during the handling of the Eurozone crisis. A representation of the “many” cannot be based on the “one man - one vote” principle”. The representation principles have to take into account that the nation-state is the level that we humans most strongly identify ourselves with and we would find it discriminating if our collective voice did not reflect the relative strength of the nation-states.

The conclusion is thus not that a global governance should be created that breaks the power of the few; what is needed is a global governance structure that recognizes not only the interests of the few, but also those of the many, interests that also are quite legitimate, and that have to be represented in a way that is perceived as fair. This conclusion speaks in favour of some form of republicanism.

**Republicanism**

An alternative governance model to guardianship, classical republicanism, stems from the Greek philosopher Aristotle. If anything the concept was inspired by the Spartans, the enemies of Athens. The followers of Aristotle have been as critical of the Platonian guardianship as they have of the Athenian democracy. In both systems they have seen a risk for corruption. Power can corrupt the guardians, but so can direct democracy its proponents. Demos is not a homogenous body with identical interest; above all Aristotle saw a conflict of interest between an aristocracy with physical and other properties and citizens without such assets. The risk was, as he saw it, that a ‘corrupt’ majority would illegitimately bereave the aristocracy of its rightful property. He proposed a model that balanced the different interests: a democratic and popular element, an aristocratic or oligarchic element and in the top a monocratic or monarchical element, a ruler driven by the ambition to enhance his own position, status and power. The classical republicanism can thus be seen as a rule of the one, the few and the many. The republican Rome with its system of consuls, senate and the tribunes of the people is an example of classic republicanism as is the Republic of Venice. During the Renaissance Francesco Guiccardini and Nicolo Machiavelli rediscovered and reshaped republicanism, from partly other perspectives. They saw the necessity for the feudal ruler to gain consent both from the aristocracy and the public. In the eighteenth century the British adopted a ‘constitution’ in that spirit. The sovereign monarch shared some of his power with a House of Lords and a House of Commons. Baron de Montesquieu belonged to those heralding the system as an epitome of a perfect balance.
The Enlightenment and the liberal philosophy that followed in its footsteps paved the way for a new more radical republicanism. Hinted at by Machiavelli and proposed early by John Adams in America, radical Whigs and later by Thomas Jefferson these republicans put the citizens in the centre of their models, not the monarch. They saw the prospects of good government in the qualities of the people and wanted to balance the power of the single monarch or the few, while they agreed with the classical republicans that concentration of power is always dangerous.

Democracy was not a self-evident alternative for the founders of the US Constitution. They were influenced by Rousseau and Locke, who were far from being proponents of a purely popular rule, and they were influenced by the thinking of the republicans, especially the British. The British system was, however, a model not easily transferred to the young American federation. Without a king and without a natural hereditary aristocracy the founders had to look for inspiration from other sources. They found it in the thinking of Montesquieu who proposed another way of avoiding concentration of power – the constitutional and institutional separation of powers in three main branches: legislative, executive, and judicial.

In the US version the legislative members of the Senate and House of Representatives are elected, as are the Executive President and the Vice President. The most prominent judges are however appointed by the President after the selections have been confirmed by the Congress. The members of the Supreme Court, who are appointed for life, see themselves as the Guardians of the Rule of Law and of the US Constitution.

The findings around human nature that have been highlighted in this inquiry support to a certain extent a republican approach to the governance of the market economy. It has already been pointed out that a democracy in which people are represented through elected officials has an advantage in relation to direct democracy, where people vote themselves, namely accountability. Representatives are accountable to the electorate, which makes them more likely to reason rationally and in a way that is defendable logically. Republicanism offers two other safeguards. The first was highlighted already by Aristotle; with bodies with different interests there is less risk for corruption. The second is that the separation of powers in different bodies with diverse objectives and dissimilar accountabilities will counter the risk for a destructive ‘consensus’ culture. How strong the self-justification process is on collective level is one of the most stunning findings of contemporary research. It is to my mind quite obvious that the consensus culture that developed among the guardians of the financial markets had a detrimental effect and that there is a lot to learn from the republican thinking. Modern democrats and radical republicans alike have thus good reasons to question the guardianship model that has been adopted when it comes to the governance of the financial markets.
China also seems to be slowly moving from a guardianship model to some form of republican model. The Party is still in charge of the State, the Armed forces, the Propaganda, and the Appointments of officials including Judges and Executives in the important state-owned companies. There are no built-in checks and balances. The situation is, however, developing in two ways: The Party has expanded its recruitment base to include successful students and entrepreneurs. It has also created what some perceive as a Second Chamber to the People’s Congress consisting of several thousand representatives of the business community.

**Legislative Assembly**

The WMG with legislative power would need a legislator, a *Legislative Assembly*. Following the republican thinking such an assembly could have two chambers that represent “the few” and “the many”. A system with two chambers is common in many nation-states. One of the chambers in democracies usually represents the citizens in a more direct way, while the other chamber has the purpose of adding to the checks and balances of the system. In federations the second chamber often represents the interests of the different states as is the case in the US and in Germany. The European Union has a similar construction. With the new treaty almost all legislation demands the approval both of the directly elected Parliament and the Council of Ministers that represents the interest of the nation-states. There are other two-chamber systems. The UK House of Commons represents the citizens and the House of Lords represents both the aristocracy and the meritocracy. This is a reminiscence of the old Republican order with a representation of the ‘many’ and the ‘few’. As one of the purposes of the WMG model is to replace a model of ‘Guardianship’ with a more elaborate governance structure, which also gives a reasonable representation to the interest of the ‘many’, there are reasons to be inspired by the model with two chambers, of which one represents ‘the many’ and one gives those with special market positions the confidence that their interests will not be overlooked.

In *the House* the recognized market economies could be represented in relation to their economic strength. That would initially give a strong voting power to the US, the EU and Japan - a voting power that over time will diminish as emerging economies will get an increased share of the votes. A voting power that does not take the populations into account can be seen as unfair, and too much in the Westphalia spirit. It is, however, a much better alternative than veto powers that could block and delay necessary decisions.

To gain support for the WMG from seasoned economists and to ensure that the interest of the ‘few’, those that have the highest stakes in the market economy, is taken into account, one could consider a second chamber, *the Senate*. The senators could be recognized senior experts e.g. central bank governors, regulators, researchers, senior industrial leaders and labour market actors. The Senate could have similar powers to those of the British House of Lords; it could e.g. offer opinions on legislation and in case of difference in views influence or delay a
decision by the House. As the process is public the real influence of the Senate can be expected to be larger than the formal one.

There are several advantages with a Legislative Assembly. One is that it is a much quicker way of reaching results than through negotiating new conventions that need ratifications by every single participating nation.

Another advantage is the public character and the media scrutiny. Even if people are not represented in a formal democratic way they can follow the debate and they can in democracies put pressure on their elected representatives to act in accordance with their interest when representing them in the Assembly. The Assembly should not be too large. It should be possible for people to identify the representative or representatives for their countries and how they are voting as that would increase both transparency and personal accountability.
XI. WORLD MARKET CHARTER

A process leading to World Market Governance has to start with negotiations between the nation-states that are expected to be the signatories. No other way is possible; the nation-state is the only level, due to its constitutional role, that can give the WMG the necessary authority and power.

I propose that the treaty, which is a necessary result of any meaningful negotiations, is given a higher status, the character of a charter, proposed to be named *World Market Charter*. A first task for the negotiators is to define the territoriality of the global market economy – a *World Market Area*. To be part of that area it would be natural if a country had to meet the requirements that the WTO has set up for a recognized market economy. An obvious precondition is that the country agrees to abide by the market legislations decided jointly in the community order. If it does not, it should risk exclusion. A third criterion could be that the country should belong to a currency regime that is flexible and convertible so that imbalances within the area can be levelled out. This is a criterion that obviously need careful considerations.

A Charter would also need to establish *shared values*. The value-base is imperative for WMG to obtain reasonable legitimacy in the eyes of the general public. My assumption is that it ought to be possible to reach broad agreement on the reconciled values as described earlier. The *objectives* of the governance cannot only be technical as the overall role of the market economy is to contribute to the life, health, well-being and property of the population within its reach. There are also issues related to long-term sustainability and mutual benefit. The scope has to be broad enough to cover all the aspects of the global market economy that needs to be addressed. There is clearly a need to stretch the scope further than the areas covered by the present or planned international governance, i.e. trade and to some extent financial regulations. The most urgent issues are related to the financial markets, where a more developed international regulation is absolutely vital if a new meltdown is to be avoided. However, there are many other areas that ought to be covered, such as environmental externalities, exploration of natural resources and consumer and labour protection.

The objectives have on the other hand to be restricted. An overall purpose of the WMG is to find ways of strengthening the nation-states. The WMG should not be seen as a step towards a World Government. The Charter has to be as clear about what is out of the scope of the governance as what is within it. Domestic problems should be possible to tackle on a national level. No intrusion should be made on the role of nation-states to provide social programs and institutions in line with the expectations of their populations and their cultural values and traditions.
It can be expected that the discussions around the necessary border line can become vivid and influenced by different national interests.

A way to overcome the negotiation hurdles can be to follow the route of the European Union and agree on different majorities in the Legislative Assembly on different issues. While it may be obvious to most that binding and coherent regulations of the financial markets are urgent and need to be possible to decide upon with, say, a 60% majority, the signatories may agree that regulations on the purchases and sales of assets and on trade at least initially would require a more qualified majority. When WMG is in place and the trust in the institutions is increased a mechanism that would move an area within the overall scope from qualified majority to “normal” majority could be envisioned. Such a decision could e.g. be taken with a 95% majority by the Legislative Assembly.

There are many existing conventions covering different aspects of the market economy. They concern everything from trade, financial markets and exploration, to labour market conditions, maritime issues and environment. Such conventions can be partly integrated in a Charter, but the Charter cannot be expected to have the same clear language or scope as those conventions; the Charter will be the basis for binding legislation, while most conventions have a less formal implementation procedure. Countries can be expected to be much more careful in agreeing to an objective that is enforceable than if it is just an expression of a generally desirable state.

The governance structure, here proposed to include not only a Legislative Assembly, but also a Judiciary and some executive elements, can also be expected to demand lengthy and difficult discussions, but it seems likely that they could lead to an acceptable compromise, if the issues around objectives and decision rules are overcome.
XII. PRACTICAL EXAMPLES

How would the WMG work in practice? How can it address the challenges that the global market economy is facing? Those are relevant questions, but the inquirer is unlikely to find more than very partial answers in this discussion. The purpose has been to find an institutional way forward, not to prescribe a recipe for the contents of the decisions that could be taken by the Legislative Assembly. But it could still be worthwhile to indicate how the WMG could address some specific areas. The tentative exploration is not intended to be exhaustive or rank the areas of concern. The purpose is only to illustrate possible approaches of the WMG. In other words: What could a Rule of Law with a Legislator and a Judiciary add to the present inter-governmental order?

A functioning financial market

The benefits of capital mobility as argued by the IMF and other members of the Washington Consensus is that it allows global savings to be allocated more efficiently, channel resources to their most productive uses and thereby raise economic growth. The Keynes’ generation of economists that created the Bretton Woods system agreed with the objective but had another view on the means. They wanted to promote trade, but put a limit to the possible damages on the world economy by the free flow of “hot money”. The role of finance is now under debate and there are many economists who have started wondering whether Keynes’ generation did not have a point.

There are many concerns.

First, it is made clear by the 2008 financial crisis that market actors with global reach who have gone astray can create considerable damage to the international financial system. The free trading is spreading financial “diseases” like a plague around the world.

Second, the markets have often created runs against states. The common wisdom is that those runs are rational as they punish the misbehaviour of countries, and it is clear that Germany has used the market forces to install fear and remorse in unruly Southern European nation-states. But they have been playing with fire and there will ultimately a price to pay for everyone. The liberated market forces cannot be expected to be turned on and off at the will of political leaders. If you reflect at hindsight on the run against the pound that forced it to leave the ERM and the run against the South-East Asian countries in 1996 it is far from clear that the runs were rational. Jeffrey Sachs and other economists have looked into the South East Asian case and have found no rational base for the market stampede.
Third, there is a “financial elite” with enough resources to create financial turmoil that they can exploit. A recent public example is how a well-known financial actor suddenly sold off silver and the market price dropped radically, which affected substitute commodities such as gold. He then turned around and started to buy precious metals in droves before the markets recovered to the old level, making a multibillion gain in a day or two. It is also clear that the Eurozone crisis has deepened as financial actors have seen a possibility to make fortunes on speculations in bonds issued by sovereign debt laden countries. To buy and sell futures or similar instruments based upon the underlying assumption that the interest rates will go up has been a safe bet, a self-fulfilling prophecy.

A laid-back analysis shows that it is not the countries who are the most debt-laden (if public and private debts are added together) and who have the weakest public finances, which are the subjects of the market speculation. If that had been the case the US and the UK would have been in deep trouble. The speculators run when they smell political indecisiveness and weakness. In the case of the US and the UK they know that the governments can respond to any runs by increasing the money supply. The European approach, which has been to follow and not to lead the markets, has on the other hand been a wonderful playing-ground for the financial actors. If the EU decision-makers had hit the market day one with the sledgehammer instead, we would have had a quite different development. There are those that wanted the crisis to evolve to “punish” the offenders, but the lack of political will is also due to the inter-governmental order. The politicians have to answer to their domestic constituencies and their perceptions and not to the Europeans as a group.

Third, banks are supposed to borrow short and lend long, but as the financial markets have become more “sophisticated” the possibilities to make money on short placements widely outweigh the “boring” financing of real investments and small businesses. The “new” departments of the banks are where you can make the six- or seven-figure bonuses and that is where all “the-best-of-the-best” of the young talented economists from the business schools are heading. The big money is made not on entrepreneurship, but on the short-term financial markets. The objective of the liberation of the financial markets, as described by Fischer et.al, namely to better allocate money in the real economy, has become a neglected side business.

Fourth, there are few mechanisms to stabilize the markets. There is no lender of last resort. The IMF was not created to handle a crisis emanating from a malfunctioning of the financial market in its largest member states. In an era of globalization where there is an increasing demand for financial stability and clear rules the international financial institutions have no authority.

Fifth, there is no sustainable currency regime. The present situation in which some countries are assembling huge saving surpluses while others are large borrowers is not sustainable. Currencies are perceived to be manipulated, creating a market volatility that is tampering business and destabilising the global economy.
Sixth, there is no global financial regulator. The G 20 has only so far been able to agree upon increased cooperation. Central bankers and financial regulators meet to discuss but there is no whip forcing them to binding conclusions; many issues are left unsolved, such as the third-party risks and asymmetric information.

Seventh, governments are now, just as during the Great Recession, focusing on how to satisfy the financial markets and not on how to decrease unemployment and satisfy the needs of their citizens. It is a situation that is under-mining the legitimacy of both the governments and the global market economy. The political system has to become the governor of the global market economy and not its servant.

In what way could the WMG contribute to solving the problems? Is not the issue, to quote Cameron, if there is political will? There is substance in his objection, but it is not the whole truth. A WMG legislator could take a more global view on these troublesome issues and would be less bound by national considerations. Evidence of the credibility of that assumption can easily be offered: It is e.g. quite obvious that the members of the European Parliament feel less restrained by such considerations than their colleagues in the national parliaments. A Legislative Assembly can also act more promptly without having to take a pro-longed ratification or implementation process into account.

**Trade**

The market economy has a global reach. The WTO is the only organization with authority that matches that reach, which makes the WTO different from e.g. the IMF and the FSF. If the trade agreements that have been signed in the WTO system are breached the trading partners that have been damaged can be given the right to retaliate after an open legal process in which all parties are heard.

The free trade agreements are starting from the presumption that there is no free trade between nations. The process of opening up the markets have been driven both by the conviction of those involved that free trade will make everyone better off and by the principle of reciprocity: “I open up my markets if you open up yours”.

Most industrial products are today covered by trade agreements that ensure more or less free trade. The same is true for most commodities. In agriculture and in services, however, the level of protectionism is still very high. To move forward towards a more liberalized services market has been one of the main objectives of the still on-going Doha round. It can be noted that the global leaders in the G 20 meetings have repeatedly committed themselves to conclude the round.

The question is in what way an added layer of the Rule of Law would help?
The first answer to that question is that the process for approval of the trade agreements would be altered. They would no longer have to be ratified by all the WTO countries, but could be turned into law by the Legislative Assembly. The majority needed would be agreed upon in the World Market Charter. One could expect it to be quite qualified for the more far-reaching type of agreements, but as there would be no demand for unanimity no single country (with the exception of the largest stake-holders) could block an agreement. In short, it would be easier to make progress.

The second answer is that international legislation could direct how bilateral agreements can be allowed to look like and be enforced. Such legislation would contribute to a more transparent and fair trade.

**To buy assets**

It is hard to see the principal difference from a trading point of view between buying goods and buying assets, such as shares and properties. The transactions are about allocating resources in a way that creates the most value. However, the right to own assets in another country is in principle not covered by international agreements. If there is any presumption it is the opposite one to the trade of goods; it is generally allowed to buy any type of assets if not prevented by laws in the country concerned. The issue is that those laws as well as the public opinions vary quite a lot. Foreigners are e.g. not allowed to own a majority stake in an American airline and the purchase of ports by Arab funds has created negative reactions. China is protecting many sectors from foreign investments, especially sectors dominated by old state-owned companies. European leaders are expressing concerns about foreign governments investing in critical infrastructures in their countries, in some cases even when those governments happen to be partners in the European Union.

The oil-rich countries have started Sovereignty Funds that have worried the public opinion as they have the resources to buy up major assets. At the same time the American and European public opinion is illogically it may seem - in favour of their companies buying businesses in the Asian economies; the West as well as China is incentivizing and pressing Arab and other developing countries to allow their companies to get the right to exploit energy resources and raw materials such as oil, gas and metals.

The lack of a coherent international framework has created a number of unnecessary international clashes as globalization is moving on. There is a need for a global law and order also when it comes to the acquisitions of assets. One responsibility of the WMG could therefore be to negotiate a multilateral agreement on the right to own assets in another country. It could, as the trade agreements, be based on the principle of free and open markets and on reciprocity. Such an agreement, that could be turned into law by the Legislative Assembly, would counter the development towards violent confrontations where in many
cases the right to own assets is the underlying reason for the conflict. It would probably be helpful if the negotiations came to be connected to the overall trade negotiations. When a law is approved the nations would be forced to follow it and the Judiciary would ensure that they do.

The WMG will not be able to solve all global conflicts related to the right to own assets in another country as all countries will not be members, but the WMG would be able to establish an international standard, a standard that if necessary could be enforced on states that are not recognized market economies.

**Competition, intellectual property rights and sound trading practices**

Effective international competition demands clear rules and a level playing field. The competition legislations of individual countries and trading blocks are partly overlapping, partly in conflict from the perspective of international companies and entrepreneurs. The same is true for intellectual property rights such as patent law. And as Rodrik points out: “Many domestic regulations and standards discourage cross-border transactions, even when they are not primarily aimed at raising barriers to trade. Differences in national currencies, legal practices, banking regulations, labour market rules, food safety standards, and many other areas raise the costs of doing business internationally.”156 International legislation and a Judiciary that can enforce common conditions would be a great step forward.

Corruption is also all too common and difficult to out-root, even in many democracies. An international legislation around trade practices may help in advancing the fight against corruption.

**The market actors and the environment**

The protests against the WTO have many roots. Some of the protesters seem to be governed by pure self-interest, but there are also those that raise their voice for very good reasons. They want e.g. to stop climate change, the melting of the Arctic ice, they want to stop the destruction of the rain forests, the spreading of the deserts and the pollution of air and water. And their concerns are justified; a functioning market economy must live in harmony with nature.

The best way to tackle this type of externalities is to integrate them into the market system. International legislation could ensure that proper prices are set on negative environmental

---

156 Rodrik, 2011, p 20
effects; it could outlaw the trading in goods and services that have unacceptable environmental effects. The Judiciary can ensure that the legislation is followed.

To tax the wealthy and avoid regulatory arbitrage

Financial regulations in the form of international legislation would effectively block regulatory arbitrage on the financial markets. However, similar problems need to be solved also in other areas. The weave of international tax agreements, especially double-taxation treaties, is extremely complex and to follow the threads is almost impossible, but for those who have the incentive and the resources to look for loopholes. One area of importance for the nation-states is the domiciliation of companies and citizens, i.e. to decide where and how the subjects should be taxed.

International legislation that harmonized the relations between different countries tax systems and regulated domiciliation would be a major step forward to a more fair taxation of wealthy and less wealthy citizens and companies.

The conditions for the developing countries

Franklin D Roosevelt famously said 1944: “People who are hungry, people who are out of a job are the stuff of which dictatorships are made.” To quote Barack Obama: “Nobody likes being poor or hungry, and nobody likes to live under an economic system in which the fruits of his or her labour go perpetually unrewarded.”157 A state with a system that does not meet the basic needs of most of its population is not a stable state. Many claim that the Western World never can feel safe as long as so many are living in states that do not deliver full benefits to their citizens. Therefore, they claim, there is a need to spread good governance around the world, introduce citizens to market economy, fight corruption and create the rule of law. But the way to do it is not simple and when the motives are blurred the efforts may be futile.

Many in the world who are living in poverty are living in countries that sometimes and somewhat misleadingly are called developing countries. The truth is that there are few of the countries that really are developing and that many of them are going nowhere. They need the support and the solidarity of the developed countries and the cost to eradicate poverty would in a global perspective be negligible.

There is no need to reinvent the wheel. There are already many actors involved, development aid agencies, churches, charities and the like, actors that are better suited for the purpose. The

157 Obama, 2007, p 315
UN has also many branches that are engaged in development aid. Most of them have the principle one country-one vote, which gives the development countries a decisive say on the organization of the aid. The UN family has many faces – the World Health Organization (WHO), the UN Development Program (UNDP), The Food and Agriculture Organization (FAO), the UNICEF to mention a few of them. The World Bank that is formerly outside the UN family has acquired the legitimacy to coordinate development aid in many cases; the Bank has also introduced new schemes to support investments in infrastructures. The G 20 has during the financial crisis tried to ease the credit squeeze for developing countries, who have found it increasingly difficult to get credits, by committing more support via the IMF and the World Bank. The Chinese has also supported own channels with the same purpose, the Asian Monetary Fund and the China Development Bank.

Few developing countries can be expected to be members of the WMG, but the WMG could take steps that would enhance the situation in the developing countries.

The most important would be to conclude the Doha Round in the WTO-negotiations in a way that gives the developing countries the chance to export their agricultural products on fair terms. A change of the so called TRIPs would, as mentioned before, give the developing countries the possibility to export also other products on more equal footing. The trade regime could in addition include demands on environmental and labour conditions that would prevent the exploitation of nature and people in the developing countries.

A further supporting action would be to increase the global fight against corruption. Unconditional and generous development aid seems to corrupt the rulers, which became evident at the downfall of some of leaders in the Arab countries during the “Arab Spring”. One striking example: While the common Egyptian is worse off than twenty years ago, the unseated ruler and his family had gathered a fortune that out-sizes the generous help from US taxpayers during the same time period. If corruption is going to be effectively addressed, it is putting a pressure to act also on the developed countries. We Europeans need, to start with, stop putting a blind eye to what is going on in our own union. Corruption has to be fought, and fought hard, if the populations in Greece, in the South of Italy and in many new member states are going to improve their conditions.
XIII. FROM VISION TO REALITY

My objective has so far been to make a case in substance. I have tried to provide evidence that the global market economy is an emerging societal system that is in urgent need of effective, transparent and comprehensive governance. The remaining question is if the vision of World Market Governance can become reality. I have, as I have already indicated, no simple answer. Insightful global leaders could contribute by raising interest among their peers, but that is not enough to create the right conditions. What is needed is for those who support change to win the fight in the public information space. It seems to me that necessary steps forward are to engage the civil society and the business community in awareness raising and the creation of alliances and to use the new media in that effort. To counter a climate of suspicion it is critical to involve China and other BRIC countries in all levels of discussions.

It would be natural to build alliances between different “think-tanks”, traditional ones as well as new ones, and also involve financial regulators, environmental experts and the research community. The purpose of such alliances would be to spread knowledge and create the necessary space for the political sphere to act.

There are many Non-Governmental Organisations (NGOs) who are engaged in global issues, such as climate change and development aid, and that are frustrated about the lack of decision power on the global level. For those NGOs to be able to interact with a governance structure that is transparent and has decision powers could be perceived as a major step forward.

It is clearly not enough to create the necessary change in the political climate to mobilize the civil society in the form of the researchers, think-tanks and NGOs. The ideas must also find support among the market actors. Clearly, the global industrial actors are the ones that have the most to gain from coherent and stable global market governance. The business opportunities are enormous. The technological progress under way is fantastic and new technical solutions to the problems the world is facing are developed every day. Green cars, solar energy, new solutions to the need for clean water, novel sewage and garbage treatments, new drugs and medical applications – the list of new inventions is endless. But to reach the users they need a functioning market. Industry is dependent on level playing fields and on predictability and it suffers when the global economy is moving from crisis to crisis. Common rules for competition, intellectual property rights, exploration rights, and the rights to buy assets would be welcome by most global industrial actors. A financial regulatory regime that creates predictability and gives priority to the main objectives of the banks, namely to give returns to savings and to finance business and sound investments, would also be in the interest of most of the industrial actors. The involvement of business organizations in the discussion is imperative.
Finally, to gain support among the decision-makers and from the financial elite is not enough. The citizens must support the idea and believe that the global market governance is established in their interest and not another "scheme" by the financial elite to enrich themselves. They must come to understand that such governance would not interfere with their right to decide social and other conditions within their own culture; that it on the contrary would support national and regional sovereignty.

To create the political space for action is not an easy undertaking; it will take patience; in the worst case it will take a new crisis. Meanwhile the globalisation process is moving on at a rapid speed; if governed the right way it can benefit the whole of mankind, if not we may face an unprecedented backlash.
XIV. REFERENCE LIST


José Maria Aznar, Rafael L Bardazi, Florentino Portero, NATO: An Alliance for Freedom, FAES Fundación para el Análisis y los Estudios Sociales, 2005


Michael Billig, Arguing and Thinking. A rhetorical approach to social psychology, Cambridge University Press, 1987

Lord Bingham of Cornhill, Speech on November 16, 2006 for the Sir David Williams Lecture in the Law Faculty of Cambridge University


Bodenhausen, Macrae & Sherman, On the dialectics of discrimination: Dual processes in social stereotyping in Chaiken & Trope (Eds.) Dual-process theories in social psychology, Guilford Press, 1999


David Brooks, DN, 28 october 2009

Harold Brown, Rationality, Routledge, 1988

James Bryce, Modern democracies, Macmillan Companies, 1931

Jimmy Carter, The Advertiser (Australia), 28 May 2005


Gerald L Clore and Linda M Isbell, Emotion as Virtue and Vice, p 116-118 in Kuklinski (ed), 2009

Robin Cook, Guardian, 27 May 2005


Robert A Dahl, Democracy and its critics, Yale University, 1985

128
Ulf Dahlsten, *Market Economy, Democracy and Human Nature*, i2010, Other Reports
Amos Elon, interview with Ari Shavit, Haaretz, 23 December 2004
Stanley Fisher, *Capital Account Liberalization and the Role of the IMF*, Presentation at the seminar on Asia and the IMF, Hong Kong, September 19, 1997
(http://www.iie.com/Fischer/pdf/Fischer144.pdf)
Trust, New-York Free Press, 1995
Gonzales v. Carhart, 550 US, 2007
A.M. Gray, Marine Corps Gazette, May 1990
Samuel R Gross et al., *Exonerations in the United States, 1989 through 2003*, Northwestern University, School of Law, 2004
Jürgen Habermas, *On the Constitution of Europe*, Ersatz, 2011
Peter Hall and David Soskice, *Varieties of Capitalism*, Oxford University Press, 2001
David Held, *Democracy and the Global Order. From the modern state to cosmopolitan Governance*, Polity Press, 1995
David Hepstein, *The Political Theory of the Federalist*, University of Chicago Press, 1984
Thomas Hobbes, *Leviathan*, I 1, ebooks@Adelaide, 2007
David Hume, *A treatise of Human Nature*, London (Noon), 1740
Fred E Inbau, John E Reid, Joseph P Buckley, and Brian C Jayne, *Criminal Interrogation and Confessions*, Jones and Bartlett Publishers, 2004
Johannes Lindvall and Bo Rothstein, Väg till Välstånd, SNS Förlag, 2010
George E Marcus and Michael B MacKuen , *Emotions and Politics: The Dynamic Functions*
of Emotionality, published in James H Kuklinski (ed.) Citizens and Politics Perspectives from Political Philosophy, 2009


Harper Collins, New York 2010

MacGwire, International Affairs, January 2005

Jeb Stuart Magruder, An American Life: One Man's Road to Watergate, Atheneum, 1974


George E Marcus and Michael D Mackuen, Emotions and politics. The Dynamic Functions of Emotionality, Kuklinski (ed), 2009

Ivana Markova, Human Awareness. Its social development, Hutchinson, 1987


Abraham Maslow: Toward a psychology of Being, Wiley, 1968

Richard McNally: Remembering Trauma, Belknap Press, 2003


Judgson Mills, Changes in Moral Attitudes Following Temptation, 1958, Journal of Personality 26

Friedrich Nietzsche, On the Genealogy of Morals, A Polemic Tract, Reprinted by Richer Resources Publications,

Robert Nozick, Anarchy, State and Utopia, Basic Books, 1974,


Yannos Papantoniou, The Lessons of the Euro zone Crisis That Should Shape the EU's G20 Stance, Friends of Europe, Spring 2011

The Peacock Committee, para 130, 1986


Steven Quartz of the California Institute of Technology at a discussion on ethics sponsored by the John Templeton Foundation. Source iht April 10, 2009

Gideon Rachman, Financial Times, 5 May 2008

Steven Radelet and Jeffrey Sachs, The Onset of the South East Asian Crisis, in Paul Krugman
(ed), *Currency Crisis*, University of Chicago Press, 2000
Bertrand Russell, *The problems of philosophy*. Oxford University Press, 1912
Daniel Solove Samuels, *Concurring Opinions*, a blog administered by law professor, Stich, Faucher,1999
David O Sears, *The role of affect in Symbolic Politics* in Kuklinski (ed), 2009
Carol Tavris and Elliot Aronson, *Mistakes were made (but not by me)*, Harcourt Books, 2008
Kim Witte, *Fear as Motivator, Fear as Inhibitor: Using the Extended Parallel Process Model to Explain Fear Successes and Failures*. In *Handbook of Communication and Emotion* ed. by Peter A Andersen and Laura K Guerrero, Woodhouse, 1938
