

Global Crisis There is now consensus that both markets and government policies are needed for a well functioning economy. But policies that serve the common good are usually resisted by special interests that would lose profit opportunities.

Floods/Drought Costs of global warming are high. Economists are calling for a special tax they emit or that is used to produce them.

In Search of the Common Good

Neither free markets nor globalization have fulfilled their promises to significantly benefit the common good. **What went wrong?** And how can government policy choices steer the world economy toward serving all of the world's people?

BY BRIAN D'AGOSTINO

EVERY FOUR YEARS, THE UNITED STATES Conference of Catholic Bishops publishes a non-partisan booklet called *Forming Consciences for Faithful Citizenship*, which clarifies church teachings applicable to decisions Americans face as voters (see faithfulcitizenship.org). The document calls for global solidarity and a new kind of politics "focused more on pursuit of the common good than on the demands of narrow interests."

This common good is within reach, according to economist Joseph Stiglitz, who brings a united-world perspective to current economic issues. In his book *Making Globalization Work* he challenges citizens and politicians to create a world economy that works for everyone.

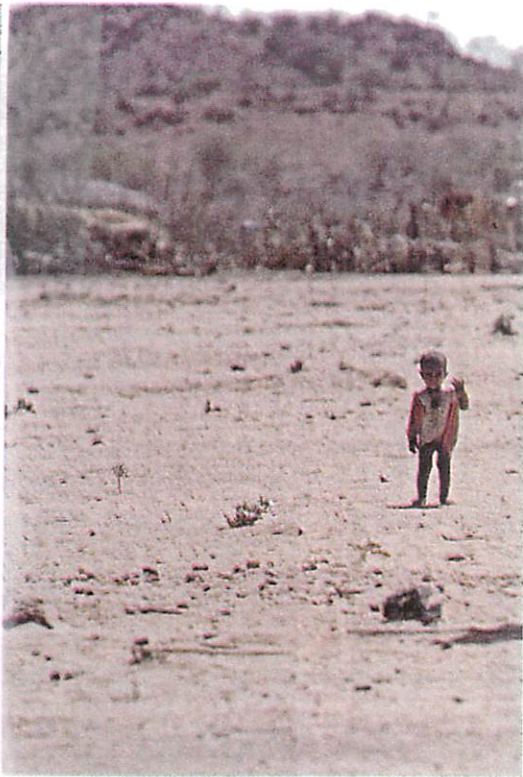
In 2001, Stiglitz shared a Nobel Prize for his contribution to a growing body of economic research on the limits of free markets, calling for a more active role for government in capitalist societies and outlining concrete policy implications.

Slight of an Invisible Hand

Ever since Adam Smith published *The Wealth of Nations* in 1776, many have argued that the common good is best served, paradoxically, when individuals freely pursue their own self interest as producers and consumers in an unregulated market economy. The "invisible hand" of supply and demand will then bring about the most efficient use of a society's resources to satisfy the needs of all. According to this view, attempts by government to improve on free markets

are counterproductive, and the role of government should be limited as much as possible.

Economists today know that markets only operate in this benign manner under special conditions. One requirement, for example, is that all the costs of a good are included in its price. An important area where this does not occur is how industrial technology affects the environment and human health and safety. It often costs more to design technologies that are clean and safe than ones that pollute or endanger workers and local communities. If a firm is not required by law to pay these costs, its products may be cheaper, but the price will not reflect the product's true costs. Economists say that some of the costs have been "externalized," and that



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Its effects are not reflected in products' true prices. Products based on the amount of carbon

Wisconsin Plant Closes After the Great Depression, economists realized that free markets do not automatically bring about full employment, which can only be maintained through government policies.

Good

Common Good The sum total of social conditions which allow people to reach their fulfillment more fully and more easily. It consists of three essential elements:

- 1) Respect for the person as such
- 2) The social well-being and development of the group
- 3) Peace: the stability and security of a just order

With human interdependence spreading throughout the world, the unity of the human family implies a universal common good.

This order is founded on truth, built up in justice, and animated by love.

—from the Catechism of the Catholic Church

markets will not operate well where such “externalities” exist.

Global warming, which many consider the gravest environmental problem facing humanity, is an example of a negative externality resulting mainly from the use of carbon-based fuels such as coal, oil and natural gas. To correct this Stiglitz and other economists are calling for a special tax on products based on the amount of carbon they emit or that is used to produce them. Such a tax would reduce the use of these fuels while also producing revenues that could finance the transition to a sustainable energy system.

Another factor contributing to global warming and undermining the earth’s ecology in other ways is deforestation in tropical countries. Although trees remove carbon dioxide from the atmosphere, that

benefit is not valued by the free market. This is an example of a positive externality. Both negative and positive externalities can often be corrected by government policy. Stiglitz advocates a system in which developed countries, which have contributed disproportionately to global warming, pay developing countries for the environmental benefits produced by every acre of tropical forest. This will reduce the cutting of forests and increase the price of lumber, and only then will the market for lumber reflect the true economic value of trees.

There are other ways that government intervention is needed to achieve the common good. In 1913, the U.S. instituted a progressive income tax to compensate for the inequality that tends to grow in any free market system. After the Great Depression of the 1930s, economists real-

ized that free markets do not automatically bring about full employment, which can only be maintained through government taxation and spending policies.

While economists continue to debate the nature of economic problems and which policies are best for managing them, there is a consensus that both markets and government policies are needed in any well functioning economy. But government policies that serve the common good are usually resisted by corporate and other special interests that would lose opportunities for profit if the policies are instituted.

Reforming the Global Economy

International trade has been part of the human story for millennia. Roman

aristocrats wore silk garments from China, medieval townspeople preserved their food with spices from Malaysia, and Britain's commerce spanned six continents. But the term "globalization" has been reserved for our own age, which has witnessed an unprecedented expansion of trade and investment of capital across national boundaries.

For decades, globalization's proponents predicted universal prosperity. International capital would industrialize poor countries, and workers in developed countries would move from factories to highly skilled jobs in the emerging information sector. But these results have materialized for only a minority of people in both poor and rich countries. Poverty rates have actually increased in many parts of the world, especially in sub-Saharan Africa. In the U.S. millions of jobs have been exported overseas, and real wages have declined or stagnated for several decades.

In the 1980s and 1990s, developing countries were pressured to reduce the economic role of their governments and open their economies to global markets. The main proponent of these "neoliberal" policies was the International Monetary Fund. This agency, based in Washington, produces an annual report on every country comparable to an individual's credit report. Countries that followed its prescriptions gained favored access to IMF and private bank loans. The predicted rapid economic growth was supposed to make everyone better off in those societies.

But nearly all the countries following neoliberal policies — mostly in Africa, Latin America and the former Soviet Union — experienced economic stagnation or worse. Even where economic growth occurred in the country as a whole, only a minority benefited, and poverty increased among the majority. Meanwhile, Asian countries that combined market economies with an active role for government experienced both dramatic growth overall and a reduction in poverty within their societies. While special interests benefited from neoliberal policies in the short run, these failures and successes in achieving the common good confirm the



What citizens could do With more than US\$100 billion spent every year on military programs with little relevance to national security, resources could be redirected for infrastructure projects, creating even more jobs.

We are one human family, whatever our national, racial, ethnic, economic and ideological differences. We are our brothers' and sisters' keepers, wherever they may be.

Loving our neighbor has global dimensions and requires us to eradicate racism and address the extreme poverty and disease plaguing so much of the world.

We show our respect for the Creator by our stewardship of God's creation. Care for the earth is a duty of our faith and a sign of our concern for all people.

From Faithful Citizenship, USCCB 2008

limitations of free markets discovered by economists.

Poor countries can now adopt the successful Asian development model. But there is also much that the developed countries can do to alleviate global poverty. Although the U.S., Europe and Japan aggressively seek to open markets in developing countries to their goods and services, they refuse to open their own markets to the agricultural goods of poor farmers in these same countries. U.S. subsidies to agribusiness, for example, make it uneconomical for many farmers in Latin America to export food to the U.S. This policy harms both these farmers and ordinary Americans, who pay both the taxes that maintain these subsidies as well as higher food prices.

Stiglitz calls for trade reform that would reverse such arrangements. On the one hand, developed countries should open their markets to agricultural goods from the developing world. On the other hand, international trade agreements should recognize the special need of developing countries to protect their emerging industries from foreign competition. Stiglitz also calls for governance reforms to make the World Trade Organization and other international agencies more transparent,



Developed nations aggressively seek to open markets for their products in developing countries, yet refuse to open their own markets to farmers there.

accountable and responsive to the needs of the world's people.

As for the U.S. economy, over \$100 billion is spent every year on “pork barrel” military programs that have little relevance to national security (visit cdi.org). These resources could be used instead to build and maintain infrastructure such as public transportation, schools and water works, including levees in cities such as New Orleans. While producing needed public goods, projects of this kind also create more jobs than military programs, as reported by Robert Pollin and Heidi Garrett-Peltier (peri.umass.edu).

Such reforms will be resisted by corporate and other special interests that profit from existing arrangements. Informed citizens must weigh in to turn the tide. While many of the issues may seem technical, we make a real contribution as citizens by educating ourselves and others about the economy and how it can be made to work for all people. This is a way Catholics and all people of good will can respond to the U.S. Catholic bishops' call for a new politics of service to the common good.



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