

*From Adam Smith to Amartya Sen:
global market as a possible instrument
to promote socio-economic development*

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INTRODUCTION AND RELATED LITERATURE

For socio-economic systems the globalization of markets represents a great challenge and an opportunity to promote development. The existence of a global network of relationships leads to integration in the economic and financial dimensions; in fact, the economic integration among nations is not a new phenomenon.

However, the concept of globalization in economic studies is a relatively recent one. Nowadays globalization is defined by the International Monetary Fund (IMF), as being “[...] the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital

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flows, and also through the more rapid and widespread diffusion of technology” (IMF 1997:45). Global markets and economies are transforming contemporary society, and are operating at a global level, which means to undertake a pace and degree of change in which processes of evolution of business and social models will require a considerable capacity to manage increasingly complex variables considering the ethnic flows and cultural streams that come from the global network. Some emerging economic regions, in particular, will wield significant influence on the world economy over the next decades and, at the same time, organizational boundaries are being stretched and blurred by new operating models.

The recent literature on globalization and the global economy with specific reference to global market is replete with discussions on the essence of the *global*, *transnational*, or *international* order. Among others, Hirst and Thompson have made the following interesting distinction between the globalized and the international economic order: “A globalized economy is a distinct ideal type from that of the inter-national economy and can be developed by contrast with it. In such a global system distinct national economies are subsumed and rearticulated into the system by international processes and transactions. The inter-national economy, on the contrary, is one in which processes that are determined at the level of national economies still dominate and international phenomena are outcomes that emerge from the distinct and differential performance of the national economies. The inter-national economy is an aggregate of nationally located function” (Hirst and Thompson 1999:10). So that an international economy will be characterized by the fact that transactions are still predominantly oriented toward the domestic level; cross-border transactions follow from the domestic ones, for instance, because producers in one country have attained a business competitive edge over producers in other countries, or because producers purchase abroad raw materials or parts they need in their manufacturing process. The globalized economy, on the contrary, would be dominated by economic activities that can no longer be identified with a single national economic area (Hout 2004). Moreover, different approaches have been proposed to study the extent to which economic relations have taken on a

truly global character. Most empirical studies include data on international trade and financial flows. Among the former (international trade), Chase-Dunn *et al.* (2000:78) have argued that trade globalization should be taken as a variable characteristic of the whole world-system. They recognize that there has been indeed an increase of global integration during the second half of the twentieth century, but hold that this growth does not represent an entirely different stage in the development of the world-system. Global integration, as measured with trade openness data, has reached an unprecedented high level, but this level does not, in their view, deviate significantly from the long-term trend of globalization, with lapses from 1880 to 1902 and 1925 to 1945, that is evident since the early nineteenth century (Chase-Dunn *et al.* 2000:87-88). Among the latter (financial flows), there are different indicators reflecting the enormous increase of transactions in international financial markets (IMF 2000; World Bank 2001). In fact, there is a variety of different international financial markets, and there are several categories of transactions, such as currency trade, direct and portfolio investment, the issue of trade in bonds, and trade in financial derivatives.

Finally, the role of the policy maker in the global economy has been a major issue of contention among analysts over the last few decades. In particular, relatively recent attention for the relationship between State strength, government effectiveness and position in the world-system (Wallerstein 2004), several analysts have pointed at the connection that appears to exist between the openness of countries to the international economy and the importance of the government (see Cameron 1978, and Rodrik 1997). Regarding the issue of global trade, in the last century there were two conflicting theories of what will happen to world income under globalization: a first approach, based on the standard assumptions of neo-classical economic theory, the unhindered trade will produce “factor-prize equalization” that is prices paid to the factors of production will tend to be the same all over the world (Samuelson 1948, 1949). Conversely, focused on alternative dynamic studies or evolutionary economics, the global trade would tend to increase already existing differences in incomes between nations (Myrdal 1956). In fact, criticism of the growing integration of economies

around the world has sparked one of the most highly charged debates of the past two decades and have argued that the process has exploited people in developing countries, causing massive disruptions producing few benefits. These are two different main views of understanding economic globalization and the wealth and poverty of nations and, for instance, the economic policies of the Washington Consensus –the basis for the economic policies originated from the World Bank and the International Monetary Fund– are exclusively established on the type of theory which is represented by Paul Samuelson. In general, according to the neoclassical theory, because of the benefits it bestows on all the parties involved, free trade is the optimal policy option. Indeed, the proposers of *globalization* emphasize its virtues and benefits in terms of wealth creation and technological innovation.

Some recent scholars (see among others Bartlett 2000) suggest that inequality is not necessarily a critical occurrence and that in fact it can be good for growth and progress. A new bold thesis is being propounded by globalization advocates, namely, that any recent increase in inequality is due to the lack of ability of involving many less developed nations in the benefits of globalization (see for instance Lindert and Williamson 2000). Hence, inequality would be linked to inadequate foreign investment and trade. The key conclusion of the followers of the globalization-equality thesis is that globalization benefits countries which participate fully in the process and penalizes those which maintain restrictions on trade and capital flows. However, critics argue that it has increased the gap between the rich and the poor at all levels (local, national, and international), particularly since the 1980s. According to Streeten the “liberalization, the realignment of the economy [...] technological change and the savage competition that accompanied globalization have contributed to an increase in poverty, inequality and labour insecurity” as well as to “the weakening of social support institutions and systems, together with the erosion of identities and established values”(Streeten 1998:125). Nevertheless, Reinert (2003, 2004) has stressed that the increasingly globalized economy seems to produce opposite effects of what standard economic theory predicts. Instead of a convergence of world income (towards factor-price equalization), there

is a group of rich nations showing a tendency to converge, and another convergence group of poor countries gathering at the bottom of the scale. Mainstream economic logic is that the more backward a nation is, the easier it will be for that nation to catch up to some level (Reinert 2004). In effect, what is actually happening is very different, because nations specialize: some of them specialize in producing continuous flows of innovations that raise their real wages (what is called innovation rents), whereas other nations specialize either in economic activities, where there is very little or no technological change (the so called *maquila type activities*), or where technological change takes the form of process innovations where it is taken out in the form of lower prices to the consumer rather than in higher wages to the workers, who are typically unskilled (Reinert 1994). From a policy point of view, the relative dominance of the neoliberal agenda is partly due to the shortcomings of traditional Keynesian policies. Even though the neoliberal agenda does not constitute a viable long-term social project, it has been embraced by a majority of policy makers who see no alternatives to free, unfettered, markets worldwide. However, many scholars maintain that government policies are very powerful tools that shape the economic and social environment within which human activity is carried out. In the absence of government regulation, history shows that market failures are too frequent to be dismissed as accidental and that private enterprise has caused a great deal of damage to the environment and the well-being of poor and powerless communities (Bougrine 2004).

The present paper adds a significant reflection to the analysis of economic thought concerning globalization by focusing on the less explored aspect of how the study of the connection between Adam Smith's and Amartya Sen's thoughts can offer the possibility to introduce a definition of globalization which shows the potential social positive outcomes of this complex socio-economic phenomenon. The definition of globalization presented in this work has a twofold purpose: first, in the field of Analysis of Economic Thought, to show the influence of Smith's thought on Sen's one, which is the main aim of this work; second, in the area of applied economics, to offer a new perspective on global market, which could be utilized as point

of departure for quantitative analyses. In particular, the definition here afforded consists of three parts: first, globalization as a global division of labour; second, globalization as a global market where the goods produced by the division of labour are exchanged worldwide. These two parts will be discussed in the next section. Third, globalization as a phenomenon which has a positive outcome under a social profile, provided that each agent who participates in it respects the moral standards resulting from a common code of ethics, and that State and supranational Organizations exert a more effective function in regulating and monitoring in order that agents in conformity with international legal standards. The integration of markets around the world has put new demands and criticalities on Nation-States and, at the same time, has reduced their capacities to deal with those claims so much that the Nation-States and the Supranational Organizations are increasingly squeezed by the forces of global economics (Stiglitz 2003). It will be difficult to maintain increasing economic globalization unless there are reform in governing globalization “particularly in the institutions that govern globalization and in the rules and regulations that define how globalization proceeds are adopted and evolve” (Stiglitz 2008). This third part of the definition will be discussed in the section titled “The primacy of the socio-economic objectives: the role of the policy maker in the governing of the global market”. Between the previous two sections, there is another, “The potential social positive outcome of globalization: global market as an instrument to promote development”, where it is highlighted, on the base of Sen’s economic and moral thought, the potential social positive effect of globalization in terms of global market as an instrument to promote development from. In the concluding remarks further possible analysis which could come from the considerations exposed in the present paper will be introduced.

FROM THE DIVISION OF LABOUR TO THE GLOBAL MARKET

The concept of the *division of labour* is the starting point of the economic analysis carried out by Adam Smith in his *magnum opus An Inquiry into the*

Nature and Causes of the Wealth of Nations (WN from here on). Indeed, the first book of WN is dedicated to the subject of the division of labour which is one of the central themes of Smithian thought. Smith is not the first scholar to speak about the division of labour which is in fact defined as *this eternal commonplace of economics* by Joseph A. Schumpeter (1954:56). Hence, Smith's work belongs to the deep reflection on the division of labour which stems from Ancient Greece with authors such as Xenophon as well as Platón and Diodorus Siculus¹ to authors of the 17th century such as William Petty.² The originality of Smithian thought is on the fact that "Smith, however, is the first to bring the [concept of] division of labour to the centre of analysis applied to explain which are the elements that determine the standard of living of a given country and its tendencies to progress or regress" (Roncaglia 2006:126-127). In particular, in the first book of WN, Smith is interested in finding the causes of the standard of living of the population and he defines them in two factors: the share of citizens employed in productive labour and the productivity of their labour. According to Smith, "the greatest improvement in the productive power of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or

¹ M.I. Finley quotes the following passage from Xenophon's *Cyropaedia* (Book VIII, 2.5) concerning the division of labour: "[...] in small towns the same man makes couches, doors, plows and tables, and often he even builds houses, and still he is thankful if only he can find enough work to support himself. And it is impossible for a man of many trades to do all of them well. In large cities, however, because many make demands on each trade, one alone is enough to support a man, and often less than one: for instance one man makes shoes for men, another for women, there are places even where one man earns a living just by mending shoes, another by cutting them out, another just by sewing the uppers together, while there is another who performs none of these operations but assembles the parts, of necessity, he who pursues a very specialized task will do it best [...]" (Finley 1974:135). It is possible to read about the connection between the division of labour and human inequality in Platón's *The Republic*: "Well then, how will our state supply these needs? It will need a farmer, a builder, and a weaver, and also, I think, a shoemaker and one or two others to provide for our bodily needs. So that the minimum state would consist of four or five men [...]" (Platón, Penguin Classics edition, 2007:103), whereas Diodorus Siculus describes the advantages given to ancient Egyptian society by the division of labour (Siculus 1985).

² There are significant examples concerning the division of labour for the fabrication of dresses, clocks and ships in the collection of Petty's *Economic Writings* published in 1899 and reprinted in 1963 (pp. 260-261, and p. 473).

applied, seem to have been the effects of the division of labour. [...] The division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour” (Smith 1776 [1952]:3-4).

As C.F. Pratten calls to mind (1980), to give evidence of the benefits to efficiency of the division of labour, Smith takes the example of the manufacture of pins: “a workman not educated to this business [...] nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. [...] I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. But though they were poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound upwards of four thousand pins of middling size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day” (Smith 1776 [1952]:3).

Amartya Sen draws on Smithian notion of division of labour and applies it to the global economy. From Sen’s point of view, the production process is divided into distinct phases which are accomplished at world level, and then this division generates a greater economic efficiency: the reason which makes possible to manufacture a great amount of goods is the fact that they are produced by different groups of people, in different areas of the

world, and at the maximum level of efficiency possible (Sen, interview, 31 August 1998).³

On the basis of the relationship between Smith's thought and Sen's one, it is possible to suppose the existence of a link between the global division of labour and the global market. To understand this linkage is necessary to consider Smith's considerations on the division of labour. The author of *WN* states that there is direct proportionality between the level of the productivity and the level of labour division, and then, he demonstrates that it depends on the extension of market itself. Hence, according to Smith, productive efficiency depends both on the labour division and on the extent of the final market outlet: "as it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market" (Smith 1776 [1952]:8), and thus "the certainty of being able to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he may have occasion for, encourages every man to apply himself to a particular occupation, and to cultivate and bring to perfection whatever talent or genius he may possess for that particular species of business" (Smith 1776 [1952]:7). Further, the author of *WN* assumes that the origin of the division of labour lies in human natural disposition to exchange goods "as it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour" (Smith 1776 [1952]:7). Therefore, an increase of production is caused by an intensification of division of labour and consequently, an expansion of final market outlet is promoted by an augmentation of production. So that, "removing various impediments to trade in domestic markets would allow the size of the market to expand and with it the

³ The full text of the interview given by Amartya Sen on 31 August 1998 can be consulted online in its Italian version on the website of *Rai Educational Multimedia Encyclopaedia of Philosophical Sciences*: <<http://www.emsf.rai.it/scripts/interviste.asp?d=447>> which was accessed on 20th May 2011.

division of labour. Similarly, removing impediments to international trade would promote the division of labour within the trading countries and also globally. Smith commented as follows on the early stages of the international division of labour: “the commerce of a great part of Europe in those times [from the time of the Crusades] [...] consisted chiefly in the exchange of their own rude, for the manufactured produce of more civilized nations” (Smith 1776 [1952]:173). Of course, this embryonic stage of international division of labour arose even there were significant obstacles to trade of all types” (Alvey 2003:4-5). Hence, the human disposition to exchange could be shown both on a national and an international level. Sen highlights the attention paid by Smith to the role played by division of labour and exchange of goods in generating efficiency. Regarding this, Sen states that division of labour is important because the considerable economic progress which has characterized the world economic history from Smithian epoch is largely based on division of labour whose efficiency depends on the specialization of the economies of grand scale as well as the possibility of exchanging the goods produced. This consideration brings Sen to conclude that it is necessary to stress the central role played by division of labour in supplying the global market with goods in order to understand the expansion of European or American economies, and then towards the beginning of the twentieth century, the economic growth of Japan, and more recently, of the Oriental Asian economies (Sen, interview, 31 August 1998).⁴

It will be evident from what has been presented so far in this paragraph that globalization could be defined as global market where the goods produced through both a national and a global division of labour are exchanged. In fact, global market is generated by the interconnection among different national markets. Just as it is advantageous for people to focus their efforts on producing the kind of goods for which they have a natural flair, it should be profitable that two or more nations, two or more regions become specialized in producing a particular set of goods for which they are specialised and that they mutually benefit from the exchange of these goods

⁴ See note no. 3.

through market mechanisms. Moreover, “that trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both” (Smith 1776 [1952]:209). This last observation allows the introduction of the link between globalization and freedom. As Sen explains in *Development as Freedom* (1999), the global market may be one of the instruments to promote development as freedom. In the next paragraph, this aspect will be investigated as well as the conditions which, on the base of Sen’s economic and moral thought, are to be respected to make the world market an instrument to advance freedom.

**THE POTENTIAL SOCIAL POSITIVE OUTCOME OF GLOBALIZATION:
GLOBAL MARKET AS AN INSTRUMENT TO PROMOTE DEVELOPMENT**

Thanks to the analysis of Sen’s thought, it is possible to suppose that the world division of labour and the world interconnection of national markets may produce a social positive outcome: the expansion and the expression of human freedom. In order to understand this statement and to show its adherence to reality, it is necessary to introduce Sen’s capability approach. Sen explores the capability approach, both conceptually and in terms of its empirical implications, in different works.⁵ This approach is characterized by two main concepts: functioning and capability. According to Sen, a functioning “is an achievement of a person: what he or she manages to do or to be, and any such functioning reflects, as it were, a part of the state of that person. The capability of a person is a derived notion. It reflects the various combinations of functionings (doings and beings) he or she can achieve” (Sen 1989: 44). Hence, the concept of functioning “reflects the various things a person may value doing or being. The valued functionings may vary from elementary ones, such as being adequately nourished and being free from avoidable disease, to very complex activities or personal states, such as being able to take part in the life of the community and having self-respect” (Sen 1999:75), whereas, the notion of capability set refers to the

⁵ Sen (1980, 1984, 1985a; 1985b, and 1988a).

“alternative combinations of functionings that are feasible for her to achieve. Capability is thus a kind of freedom: the substantive freedom to achieve alternative functioning combinations (or, less formally put, the freedom to achieve various lifestyles). For example, an affluent person who fasts may have the same functioning achievement in terms of eating or nourishment as a destitute person who is forced to starve, but the first person does have a different “capability set” than the second (the first can choose to eat well and be well nourished in a way the second cannot)” (Sen 1999:75).

Therefore, the capability approach connects the human social-economic well-being to the extension of the capability set and to people’s freedom of achieving their own life style, and considers the economic wealth not as an end but only one of the means to expanding the capability set. As a consequence, “poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes” (Sen 1999:87) such as the possibility to have an active role in the society.⁶ It is now possible to show how Sen draws on and implements Smith’s thought in order to put into action his *capability approach* to define and measure the effective development of a country. At this regard it is useful to remember that Smith distinguishes consumable commodities between *necessaries and luxuries* and defines necessities “[...] not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and the Romans lived, I suppose, very comfortably though they had no linen. But in the present times, through the greater part of Europe, a creditable day labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a necessary of life in England. The poorest creditable person of either sex would be ashamed to appear in public without them” (Smith 1776 [1952]:383). Sen

⁶ See Sen (1981, 1984, and 1997a) in order to delve into Sen’s vision of poverty.

uses this passage to introduce his concept of capability and to show how in Smithian thought there is a great interest in capabilities such as “the ability to appear in public without shame (rather than only with real income or the commodity bundle possessed)” (Sen 1999:73). This observation allows to highlight how Smith tries to go beyond the data of incomes because he judged the commodities owned by a person not on the basis of their intrinsic value but on account of their potential for being used by his/her owner as means to achieve his/her lifestyle.

The concept of capability is helpful to show how, from Sen’s point of view, the global market may be an instrument to promote development as freedom. Sen defines development as “a process of expanding the real freedoms that people enjoy” (Sen 1999:3) and as “an integrated process of expansion of substantive freedoms that connect with one another” (Sen 1999:8). The innovative aspect of this definition is that the idea of development is focused on the level of freedom rather than on the level of quantitative economic indicators such as Gross National Product (GNP) per capita. Indeed, Sen observes that this notion of development “focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization. Growth of GNP or of individual incomes can, of course, be very important as means to expanding the freedoms enjoyed by the members of society. [...] Similarly, industrialization or technological progress or social modernization can substantially contribute to expanding human freedom” (Sen 1999:3). Thus, there is development when there is an advancement of the freedom of choice for every person, and consequently, an expansion of the capability set of everyone. In fact, Sen defines freedom as the possibility to increase the capability set and to achieve alternative functioning combinations. In order to gain this substantive freedom, Sen identifies five kinds of freedom which are defined as instrumental because they are the instruments to promote development as freedom to increase the capability set of everyone: political freedoms, economic facilities, social opportunities, transparency guarantees

and protective security (Sen 1999:38-40). *Political freedoms* concern civil rights and political entitlements associated with a democratic government such as freedom of choice, word, expression, and belief. The *economic facilities* refer to the socioeconomic assets which allow people to use economic resources for consuming, or producing, or exchanging.

Social opportunities are government and non-government initiatives which are set up by society to guarantee that individuals can effectively take part in social and economic life. For example, the welfare policies, the programmes aimed to fight premature mortality, illiteracy and unemployment. This kind of freedom reflects a central Smithian consideration concerning social policy: “the education of the common people requires, perhaps, in a civilised and commercial society the attention of the public more than that of people of some rank and fortune” (Smith 1776 [1952]:341). By applying this observation to the contemporary socioeconomic system, Sen notes that “illiteracy can be a major barrier to participation in economic activities that require production according to specification or demand strict quality control (as globalized trade increasingly does)” (Sen 1999:39).

Transparency guarantees refer to openness, disclosure and lucidity which have to be guaranteed to every person participating in social and economic life of a community through the central role of the policy maker in preventing illegal phenomena such as corruption, financial irresponsibility and black market. The role of the policy maker in promoting transparency guarantees described by Sen reflects the first two of the three main duties which should be attended to by who governs a country according to Smith’s point of view: “first, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice” (Smith 1776[1952]:300). *Protective security* regards the intervention aimed to “provide a social safety net for preventing the affected population from being reduced to abject misery, and in some cases even starvation and death. The domain of protective security includes fixed institutional arrangements such as unemployment benefits and statutory

income supplements to the indigent as well as ad hoc arrangements” (Sen 1999:40). The protective security corresponds to the third duty that Smith attributes to the policy maker: “the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society” (Smith 1776 [1952]:300).

The definition of these five instrumental freedoms makes it possible to understand how, according to Sen’s economic and moral thought, the global market may be an instrument to promote development. Indeed, the global market can be seen as the expression of three of the five instrumental freedoms: *economic facility*, *social opportunity* and *political freedom*. The global market may be, on one hand, the place where people exchange the products of their work, ability and talent (economic facility), and, on the other hand, the opportunity to effectively take part in social and economic life (social opportunity). Moreover, Sen underlines that market may represent the freedom of expression which is one of the political freedoms. In fact, “the freedom to exchange words, or goods, or gifts does not need defensive justification in terms of their favourable but distant effects; they are part of the way human beings in society live and interact with each other (unless stopped by regulation or fiat). The contribution of the market mechanism to economic growth is, of course, important, but this comes only after the direct significance of the freedom to interchange –words, goods, gifts– has been acknowledge” (Sen 1999:6) so that it is possible to state that participating in global market may be both exercise and expression of freedom.

The linkage between development and market, which is highlighted by Sen’s thought, is already present in seminal form in WN where Smith establishes a connection between civilisation and network of trade. The author of WN defines civilisation as the historical process which brought human beings to develop a social system which guarantees to its components the opportunity to achieve important functionings such as appearing in public without being ashamed. Indeed, Smith points out that “the nations

that, according to the best authenticated history, appear to have been first civilised, were those that dwelt round the coast of the Mediterranean Sea” (Smith 1776 [1952]:9). This was made possible because the characteristics of the Mediterranean Sea have always been encouraging and favourable for shipping and trading; so that “it is natural that the first improvements of arts and industry should be made where this conveniency [the advantages of water-carriage] opens the whole world for a market to the produce of every sort of labour” (Smith 1776 [1952]:9).

Smith and Sen are interested not only in culmination outcomes but also, and above all, in comprehensive outcomes.⁷ To well understand how these two kinds of outcomes differ from each other it is necessary to comprehend both Smith’s and Sen’s thoughts. *Culmination outcomes* are only final results without taking into account the process which has produced them; for example, considering the growth of the level of GDP without noting if this increase has been promoted by a dictatorial government or by a democratic one which incentives a competitive market system. *Comprehensive outcomes* are final outcomes where the process which has promoted them is taken into consideration. On the base of the distinction between comprehensive outcomes and culmination outcomes, the efficiency of market mechanism may be evaluated not only by considering its ability to produce positive culmination outcomes but also by taking into account the process through which it achieves them. Indeed, the growth of productivity and economic wealth may be encouraged by a situation, such as the market mechanism, which, under certain conditions, is able to encourage the expression of freedom. From this point of view, Sen, in the wake of Smith, shifts the attention from utility to freedom in order to promote a new way to define and then evaluate development.⁸ This new tendency has been stressed by important economists such as J.R. Hicks who comments on this subject as

⁷ On Sen’s distinction between culmination outcomes and comprehensive outcomes, see Sen (1993, 1994, 1997b).

⁸ In order to delve into Sen’s reservations concerning utilitarianism, it is useful to read Sen (1973, 1979, and 1992).

follows: “the liberal, or non-interference, principles of the classical (Smithian or Ricardian) economists were not, in the first place, economic principles; they were an application to economics of principles that were thought to apply to a much wider field. The contention that economic freedom made for economic efficiency was no more than a secondary support” (Hicks 1981:138).

The attention paid to the comprehensive outcomes led Smith, and then Sen, to focus on how the market should be regulated. In fact, after having spoken about the potential positive effects of global market, it is necessary to ask under what conditions the market might be expected to produce positive social outcomes. The next paragraph is aimed at trying to offer a potential answer to this question by providing an analysis of Smith’s and Sen’s thought concerning regulatory role played by policy makers. In fact, Sen states that “global trade and commerce can bring with it –as Adam Smith foresaw– greater economic prosperity for each nation. But there can be losers as well as gainers, even if in the net the aggregate figures move up rather than down. In the context of economic disparities, the appropriate response has to include concerted efforts to make the form of globalization less destructive of employment and traditional livelihood, and to achieve gradual transition” (Sen 1999:240). Therefore, the global market may get positive outcomes through socio-economic policies aimed at coordinating the concerted efforts of States and international organizations.⁹

**THE PRIMACY OF THE SOCIO-ECONOMIC OBJECTIVES:
THE ROLE OF THE POLICY MAKER IN THE GOVERNING
OF THE GLOBAL MARKET**

The importance of the role of the policy maker in promoting economic growth as well as social well-being was highlighted by Smith who underlined

⁹This conclusion drawn from the analysis of Sen’s thought reflects the following consideration of J.E. Stiglitz: “the problem is not with globalization per se, but with the way it has been managed” (Stiglitz 2005:229)”. This consideration about a link between Sen’s thought and Stiglitz’s one may be taken into account to develop future studies concerning the analysis of economic thought on globalization.

the role of government in a *system of natural liberty* which emerges when all systems either by preference or by restraint are completely taken away (Smith 1776 [1952]:300). In such a system, “every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men” (Smith 1776 [1952]:300), but, at the same time, the “[...] exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments, of the most free as well as of the most despotical” (Smith 1776 [1952]:140). In fact, according to Smith, in a system of natural liberty, the government has only the following three duties: protecting the society from external attacks, guaranteeing a right administration of justice, and erecting and maintaining public institution for social assistance (Smith 1776 [1952]:300).

Sen contributes to the debate on the role which should be played by the government –and by other national and international institutions– in the functioning of markets¹⁰ by describing the tasks to be performed by every policy maker both on national and on international levels. These tasks can be divided into two groups: (1) reducing the negative outcomes of the global market, and (2) ensuring freedom of access to global market; it is clear that “several analysts have pointed at the connection that appears to exist between the openness of countries to the International economy and the importance of the government of market (*e.g.* Cameron 1978; Rodrick 1997)” (Hout 2004:33). According to Sen, “the freedom to enter markets can itself be a significant contribution to development, quite aside from whatever the market mechanism may or may not do to promote economic growth or industrialization. [...] and so the freedom to participate in economic interchange has a basic role in social living” (Sen 1999:7). More specifically, Sen stresses the role of policy makers in preventing monopolies which are one of the major limitations both to the freedom to access markets and to the positive outcomes which come from the free participation to market

¹⁰ On this debate, see particularly Malinvaud *et al.* (1997), and Rodrick (1999).

exchanges. Regarding this, it is significant to draw on Smithian reflection on monopoly: “the monopoly hinders the capital of that country, whatever may at any particular time be the extent of that capital, from maintaining so great a quantity of productive labour as it would otherwise maintain, and from affording so great a revenue to the industrious inhabitants as it would otherwise afford. But as capital can be increased only by savings from revenue, the monopoly, by hindering it from increasing so fast as it would otherwise increase, and consequently from maintaining a still greater quantity of productive labour, and affording a still greater revenue to the industrious inhabitants of that country. One great original source of revenue, therefore, the wages of labour, the monopoly must necessarily have rendered at all times less abundant than it otherwise would have been” (Smith 1776 [1952]:265).

Smith connected this reflection to the use of political influence for achieving economic advantages, and Sen returns to this consideration to affirm that global market should be regulated by policy makers who subordinate their personal interests to those of State and who adopt laws against monopolistic groups (Sen 1999:125-128). This means, according to Sen, not only to contrast monopoly but also to fight against both a personal use of political power and the efforts of the traders or entrepreneurs to influence policy makers, which is a consideration showing points of contact with Smith’s words: “the interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens. The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It

comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it” (Smith 1776 [1952]:110). Therefore, from Sen’s and Smith’s perspective, the governments should try, both on national and international level, to not exclude anyone from the advantages of the enlargement of market. This enlargement could bring positive outcomes which should be profitable not only for who promote this expansion but also for people belonging to the areas where the market has been enlarged. To historically support this statement coming from the analysis of Smith’s and Sen’s thought, it is useful to introduce the Smithian reflection on the new opportunities of economic and social development generated by the discovery of America which caused a great expansion of European market. Smith highlights that such market expansion brought significant economic and social advantages to European, and so to British populations, but at the same time disadvantages to South American countries because of the savage injustice of Europeans: “by opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labour and improvements of art, which in the narrow circle of the ancient commerce, could never have taken place for want of a market to take off the grater part of their produce. The productive powers of labour were improved, and its produce increased in all the different countries of Europe, and together with it the real revenue and wealth of the inhabitants. The commodities of Europe were almost all new to America, and many of those of America were new to Europe. A new set of exchanges, therefore, began to take place which had never been thought of before, and which should naturally have proved as advantageous to the new, as it certainly did to the old continent. The savage injustice of the Europeans rendered an event, which ought to have been beneficial to all, ruinous and destructive to several of those unfortunate countries” (Smith 1776 [1952]:191).

To limit the injustices affecting those who are excluded from taking part in the global market, Sen says, policy maker’s intervention is necessary because people who are excluded have not the means necessary to take advantage

of the opportunities given by global trade (Sen, interview, 31 August 1998).¹¹ This can happen because of illiteracy, the absence of basic health conditions, and social exclusion. On this issue, Sen stresses the importance of non-market institutions with which every State should collaborate in order to reduce inequalities in sharing the potential gains coming from global market. In fact, “the benefits of the market economy can indeed be momentous, as the champions of the market system rightly argue. But then the non-market arrangements for the sharing of education, epidemiology, land reform, micro-credit facilities, appropriate legal protections, women’s rights and other means of empowerment must also be seen to be important even as ways of spreading access to the market economy”.¹² At this point it is possible to summarise the double role which should be played by States, through their policies, in limiting the negative outcomes of global market and in guaranteeing the free access to it: on a national level, the supportive role of policy makers in enhancing the effective freedoms of individuals and, on an international level, the commitment of States to make a variety of global social and economic policies in order to guarantee a free access to global market.

After having described how the analysis of the links that exist between Sen’s thought and Smith’s one leads to give importance to the role played by policy makers in regulating global market, it is necessary to introduce an ethical consideration based on Sen’s moral theory: the global market can develop its potential benefits if the action of the actors taking part in the global economy follow a specific typology of ethics, and so it is necessary to investigate into Moral Philosophy in order to discover a right ethical principle which can guide the behaviour of single economic agents. A wide group of scholars highlights the need to enrich and improve economic studies through Ethical Theory (*e.g.* Stiglitz 2006, Sen 1988b, Broome 2008).

¹¹ See note no.3.

¹² This quotation is taken from the talk given by A. Sen at a seminar on Globalization arranged by the Falcone Foundation, in memory of Giovanni Falcone, on 23 May, 2001. The full text can be consulted on the following website: <http://www.fondazionefalcone.it/a_attivita/c_AT2.htm> which was accessed on 9th June 2011.

At this regard, Sen tries to promote a model of Ethics which can both favour the emergence of potential benefits of global market and overcome the plural affiliations which characterize the contemporary multicultural society where people “have multiple identities, and that each of these identities can yield concerns and demands that can significantly supplement, or seriously compete with, other concerns and demands arising from other identities” (Sen 2002:42). Hence, the problem arises of finding a common and global ethics which can guide human behaviour without generating homologation. In order to solve this problem, Sen suggests to adopt the position of the impartial spectator elaborated by Adam Smith in the work *The Theory of Moral Sentiments* whose content is influenced by Francis Hutcheson (Pesciarelli 1999) who taught Moral Philosophy to Adam Smith at Glasgow University. Adam Smith explains the position of the impartial spectator in the following passage: “when I endeavour to examine my own conduct, when I endeavour to pass sentence upon it, either to approve or condemn it, it is evident that, in all such cases, I divide myself, as it were into two persons; and that I, the examiner and judge, represent a different character from that other I, the person whose conduct is examined into and judged of. The first is the spectator, whose sentiments with regard to my own conduct I endeavour to enter into, by placing myself in his situation, and by considering how it would appear to me, when seen from that particular point of view. The second is the agent, the person who I properly call myself, and of whose conduct, under the character of a spectator, I was endeavouring to form some opinion. The first is the judge; the second the person judged of. But that the judge should, in every respect, be the same with the person judged of, is as impossible that the cause should, in every respect, be the same with the effect” (Smith 1759 [2009]:96).

This notion is elaborated by Amartya Sen who explains that “we are asked to imagine how a spectator who is not directly involved in the competing claims, and who is impartial, may view a situation of conflict, or more generally a situation in which there are both some congruence and some conflict of interest. The demand is to work out how they would look to an outsider who disinterestedly seeks a just solution” (Sen 2002:44-45).

The thought experiment of judging personal actions according to the point of view of an impartial spectator makes it possible to overcome the multiple affiliations because “[...] it is a formalization of an informal –and pervasive– idea that occurs to most of us. Space does not have to be artificially created in the human mind for the idea of justice or fairness–through moral bombardment or ethical haranguing. That place already exists, and it is a question of making systematic, cogent and effective use of the general concerns that people do have” (Sen 1999:262).

CONCLUDING REMARKS

By analysing the influence of Adam Smith’s thought on Amartya Sen’s one about the global division of labour, the analysis of the role of policy makers, and about the necessity of an ethic which guides the behaviour of economic agents (see the first paragraph and the third one), we have reached a definition of globalization based on the idea that potential social positive outcomes of the global market depend on the way it is governed. In fact, according to Amartya Sen, “the problems that arise [from the market system] spring typically from other sources –not from the existence of markets per se– and include such concerns as inadequate preparedness to make use of market transactions, unconstrained concealment of information or unregulated use of activities that allow the powerful to capitalize on their asymmetrical advantage. These have to be dealt with not by suppressing the markets, but by allowing them to function better and with greater fairness, and with adequate supplementation. The overall achievements of the market are deeply contingent on political and social arrangements” (Sen 1999:142). Hence, from Sen’s perspective, it should be carried out socio-economic policies which have the ability to develop the potential benefits of the market mechanism which may be an instrument to promote development as freedom, as has been explained in the second paragraph. Focusing on the governing aspect means adopting a *rationalistic approach* which takes into consideration the unintended consequences in order to plan social and economic reforms. The thesis of unintended consequences is centred on

the fact that one reform can achieve an effect which was nor intended neither anticipated by the reform itself. The rationalistic approach moves from Smithian reflection.

In the famous passage from Smith's *WN*, "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith 1776 [1952]:7), it is possible to note that the butcher, the brewer and the baker follow their own interest (earning) but, at the same time, they are unintentionally useful to other people: the consumers satisfy their needs by buying the products of the sellers, and, the consumers unintentionally fulfil the needs of the sellers by buying the products sold. Such considerations represent the beginning of the theory of unintended consequences which were developed by Carl Menger (1883 [1985]), and later on, by Friedrich von Hayek (1967). On this regard, Sen highlights that the unintended consequences can reasonably be made predictable; in fact, "the butcher may predict that exchanging meat for money not only benefits him, but also the consumer (the buyer of meat). [...] An unintended consequence need not be unpredictable, and much depends on this fact. [...] If this is the way the idea of unintended consequences is understood (in terms of anticipation of important but unintended consequences), it is in no way hostile to the possibility of rationalistic reform. In fact, quite the contrary" (Sen 1999:257). Therefore, policy makers should adopt a rationalist approach contemplating the unintended consequences when they have to plan a socioeconomic reform aimed to regulate the global market. At the same time, one has to keep in mind the impossibility to predict all the potential unintended consequences because, otherwise, there will be a situation characterized by a feeling of false security which would undermine the ability to react to unexpected events. So that there may exist the possibility to face a situation where the security to forecast all the unintended consequences causes the impossibility to forecast a predictable consequence.

In conclusion, it would be fruitful to verify both if the definition of globalization here presented is able to describe the contemporary reality, and if this definition may be used to evaluate the present and past policies

of governance of the global market by using the existing socio-economic indicators and indexes or by creating new ones. Data must be used not only to develop descriptive analyses of a reality studied, for example the global market, but also to evaluate the chosen way to regulate it and identify its efficient and inefficient aspects. So that it would be possible to put into action specific strategies aimed at implementing the positive outcomes of the adopted socioeconomic policy. This consideration underlines the necessity both to encourage further reflections on recent debates on global governance (Jayadev 2010), and to enrich these debates by Moral Sciences studies with the purpose of developing an Ethics which respects the contemporary multicultural context of the present global economy.

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