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Is globalization a threat to humanity, or its salvation? Globalization is transforming trade, finance, employment, migration, technology, communications, the environment, social systems, ways of living, cultures, and patterns of governance. For globalization to be successful, markets have to rest on a framework that enables their energies to flourish and to be used for socially and ecologically sustainable development. However, the reduced power of national governments combined with the spread of worldwide free markets and technological innovation without a corresponding authority to regulate them is leading us in another direction.

Integration and Interdependence

We hear everywhere that international integration is occurring rapidly as a result of increased trade and capital, technology, and information flows. The four components of an integrated international system to promote development are today fragmented: generation of current account surpluses; financial institutions that convert surpluses into loans and investments; production and sale of producer and consumer goods and up-to-date technology; and the military power to keep peace and enforce contracts. These components were relatively centralized, first with Great Britain and then the United States, in the first three quarters of the 20th century. But today we live in a schizophrenic, fragmented world without effective coordination.

Some important qualifications should be made about international integration. International trade is often used as an indicator, as it has been increasing rapidly. From 1820 to 1992 world population increased fivefold, income per head eightfold, world income fortyfold, and world trade 540-fold. However, as a proportion of GDP trade is more similar to pre-World War I levels, and many developing countries contribute minimally to global trade. Indeed, much trade is intra-industry or intra-firm. Transnational Corporations (TNCs) have to a certain extent replaced states as the major agents in trade, although most TNCs are actually centered in one or a few countries.

Similarly, globalization of financial flows, while talked about a great deal, is only partial. Most financial flows are among rich or upper-income countries, private flows to low income countries are minimal, and development assistance has stagnated. Such trends pose the danger of instability, and, while the system as a whole is unlikely to collapse, there is a need for the reregulation and harmonization of legislation. The more free-enterprise oriented a nation is, the greater the need for official supervision.

Technological diffusion and communication are much more rapid, but here also vast areas of the developing world have been left out. Moreover, such diffusion has not led to more rapid economic growth. Comparing annual growth rates of GNP per head in the two periods 1965-80 and 1980-93, we find that for all developing countries the rates were 4.6% and 4 % respectively, and for OECD countries 3.9% and 1.67% respectively. Real wages have converged in the U.S. and Europe as a result of increased trade and some labor mobility.

Uneven Benefits and Costs of Globalization

Globalization has helped to achieve huge improvements in human development indicators, but has also contributed to increased impoverishment, inequality, insecurity, and a weakening of institutions and social systems. Social services have been cut back in both developed and developing economies. The share of developing countries in global wealth has shrunk. In the poorest countries, poverty, malnutrition, and disease have increased. With a decline in the extended-family system, there is a need for social safety nets and better access to employment and training.

Globalization requires firms to compete internationally, and international competition has reinforced globalization. However, cost reductions, greater efficiency, and higher incomes have been achieved at the expense of growing uncertainty, unemployment, and inequality. In Europe, unemployment rates have remained high. In the US, employment insecurity and the persistence of an underclass are major problems. Mass unemployment is also a problem in rapidly-growing China, as many state enterprises have reduced employment to become more efficient. Other formerly socialist economies have similar problems, though often with less growth.

Globally, the interests of consumers in cheaper goods have been elevated over the human need for secure employment. Marginalization and social exclusion threaten worsened social problems of crime, drug abuse, domestic violence, and suicide. Promoting employment in health care, education, childcare, and environmental protection is important, but this requires public sector action which now lacks funding and is in disrepute.

How does globalization affect income distribution within rich and poor countries and between them? Economic theory suggests that with globalization wage differentials should widen in the North and decrease in the South. But only the first is empirically supported. Globalization appears to lead to growing inequality between capital and labor incomes, and also between skilled and unskilled workers.

Institutions are lagging behind rapid technological growth and diffusion. This can lead to prisoner's-dilemma type situations in which apparently optimal strategies for nation states are self-destructive (arms races, environmental damage, competitive protectionism or exchange rate movements, destructive bidding to attract investment, over fishing, forest and species destruction). To avoid these traps, policy coordination, cooperation, and enforcement are needed, but the international political order is having trouble coping with these needs.

It might be expected that globalization would go hand in hand with a decreasing role of the state -that is, the more open the economy, the smaller the government. This would seem logical because liberal trade policies reflect a preference for markets over government, and because globalization makes monetary and fiscal policies less effective. However, Rodrik has shown that the scope of government has grown in countries that take advantage of world markets. He suggests that an increased role of government is needed as an insulator against external shocks, a kind of insurance against risk and income volatility. Thus, globalization might require bigger, not smaller government.

Conclusion

Partial international integration can lead to national disintegration, manifested in unemployment, poverty, inequality, exclusion and marginalization. In addition, the requirements of social harmony and stability are in conflict with the pressure for increased international competitiveness. Destruction of communities and the environment are social costs of globalization unmeasured by most economic and market metrics. The public good suffers at the national level, but institutions for defending the public good are weak or nonexistent at the global level. National democratic institutions are weakened, but global democratic institutions do not exist. The challenge is to preserve positive aspects of globalization while taking action against the harmful effects. This will require delegation of state functions both upward (to global institutions) and downward (to the local or regional level).