MORTALITY AND CAPITALISM:

Learning from the Past

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Abstract

This paper argues that morality is required to allow the gains from trade to be reaped by reducing the 'policing' type of transactions costs involved in opportunistic behaviour. But, as Hume emphasised neither God nor Reason can justify any particular morality, the only source of morality must be local traditions which socialize children through the moral emotions of shame and guilt. Capitalism does require morality, but this cannot be enforced by States, NGO's or supra-national insitutions.

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1. INTRODUCTION

In thinking about the role of morality in economic life I propose to use an analytical framework I developed in my Unintended Consequences (Lal (1998), which is somewhat different from the one presented by John Dunning in the first chapter. At the same time it will seek to pose and answer some of the questions he has raised concerning the role of morality and global capitalism. This framework is presented in Part I. From this, I provide a highly condensed account of the role of morality in economic life from the Stone Age to the present. In particular I shall emphasize the Great Divergence that took place among the leading Eurasian civilizations in the high Middle Ages because of two Papal Revolutions which replaced the communalist ethic, common to most of the agrarian Eurasian civilizations, by individualism in Western Christendom, first in family affairs and then in thought and action. This is the theme of Part II. These provide an obvious point of departure for the discussion in Part III of the differences in the ethics of the great civilizations down to our own day, and the strange course that Western individualism has taken over the last two hundred years. In doing so, I hope it will be possible to examine whether or not a global morality is needed for global capitalism to thrive and if it is what form it should take. Part IV relates my conclusions to the role of the four institutions of global capitalism identified by Dunning- markets, governments, NGO's and supra national authorities- in fostering global capitalism. In doing so, while I accept Dunning's distinctions between globalization, the global market place and global capitalism, I intend to use a somewhat narrower definition of the latter – which roughly corresponds to what has been called (sometimes derisively) the Anglo-Saxon model of capitalism.

2. ANALYTICAL FRAMEWORK

From an economist's perspective morality is best looked upon as part of the institutional infrastructure of a society. This institutional infrastructure, broadly defined, consists of informal constraints like cultural norms (which encompass morality) and the more formal ones which are embodied in particular and more purposeful organizational structures. Inter alia such formal rules embrace the Common Law which forms a spontaneous order in Hayek's sense as having evolved without any conscious design

- which constrain human behavior.

But as soon as we talk about constraining human behavior we are implicitly acknowledging that there is some basic "human nature" to be constrained. While we take up this question in greater detail below, as a first cut we can accept the economists model of "Homo Economicus" which assumes that human beings are both rational and motivated purely by self interest: maximizing utility as consumers and profits as producers. So as a start, the function of the rules constraining human nature which comprise institutions must be to limit such self-seeking behavior.

This immediately points to another significant feature and reason for the existence of institutions. If Robinson Crusoe was alone on his island he would have no reason to constrain his basic human nature. It is only with the appearance of Man Friday that some constraints on both him and Crusoe might be necessary for them to co-operate in order to increase their mutual gains: and to do so by specializing in tasks in which each has a comparative advantage. This, then immediately leads us to the notion of "transactions costs"- a concept which is even more slippery than that of institutions.

The reason why there is a close relation between institutions and transactions costs is that, as Robin Matthews pointed out several years ago, "to a large extent transactions costs are costs of relations between people",

and institutions are par excellence ways of controlling or influencing the form, content and outcome

of these interactions.

Culture is the informal aspect of institutions which constrain human behaviour. But if 'institutions' are a murky concept, 'culture' is even more so. I have found an interpretation adopted by ecologists particularly useful. They emphasize that, unlike other animals, the human being is unique because of its intelligence and motiation to change its environment by learning. It does not have to mutate into a new species to adapt to the changed environment. It learns new ways of surviving in the new environment and then fixes them by social custom. These social customs form the culture of the relevant group, which are then transmitted to new members of the group (mainly children) who do not then have to invent these 'new' ways de novo for themselves.

This definition of culture fits in well with the economists notion of equilibrium. Frank Hahn has

described an equilibrium state as one where self seeking agents learn nothing new so that their behavior is routinized. It represents an adaptation by agents to the economic environment in which the economy "generates messages which do not cause agents to change the theories which they hold or the policies which they pursue." (Hahn (1973),p.28). This routinized behavior is clearly close to the ecologist's notion of social custom which fixes a particular human niche. On this view, the equilibrium will be disturbed if the environment changes, and so, in the subsequent process of adjustment, the human agents will have to abandon their past theories, which would now have been falsified. To survive, they must learn to adapt to their new environment through a process of trial and error. There will then be a new social equilibrium, which relates to a state of society and economy in which "agents have adapted themselves to their economic environment and where their expectations in the widest sense are in the proper meaning not falsified". (Hahn, ibid)

This equilibrium need not be unique nor optimal, given the environmental parameters. But once a particular socio-economic order is established, and is proved to be an adequate adaptation to the new environment, it is likely to be stable, as there is no reason for the human agents to alter it in any fundamental manner, unless and until the environmental parameters are altered. Nor is this social order likely to be the result of a deliberate rationalist plan. We have known since Adam Smith that it is possible for an unplanned but coherent and seemingly planned social system to emerge from the independent actions of many individuals pursuing their different ends, and which lead to final outcomes very different from those intended.

Here it maybe useful to distinguish between two major sorts of beliefs relating to different aspects of the environment. These are the material and cosmological beliefs of a particular culture. The former relate to ways of making a living ,and beliefs about the material world, in particular about the economy. The latter relates to our understanding of the world around us and mankind's place in it; which, in turn, determine how people view the purpose and , meaning of their lives and inter personal relationships.. There is considerable cross-cultural evidence that material beliefs are more malleable than cosmological ones. Material beliefs can respond rapidly to changes in the material environment. There is greater hysterisis in cosmological beliefs, on how, in Plato's words, "one should live". Moreover the cross-cultural evidence shows that rather than the environment it is the language group to which people belong that influences these world-views.

This distinction between material and cosmological beliefs is important for economic performance because it translates into two distinct types of transactions costs which are of importance in explaining not only 'market' but also 'government or bureaucratic failure'. Broadly speaking transactions costs can usefully be distinguished between those associated with the efficiency of exchange, and those associated with policing opportunistic behavior by economic agents. The former relate to the costs of finding potential trading partners and determining their supply-demand offers, and the latter to enforcing the execution of promises and agreements.

These two types of transactions need to be kept distinct from each other. The economic historian Douglass North (1990) and the industrial organization and institutionalist theorist Oliver Williamson (1985) have both evoked the notion of transactions costs, and used them to explain various institutional arrangements relevant for economic performance. While both are primarily concerned with the costs of opportunistic behavior, to North these arise as a result of the more idiosyncratic and non-repeated transactions accompanying the widening of the market, to Williamson they stem from the asymmetries in information facing principals and agents, in cases where crucial characteristics of the agent relevant for measuring performance can be concealed from the principal. Both these are cases where it is the policing aspects of transactions costs which are at

issue, not those concerning exchange.

To see the relevance of the distinction in beliefs and that in transactions costs for economic performance, it is useful to briefly delineate how material and cosmological beliefs have altered since the Stone Age in Eurasia.

3.CHANGING MATERIAL AND COSMOLOGICAL BELIEFS

3.1 On Human Nature:

Evolutionary anthropologists and psychologists maintain that human nature was set during the period of evolution ending with the Stone Age. Since then, there has not been sufficient time for any further evolution. This concept of human nature appears darker than Rousseau's and brighter than Hobbes' characterizations of it. It is closer to Hume's view that " there is some benevolence, however small...some particle of the dove kneaded into our frame, along with the elements of the wolf and serpent." (Hobbes () p.) For even the hunter gatherer of the Stone age would have found some form of what evolutionary biologists term "reciprocal altruism" to his own benefit. He would have discovered that in various tasks he had to pursue, co-operation with one's fellows yielded gains for him which might be further increased if he could cheat and be a free rider. In the repeated interactions between the selfish humans comprising the tribe, such cheating could be mitigated by playing the game of "tit for tat". Evolutionary biologists claim that the resulting "reciprocal altruism" was part of our basic human nature in the Stone Age.

Archaeologists have also established that the instinct to "truck and barter", the trading instinct based on what Sir John Hicks used to call the "economic principle" - "people would act economically; when an opportunity of an advantage was presented to them they would take it" (Hicks (1979) p.43)

- is also of Stone Age vintage. It is also part of our basic human nature.

3.2 Agrarian Civilizations:

With the rise of settled agriculture and the civilizations that evolved around them, however, and the stratification this involved between three classes of men - those wielding respectively the sword, the pen and the plough- most of the basic instincts which comprised our human nature in the Stone Age would be dysfunctional. Thus with the multiplication of interactions between human beings in agrarian civilizations, many of the transactions would have been with anonymous strangers who might never be seen again. The "reciprocal altruism" of the Stone Age which depended upon a repetition of transactions would not be sufficient to curtail opportunistic behavior.

Putting it differently, the 'tit for tat' strategy for the repeated Prisoners Dilemma (PD) game among a band of hunter-gatherers in the Stone Age would not suffice with the increased number of one-shot games consequential upon the arrival of settled agriculture, and the widening of the market for its output. To prevent the resulting dissipation of the mutual gains from co-operation, agrarian civilizations internalized restraints on such 'anti-social' action through moral codes which were part of their 'religion'. But these 'religions' were more ways of life as they did not necessarily depend upon a belief in God.

The universal moral emotions of shame and guilt are the means by which these 'moral codes' embodied in cultural traditions are internalized in the socialization process during infancy. Shame was the major instrument of this internalization in the great agrarian civilizations. Their resulting cosmological beliefs can be described as being 'communalist'.

The basic human instinct to trade would also be disruptive for settled agriculture. For traders are motivated by instrumental rationality which maximizes economic advantage. This would threaten the communal bonds that all agrarian civilizations have tried to foster. Not surprisingly most of them have looked upon merchants and markets as a necessary evil, and sought to suppress them and the market which is their institutional embodiment. The material beliefs of the agrarian civilizations were thus not conducive to modern economic growth whose major institutions can be summed up as capitalism.

3.3 The Rise of the West:

The great divergence of Western Europe from the other Eurasian civilizations occurred, I have argued in UC, because of a change in the cosmological and material beliefs mediated by the Catholic

Church in the 6th-11th centuries, through its promotion of individualism, first in family affairs and later in material relationships. The first were a series of pronouncements by Pope Gregory I in the 6^{th} century on family matters (see Goody (1983), and the second those by Gregory VII in the 11^{th} century on property and institutionally related issues (see Berman (1983). These can be called the twin Papal revolutions of which Gregory VII's in the 11^{th} century included the introduction of all the legal and institutional requirements of a market economy, which eventually put the West on a different economic trajectory than its Eurasian peers. .

These twin Papal revolutions arose because of the unintended consequences of the Church's search for bequests- a trait that goes back to its earliest days. From its inception it had grown as a temporal power through gifts and donations -particularly from rich widows. So much so that, in July 370 the Emperor Valentinian had addressed a ruling to the Pope that male clerics and unmarried ascetics should not hang around the houses of women and widows and try to worm themselves and their churches into their bequests at the expense of the women's families and blood relations. From its very beginnings then the Church was in the race for inheritances. In this respect, the early Church's extolling of virginity and preventing second marriages helped it in creating more single women who would leave bequests to the Church.

This process of inhibiting a family from retaining its property and promoting its alienation, accelerated with the answers that Pope Gregory I gave to some questions that the first Archbishop of Canterbury, Augustine, had sent in 597 concerning his new charges. Four of these nine concerned issues related to sex and marriage. Gregory's answers overturned the traditional Mediterranean and Middle Eastern patterns of legal and customary practices in the domestic domain. The traditional system was concerned with the provision of an heir to inherit family property, and allowed marriage to close kin, marriages to close affines or widows of close kin, the transfer of children by adoption , and finally concubinage, which is a form of secondary union. Gregory banned all four practices. There was for instance, no adoption of children allowed in England until the 19th century. There was no basis for these injunctions in Scripture, Roman law or the existing customs in the areas that were Christianised.

This Papal family revolution made the Church unbelievably rich. Demographers have estimated that the net effect of the prohibitions on traditional methods to deal with childlessness was to leave 40 per cent of families with no immediate male heirs. The Church became the chief beneficiary of the resulting bequests. Its accumulation was phenomenal. In France , for instance, it is estimat4ed that one third of productive land was in ecclesiastical hands by the end of the 7th century! (see Goody (1983))

But this accumulation also drew predators from within and without the Church to deprive it of its acquired property. It was to deal with this denudation that Pope Gregory VII instigated his Papal revolution in 1075, by putting the power of God - through the spiritual weapon of excommunication-above that of Caesar's. With the Church then entering into the realm of the world, the new Church-state also created the whole administrative and legal paraphernalia which we associate with a modern polity. This provided the essential institutional infrastructure for the Western dynamic that was in time led to Promethean growth. Thus Pope Gregory VII's Papal revolution lifted the lid on the basic human instinct to 'truck and barter', and in time to a change in the traditional Eurasian pattern of material beliefs with their suspicion of markets and merchants. This in time led to modern economic growth.

But the first Papal Revolution of Gregory the Great also led to a change in the traditional Eurasian family patterns which were based on various forms of 'joint families' and family values. This essentially removed the lid placed on the other opportunistic basic instincts by the shame based

¹ I distinguish in UC between two types of intensive growth: Smithian and Promethean. Intensive growth is a sustained rise in per capita income as contrasted with extensive growth where output keeps pace with population so that per capita income is constant. In traditional agrarian economies intensive growth occurred normally when a new Empire linked previously autarkic regions into a common economic space giving rise to the gains from trade and specialization and consequently a rise in per capita income as emphasized by Adam Smith. With the Industrial Revolution based on ustilising the limitless supply of fossil fuels sustained intensive growth which I call Promethean occurred.

moral codes of Eurasia. To counter the potential threat this posed to its way of making a living by way of settled agriculture, the Church created a fierce guilt culture in which the concept of Original Sin was paramount, and morality was underwritten by the belief in the Christian God. (see Delumeau (1990))

4. COMMUNALISM VERSUS INDIVIDUALISM

Of the major Eurasian civilizations, the ethic of the Sinic (and its derivatives in Japan and Korea) and the Hindu, has remained distinctly 'communalist' rather than individualist for millenia. But there were important differences in the cosmological beliefs of these two ancient civilizations.

4.1 Hindu Civilization:

The ancient Hindu unlike the Sinic civilization did have a role for a form of individualism, which was reminiscent of that found among the Greek Stoics. The anthropologist Louis Dumont has labelled this as "out-worldly" individualism as contrasted with the "in-worldly" individualism, which is the hallmark of the 'modern' individual. Hinduism allows the person who renounces the world and becomes an ascetic to pursue his own personal salvation without any concern for the social world. Like the Greek Stoic this Hindu "renouncer is self-sufficient, concerned only with himself. His thought is similar to the that of the modern individual, but for one basic difference: we live in the social world, he lives outside it". (Dumont (1986), p.26)

For a Hindu, who had not renounced the social world, Western individualism is impossible as Ernest Gellner tellingly puts it, by imagining a Hindu Robinson Crusoe, a polyglot called Robinson Chatterjee. "A Hindu Crusoe" he notes "would be a contradiction. He would be destined for perpetual pollution: if a priest, then his isolation and forced self-sufficiency would oblige him to perform demeaning and polluting acts. If not a priest, he would be doomed through his inability to perform the obligatory rituals". (Gellner (1983) p.121)

4.2 Sinic Civilization:

The ancient Sinic civilization did not even have this "out-worldly" individualism of the Hindus and the Greeks. Its central cosmological beliefs have been summarized as its optimism, its familialism and its bureaucratic authoritarianism. (see Hallpike (1986), Jenner (1992)). Interacting and influencing these characteristics were the embedded customs of "ancestor worship and its social and political correlates involving hierarchy, ritual deference, obedience and reciprocity". (Keightely (1990),p. 45). There is little room for even the "out-worldly" individualism of the Hindus or Greeks in these cosmological views which have been labelled "Confucianism"; this in spite of the continuing controversy over whether the ancient sage should be lumbered with whatever have been seen to be the distinctive features of Chinese civilization.

In our own day and age, partly provoked by the events surrounding Tianenmen Square, there has been an attempt to reconcile "Confucianism" with Western notions of "human rights". (see De Bary (1998), De Bary and Tu Weiming (1998). But apart from the murkiness surrounding the notion of "rights" even within the Western philosophical tradition As Henry Rosemont rightly notes: within the Confucian framework "rights-talk was not spoken, and within which I am not a free, autonomous individual. I am a son, husband, father, grandfather, neighbor, colleague, student, teacher, citizen, friend. I have a very large number of relational obligations and responsibilities, which severely constrain what I do. These responsibilities occasionally frustrate or annoy, they more often are satisfying and they are always binding...And my individuality, if anyone wishes to keep the concept, will come from the specific actions I take in meeting my relational responsibilities". (Rosemont (1998),p.63)

As he rightly notes, the attempt to reconcile a different "way to live" with the universal claims of Christianity has been a constant factor in the West's encounter with China. Views differed between those who thought the Chinese way was incompatible with universal Christian beliefs seeking conversion, and others- of a less imperialist bent- sought ways of making Chinese beliefs fit the universal Christian ethic.

4.3 Christianity:

In this context it is worth noting the important difference between the cosmological beliefs of

what became the Christian West and the other ancient agrarian civilizations of Eurasia. Christianity has a number of distinctive features which it shares with its Semitic cousin Islam, but, in part, with its parent Judaism, but which are not to be found in any of the other great Eurasian religions. First and most important is its universality. Neither the Jews, nor the Hindu or Sinic civilizations had religions claiming to be universal. You could not choose to be a Hindu, Chinese or Jew, you were born as one. Second, this also meant that, unlike Christianity and Islam these religions did not prosletyise. Third, only the Semitic monotheistic religions have also been egalitarian. Nearly all the other Eurasian religions believed in some form of hierarchical social order. By contrast alone among the Eurasian civilizations the Semitic ones (though least so the Jewish) emphasized the equality of men's souls. Dumont (1970) has rightly characterized the resulting and profound divide between the societies of Homo Aequalis which believe all men are born equal (as the philosophes, and the American constitution proclaim) and those of Homo Hierarchicus which believe no such thing.

Thus Christianity, as we shall see, is and remains at the nub of the West's beliefs, and at the heart of that 'clash of civilizations' posited by Huntington. There can be little doubt that neither the Hindu nor the Sinic civilizations have adhered to the Western notions of liberty and equality based on individualism.

But, neither did the West, for a long time. For though Christianity came inadvertently to promote the "in-worldly" individualism which is a hallmark of Western civilization, in its basic teachings it did not differ greatly from the communalism found in the other great ethical beliefs systems of the Ancient world. Like the Greeks and the Hindus it provided a place for "out-worldy" individualism. As Dumont notes:" there is no doubt about the fundamental conception of man that flowed from the teaching of Christ...man is an individual in-relation-to God; ..this means that man is in essence an out-worldly individual".(Dumont (1986),p.27).

It was St.Augustine in his City of God, who by substituting the absolute submission of the State to the Church for the previous endorsement of sacral kingship, analogous to the Hindus, brought the Church 'into the world' with Gregory VII's proclamation:"Let the terrestrial kingdom serve- or be the slave- of the celestial".

4.4 The Course of Western Individualism:

But the course of individualism has not been simple in the West. It would take me too far afield to go into this in detail, but the importance of St. Augustine's "City of God" must be noted. Throughout the last millennium the West has been haunted by its cosmology. From the Enlightenment to Marxism to Freudianism to Eco-fundamentalism, Augustine's vision of the Heavenly City has had a tenacious hold on the Western mind. The same narrative with a Garden of Eden, a Fall leading to Original Sin and a Day of Judgment keeps recurring. Thus the 18th century philosophers of the Enlightenment in their refurbishment of Augustine, displaced the Garden of Eden by classical Greece and Rome, and God became an abstract cause-the Divine Watchmaker. The Christian centuries were now taken to be the Fall, with the Christian revelations considered a fraud as for the enlightened God expressed his purpose through his laws recorded in the Great Book of Nature. The Enlightened were the elect and the Christian paradise was replaced by Posterity. By this reconfiguration of the Christian narrative the 18th century philosophers of the Enlightenment thought they had been able to salvage a basis for morality and social order in the world of the Divine Watchmaker. But once, as a result of Darwin, he was seen to be blind, as Nietzsche proclaimed from the housetops at the end of the 19th century, God was Dead, and the moral foundations of the West were thereafter in ruins.

The subsequent attempts to found a morality based on reason are open to Freidriech Nietzsche's fatal objection in his aphorism about utilitarianism. He wrote: "moral sensibilities are nowadays at such cross purposes that to one man a morality is proved by its utility, while to another its utility refutes it"(Nietzsche(1881/1982)p.220).

Nietzsche's greatness lies in his clear recognition of the moral abyss that the death of its God had created for the West. Kant's attempt to ground a rational morality on the principle of universalisability- harking back to the Biblical injunction "therefore all things whatsoever ye do would that men should do to you, do even so to them"- founders on Hegel's two objections: it first is merely a principle of logical consistency without any specific moral content, and second as a result it is powerless to prevent any immoral conduct that takes our fancy. The subsequent ink spilt by moral philosophers has merely clothed their particular prejudices in rational form.

The death of the Christian God did not, however, end variations on the theme of Augustine's "City". It was to go through two further mutations in the form of Marxism and Freudianism, and a more recent and bizarre mutation in the form of Ecofundamentalism.²

Marxism like the Christian faith looks to the past and the future. There is a counterpart to the Garden of Eden , i.e the time before "property" relations corrupted "natural man". The following Fall is best regarded as "commodification" which leads to a class society and a continuing but impersonal conflict of material forces. This in turn leads to the Day of Judgment with the Revolution and the millennial Paradise of Communism. Marx alsoclaimed that this movement towards earthly salvation was mediated, not as the Enlightenment sages had claimed through enlightenment and the preaching of good will, but by the inexorable forces of historical materialism. Another secular "city of God" has been created.

Ecofundamentalism is the latest of these secular mutations of Augustine's "City of God" (see Lal (1995)). . It carries the Christian notion of contemptus mundi to its logical conclusion. Humankind is evil, and only by living in harmony with a deified Nature can it be saved.

The West's current cosmological beliefs, inadequately summarized by the word 'liberty' are thus, at present, incoherent. As the philosopher Alasdair Macintyre has powerfully argued, the current Western notion of self has three contradictory elements.

The first, derives from the Enlightenment. It views individuals as being able to stand apart from the external social influences and constraints, and allows them to mould themselves in accordance with their own true preferences. The second component of the Western self concerns the evaluation of oneself by others. Here the standards are increasingly those of acquisitive and competitive success, as nurtured (so some would believe) by a bureaucratized and individualist market economy. The third element of the Western self derives from its remaining religious and moral norms, and is open to various "invocations of values as various as those which inform the public rhetoric of politics on the one hand and the success of Habits of the Heart on the other" (Macintyre (1990) p.492). This aspect of the self harks back to the Christian conception of the soul, and its transcendental salvation.

These three elements comprising the Western conception of self are not only mutually incompatabile, they are incommensurable. They also lead to incoherence as there are no shared standards by which the inevitable conflicts between them can be resolved. So as Acintyre puts it "rights based claims, utility-based claims, contractarian claims, and claims based upon this or that ideal conception of the good will be advanced in different contexts, with relatively little discomfort at the incoherence involved. For unacknowledged incoherence is the hallmark of this contemporary developing American self, a self whose public voice oscillates between phases not merely of toleration, but admiration for ruthlessly self-serving behavior and phases of high moral dudgeon and indignation at exactly the same behavior" (p.492).

Many in the West can be seen as going back to the worship of the multiplicity of 'gods' and personal moral codes (particularly in the realm of sexuality) which are reminiscent of the pre-Christian Graeco-Roman world. The growing popularity of "New Age" religions which is occurring at a time the traditional Churches continue to lose followers is a testament to the growing 'neopaganism' in the West.

In the ensuing plethora of moral beliefs -particularly in a cross-cultural context- it is a brave soul who would be able to find any basis for a universal ethic. But if Reason or a universally acceptable God cannot provide us with a common basis for morality, and if- as we have seen- morality is needed to reduce the 'policing' type of transactions costs for economic efficiency, on what basis are we to found this morality?

Here it is interesting to re-examine David Hume's views of two and a half centuries ago. In his "Treatise of Human Nature" (1740/1985), he begins by recognizing morality is essential to control man's self-aggrandizing instincts to garner the gains from co-operation. However, he does not try to ground morality either in a belief in God or reason but rather in tradition. As he notes: "the sense of justice and injustice is not derived from nature, but arises artificially, tho' necessarily from education and human conventions" (p.535). Once they are in place "a sympathy with public interest is the source of moral approbation, which attends that virtue [justice]" (p.551). This leads parents "to inculcate in their children from the earliest infancy, the principles of probity, and teach

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² That Freudianism follows the same Augustinian narrative is show in Gellner (1993), Webster (1995).

them to regard the observance of those rules by which society is maintained as worthy and honorable, and their violation as base and infamous'' (ibid). Hume while clearly accepting the role of morality in maintaining the social cement of society, believes that this morality is primarily dependent on a society's traditions and forms of socialization. Neither God nor Reason needs to be evoked to justify these conditioned and necessary habits. This is very much the view of ethics taken by the older Eurasian civilizations with their moral ecology based on shame.

Given the multiplicity of ethical traditions, does it matter for the economy if there is no common agreement about the content of morality, as long as each society has its own morality to constrain immoral behaviour? At least I have argued elsewhere (Lal (1998)) that although in the rise of the West the change in cosmological and material beliefs were conjoined, this is not necessary once the legal and other infrastructure for a market and commercial society were created by Gregory VII's 11th century Papal revolution. The Rest of the world has the option- as dramatically illustrated by the Japanese example of adopting the West's material beliefs which are necessary for prosperity, without adopting the West's cosmological belief's and surrendering itsown moral ecology. In short, it is possible to modernise without Westernising.

Nor, as Adam Smith showed so effectively in "The Wealth of Nations" (Smith 1776/1991), does a market economy have to depend upon the scarce virtues- like benevolence (which for Smith in "The Theory of Moral Sentiments" was the highest virtue)- for its efficient functioning. It only requires a vast number of people to deal and live together, even if they have no personal relationships, as long as they do not violate the 'laws of justice'. The resulting commercial society promotes some virtues (what Shirley Letwin (1992) has labelled the 'vigorous virtues)- such as hard work, prudence, thrift and self-reliance. As these virtues directly benefit the economic agents in commercial society, and only indirectly benefit others, they are inferior to altruism. But by promoting general prosperity, these lower level virtues "(what John Dunning calls proper selfishness) do unintentionally help others. Hence, it maybe argued, the resulting commercial or capitalist society is neither immoral or amoral.

5. IMPLICATIONS FOR GLOBAL CAPITALISM

What implications does all this have for global capitalism? A major implication as I see it is that, in a global context many of the ethical complaints against capitalism are misdirected. In many cases they are atavistic, harking back to the material beliefs of the old agrarian civilizations. One important example which has contemporary resonance in the common complaints made against the global capital market will have to suffice. (see Lal (1985))

5.1 Markets:

Economic historians consider the creation of the national public debt and the Bank of England soon after the 'Glorious Revolution' in England in the late 17th century as an essential element in the rise in economic power and social status of the merchant and financier from the 16th to 18th centuries. This rise, however, posed severe problems for the prevailing 'Aristotelian' ethical beliefs of these societies. These centered on the ethical problem of ascribing virtue to the acquisition of wealth by the lending of money. More especially a ban on interest was common to all the ethical systems of the pre-modern world. It was based on Aristotle's unequivocal statement: "Usury is detested above all and for the best of reasons. It makes profit out of money itself, not for money's natural object...Money was intended as a means of exchange, not to increase at interest". (Aristotle, p.20-21)

This prohibition on interest was gradually lifted in the West. But, ethical worries about the 'unreality' of credit and of the socially unproductive nature of interest resurfaced with a vengeance in 18th century England following the Financial Revolution of 1694-96, which created a vastly expanded credit mechanism, leading to the rise of the rentier. In J.g.a.Pocock's words: "The stocks which were his title to a return upon the loans he had made became themselves a commodity, and their value was manipulated by a new class of stockjobbers." (Pocock (1975) p. 72)

In the ensuing Augustan debates, this posed a severe problem for the traditional value system shared by both opponents and friends of the new goddess Credit. For the traditional ethical system "the moral foundation for civic virtue and moral personality is taken to be independence and real property" (ibid).

Property in the form of land was the most real asset, and though the trader and the merchant's wealth was moveable, and hence not as reliable in inducing civic virtue as assued by the landlord, it

did at least consist of real things. By contrast, the wealth of the stockholder and the stock jobber as created by the new system of public credit appeared to be unreal and fantastical: Again as Pocock puts its:

"When the commodities to be bought and sold were paper tokens of men's confidence in their rulers and one another, the concept of fantasy could more properly be applied, and could bear the meaning not only of illusion and imagination, but of men's opinions of others' opinions of them". (p.76)

This is a view of commerce and the speculation it necessarily engenders, which survives to our day in the outpourings of the various critics of global financial and capital markets. Lest it be thought to be the untutored prejudice of economic illiterates, one only has to remember Keynes' peroration on the stock market in his General Theory (Keynes (1936) pp.155), , which clearly echoes the Augustan critique of commerce.

5.2 The State:

The atavistic material belief just described, which was relevant in pre-modern agrarian economies but has no place in the set of material beliefs required for modernization. Equally atavistic are many of the other critiques of global capitalism by Western critics. To appreciate this, it is useful to outline the story that the English political philosopher Michael Oakeshott tells about the evolution of Western thought on the State. He makes a crucial distinction between the State viewed as a civil association, and as an enterprise association. Oakeshott notes that the view of the State as a civil association dates back to ancient Greece. At that time the State was seen as the custodian of laws which did not seek to impose any preferred pattern of societal goals (including abstractions such as the general (social) welfare, or fundamental rights), but which merely facilitated individuals to pursue their own ends. This view has been challenged by the rival conception of the State as an enterprise association a view which has its roots in the Judaeo

Christian tradition. In this tradition the State is seen as the manager of an enterprise seeking to use the law for its own substantive purposes, and ,in particular for the legislation of morality. The classical liberalism of Smith and Hume embraces the former view of the State, while the (later) socialists viewed it as an enterprise association, with a moral aim of equalizing people.

Oakeshott (1993) notes that, as in many other pre-industrial societies, modern Europe inherited a "morality of communal ties" from the Middle Ages. From the 16th century onwards this was gradually superseded by a morality of individuality, whereby individuals came to value making their own choices "concerning activities, occupations, beliefs, opinions, duties and responsibilities" and also came to approve of this "self determined conduct" in others. This individualist morality was fostered by the gradual breakdown of the medieval order which allowed a growing number of people to escape from the corporate and communal organizational structure of medieval life.

But this dissolution of communal ties also bred, a group of what Oakeshott terms the "anti individual". This group comprised individuals who were unwilling or unable to make their own choices. Of this group some were resigned to their fate, but in others it provoked "envy, jealousy and resentment. And in these emotions a new disposition was generated: the impulse to escape from the predicament by imposing it upon all mankind" (p. 24) This attempt to revert to the pre-industrial communalist world by, the anti-individual took two forms. The first was to look to the government to "protect him from the necessity of being an individual" (p. 25) A large number of government activities from the introduction of th Elizabethan Poor Laws in the 16th century were devoted "to the protection of those who, by circumstance or temperament, were unable to look after themselves in this world of crumbling communal ties" (p. 25)

The anti-individual, secondly, sought to escape his "feeling of guilt and inadequacy which his inability to embrace the morality of individuality provoked" (p. 25) by calling forth a "morality of collectivism", where "'security' is preferred to 'liberty', 'solidarity' to 'enterprise' and 'equality' to 'self

determination''' (p. 27). This trend came became particularly important with the various socialist and collectivist movements of the 19^{th} century. Both the individualist and collectivist moralities were different modifications of the earlier communal morality, but with the collectivist morality also being a reaction against the morality of individualism.

This collectivist morality inevitably supported the view of the State as an enterprise association. While this view dates back to antiquity, few if any pre-modern states were able to be "enterprising", as their resources were barely sufficient to undertake the basic tasks of government,

viz. law and order and external defense. This changed with the creation of centralized "nation states" by the Renaissance princes and the subsequent Administrative Revolution of the 16th century, a term which Hicks (1969, p. 99) used to denote the gradual expansion of the tax base and increased span of control of the government over its subjects lives. Governments now had the power to look upon their activities as an enterprise.

Oakeshott (1993) identifies three versions of the collectivist morality such an enterprise association has since sought to enforce. Since the truce declared in the 18th century in the European wars of religion, the major substantive purposes sought by States seen as enterprise associations are "nation"

building" and "the promotion of some form of egalitarianism". These correspond to what Oakeshott (1993) calls the productivist and distributionist versions of the modern embodiments of the enterprise association, whose religious version was epitomized by Calvinist Geneva, and in our own times is provided by Khomeni's Iran. Each of these collective forms conjures up some notion of perfection, believed to be "the common good".

In my view, this Oakeshottian taxonomy allows us to think clearly about the links between ethics, economics and politics. The fog created by distinctions like negative and positive liberty and continuing attempts to reconcile these irreconcilables, ³ can be readily dispelled by keeping Oakeshott's distinction between these two interpretations of the State in mind. The State seen as a civil association does not seek to legislate morality. The State seen as an enterprise association does. The main difference between the first liberal international economic order (LIEO) established under British leadership in the 19th century and the contemporary LIEO fostered by most Western governments is that, while the former embodied the classical liberal view of the State- viz. it did not seek to legislate morality- the latter is infected by the enterprise view in both the domestic concerns for social welfare and the desire to export Western values like 'human rights' and 'democracy' to the Rest of the world.

This allows us to see that the desire by many current critics of globalization to use the State to legislate their preferred ethics is antithetical to the Western classical liberal tradition. It would take me too far afield to show why this view of the world which seeks to combine the market with various social demands is likely to be counterproductive. These socialist impulses as the above discussion should make clear are atavistic. The State should- as it can if it chooses- restrict itself to providing the public goods which are an essential part of the infrastructure for efficient globalization, leaving morality to the family and other institutions of civil society.

5.3 NGO's:

This brings us to the NGOs. It is not sufficiently appreciated that most a e really pressure groups. (see Lal (1999), chp.4). As Mancur Olson has shown, rather than regard these as benign constituents of civil society a la Tocqueville and the American pluralist political science model, they are better seen as engaged in a redistributive political game to garner a larger share for sectional interests. They are now part of Oakeshott's enterprise associations. Thus whereas in Victorian England, for instance, the NGO's of those days- the largely charitable, religious and art based associations - were largely exercising a civic role which helped to provide the social cement of the society (see Himmelfarb (1995)), today many NGO's are promoting their own, often, political ends. The international NGO's, it maybe argued, are altruistic as they are not seeking benefits for themselves but for mankind. They are promoting an international moral order and thence an international civil society. But in the three areas in which they are most active namely issues relating to labour standards, human rights and the environment, their attempts to enforce universal global standards is most likely to do great harm, particularly to the constituency in whose name they claim to speak - the world's poor-as I and others have argued on many an occasion. (see Lal (1988a), (2000a)). Moreover, as I have argued above there is no universal moral code, the morality that these 'global salvationists', as David Henderson (2001) has labelled them, is nothing else but the culturespecific, proselytizing, universal and egalitarian ethic of what remains at heart Western Christendom. Apart from the disorder this can cause as the Rest resist this Western ethical imperialism, it will also damage the prospects of the world's poor.

³ For instance by Sen (1992). That these two divergent views of the State cannot be reconciled by arguing as Sen does that classical liberals are also egalitarians as they are concern3d with the equality of liberty is cogently argued by Sugden (1993).

Thus the environmental NGO's are in the vanguard in attempting to in effect stop growth (and the poverty alleviation it entails) in the Third World by seeking to limit their carbon emissions; (See Lal (1999) chp. 10) the consumer NGO's are seeking to prevent imports of goods from developing countries produced by means which do not meet their moral standards, in the name of ethical trading; (see Lal (1998a)

the human rights NGO's are attempting to legislate a new extra-territorial principle based on western moral values categorized as 'human rights; (see Lal (2000) the health NGO's have taken on a crusade against GM foods,which promise the same hope for the hungry of the world that the Green Revolution (which too was based on the genetic modification of plants) delivered in the last three decades. (see Lal (2000a))

This attempt by the self-appointed to do good, as they see it, of course has historical parallels. (see Lal (1988)). With the establishment of the British Raj and its policy of free trade, imports of cheap Lancashire textiles destroyed the Indian export trade in cotton textiles, and undoubtedly led to a reduction in employment in the domestic handloom industry, though not- as many nationalists and Marxists maintained - its total destruction. But, by 1850 a modern cotton textile industry was established based on Indian entrepreneurship and capital, and as it began exporting, in a few decades it had turned the tables on Lancashire. This led to repeated representations by the cotton-textile interests of Manchester to the Secretary of State for India "to apply British factory legislation en bloc to India so as to neutralize the 'unfair' advantages which the Indian mill industry was enjoying because of its large scale employment of child labor and long hours of work".(D."Bhattacharya (1979),p.171)

They were supported in this by various well-meaning pressure groups. This led to the institution of the first of the Factory Acts of 1881, which had disastrous effects on the fortunes of the India textile industry and labor. By raising the effective price of labor they led to lower employment levels than would otherwise have occurred, and by hobbling the industry, made it inevitable that it too would ask for protection from Japanese imports. This was granted and the outcome led to growing inefficiency in this pioneering industry in the Third World. So much so that, for the last 50 years it has been one of India's sickest industries. Until today, these 19th century labor laws continue to harm both Indian industrial employment levels and efficiency. They have rightly been described by one historian as the result of agitation by "ignorant English philanthropists and grasping English manufacturers" (Bhattacharya, ibid).

. But that is precisely the alliance we saw on the streets of Seattle at the 1999 WTO meeting - with the Americans replacing the English!

Today these global salvationists are first, attempting to engender what they call corporate social responsibility among multinationals. David Henderson (2001) provides a devastating critique of this millennial collectivism, as its claims that globalization has marginalised poor peoples and poor countries, increased the power of multinational enterprises and reduced those of States are demonstrably false.

While its claim for a new tripartism between businesses, governments and selected NGO's - which has unfortunately been embraced by some businesses- "confers on businesses and NGO's alike a status which they have no rightful claim to, since they are neither elected nor politically accountable".

The second tack, taken by the global salvationists, is an old trick that, for instance, Communist parties which could not win power through elections were wont to use- entryism. Having failed by and large- outside Germany and the Scandinavian countries- to win enough public support for their agenda in elections, the Greens are seeking to legislate it through the un-elected bureaucracies of the transnational institutions like UNEP, the World Bank, WHO and they hope through the WTO. Their aim is to push through international treaties and conventions sponsored by these organizations to regulate various aspects of the economies, particularly of the Third World. These supra national institutions, apart from the WTO, are thus now becoming party to the ethical imperialism being promoted by the global salvationists. (see Lal (2000a)). So, unlike Dunning and many of the other authors in this book I do not think that, even though in the past many of these supra national institutions were in the vanguard of promoting the LIEO, today many of them instead of aiding globalization are increasingly its enemy, promoting a global collectivism, which embodies the

'ethical' enterprise association view of the State adumbrated by Oakeshott. 4

Conclusions:

My conclusions can be brief. To allow the gains from trade to be reaped and to reduce the 'policing' type of transactions costs morality is needed to reign in opportunistic behaviour. But given that, as Hume saw so clearly, it is not necessary to invoke either God or Reason can justify any particular morality, the only source of morality must be local traditions which socialize children through the moral emotions of shame and guilt to 'be good'. Capitalism does require moral behaviour. But this cannot be enforced by States, NGO's or supra-national institutions. If one does want to strengthen morality it is important not to undermine its traditional mainsprings in the non Western part of the world in the name of a mistaken belief in a universal Western ethic. For, it is possible for countries to modernise (i.e embrace capitalism) without Westernising (i.e accepting the West's morality - its cosmological beliefs). In fact, if one looks at the non-Western world, the moral foundations of most-though by no means all-societies are still intact. It is in the West that there is growing doubt about its fractured and incoherent morality. Writing as a Hindu, it is not for me to preach about the ways in which the morality which is required for capitalism to function with minimal transactions costs can be engendered in the West.

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⁴ The argument that these supra national institutions are required to provide global public goods is discussed in Lal (2000b)

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ENDNOTES

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.. For a game-theoretic account of how such a spontaneous order could have arisen see Sugden
.. see Lal (1999) chp. 11
..Matthews (1986), p.906.
..see Colinvaux (1983). This was the definition adopted in Lal (1988) and in Lal (1998).
. Hahn (1973)
.see Hallpike (1986)
.D.Lal (1997)
.Hicks (1979), p. 43
.see Berman (1983).
.see Goody (1983).
. See Delumeau (1990)
.Dumont (1986), p.26.
.Gellner (1988), p.121.
see Hallpike (1986), Jenner (1992)
. Keightley (1990) p.45.
. see De Bary (1998) and De Bary and Tu Weiming eds (1998)
. Rosemont (1998), p.63.
. Dumont (1986), p27
.See Becker (1932)
.A point only reiterated by reading the contributions in the edited volume by Sen and Williams.
.That Freudianism follows the same narrative is argued by Gellner (1993) and Webster (1995).
.se Lal (1995).
. MacIntvre (1990).
.the following is based on Lal (1985)
.Aristotle: Politics, Everyman edtn, pp.20-21
.Pocock (1975a),p.72
.ibid, p.76
.Keynes (1936), pp. 155 and following
.Sugden in his review of Sen, makes much the same distinction between the two divergent views of
public policy embodied in the technocratic "market failure" school and those of the neo-Austrians
and the Virginia public choice school.
.For instance by Sen and his followers. That they cannot be reconciled in the way Sen(1992)
proposes by arguing that, classical liberals too are egalitarians as they are concerned with the
equality of liberty is cogently outlined by Sugden (1993).
. see Lal (1999) chp. 4 for a critical discussion of the claim that NGO's are a benign manifestation of
an international civil society.
.see Lal (1999), chp.10.
.see Lal (1998a)
. see Lal (2000)
see Lal (2000 a)
.The following is based on Lal (1988).
.D.Bhattacharya (1979), p.171
.the deleterious effects of this on the Third World are outlined in terms of the Kyoto protocol, the
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.the deleterious effects of this on the Third World are outlined in terms of the Kyoto protocol, the Biodiversity convention, the Basle convention, the POPs treaty in Lal (2000), which also shows how their local allies - what the Chinese used to 'rice christians'- have taken over 'environmental' ministries in developing countries which have often signed these treaties on their countries behalf without for instance the economic ministries, let alone the general public knowing what has been signed on their behalf.

.on the reason why the World Bank and IMF have now passed their sell by dates see Lal (1999) Chp.9, and Lal (2001) $\,$

.the argument that these supra national institutions are required to provide global public goods is discussed in Lal (2000b).