

## **Why fairness is back on the global economic agenda**

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The recent outcry against executive bonuses at AIG and Nortel makes it clear that the issue of fairness is back on the economic agenda. People are starting to ask uncomfortable questions about who's to blame for the current crisis, who should pay—and who simply shouldn't be paid. While some might see this as temporary distraction, it's more likely to be the first sally in a protracted battle over the fairness the current economic system. If ignored, it's an issue that could easily undermine the efforts of global leaders to rebuild the world economy.

Why give credence to such ethical challenges? Why not simply dismiss criticisms of executive pay, as the editor of the *Financial Post* has done, as efforts to politicize a private economic matter? Because the market economy has always been based on a set of moral and political promises.

We forget that Adam Smith, the father of modern economics, held a Chair in Moral Philosophy at Glasgow University. He argued that the "invisible hand" of the market economy was not just economically efficient, but also politically and morally beneficial—ensuring that the pursuit of individual self-interest would ultimately provide for the public good.

There is a deal of sorts at the heart of the modern economic system: as long as the pursuit of private interest supports the public good, the public—government and taxpayers—will provide the rules and the financial support necessary for the market to function.

While things are going well, as they did over the past decade, questions of fairness—the trade-off between public and private benefits, and between winners and losers—tend to get forgotten. A bigger pie means that there's less incentive to struggle over the relative size of each slice.

But what happens when things go badly? When the promised convergence of private interest and public good goes awry and taxpayers are on the hook for all of that self-interest?

Then issues of fairness come back to the forefront, and often take a political form. If a recession means that a warehouse full of potatoes goes unsold, then we're left with a mess and a bad smell. If that same recession gets serious enough that several hundred thousand people lose their jobs, then they aren't as likely to accept their fate as the sacks of potatoes. Multiply that problem a few times and you have a powerful protest on your hands.

Economics is always, at the end of the day, political.

So far, most of the cries of unfairness have taken aim at domestic economic rules around executive pay or employment insurance payouts. As the economic crisis continues, we are likely to hear calls for greater fairness at the international level as well.

As we have been forcefully reminded over the past year, we are living in a highly interdependent globalized economy. Economic globalization is not automatic. It is the result of many decades of political negotiation, persuasion (and coercion)—think of the protracted debates over NAFTA.

The gradual spread of globalization around the world rested on a promise of fairness: that global economic integration and liberalization will benefit all—not just industrialized countries, and not just the elite in emerging and developing market economies.

Yet the current crisis will very likely put into serious question the fairness of the global financial system.

Sure, Iceland and Hungary may have over-borrowed and overspent—but they did so while following the same basic economic model that was pushed by the advocates of globalization. And how fair is it that the Asian economies that worked so hard to build up foreign reserves after their last crisis are now facing a plunge in exports due to Western economic mismanagement? Or that African countries that had finally started to benefit from higher commodity prices are now facing their collapse—along with likely reductions in foreign aid? Or that the Americans, who got us into this mess, can borrow and spend enough to protect their population from the worst of the recession's effects, while many less blameworthy governments have had to make painful budget cuts?

Even here in Canada, where we like to preach that we're one of the few virtuous economies with a relatively stable banking system, we've been blindsided by a crisis that we didn't create.

The inequality of the current global economic crisis is going to produce some very difficult questions about fairness. This renewed debate is both good and bad news for those currently trying to solve the financial crisis—both here in Canada and at the G20 meeting in London next week. It's bad news because such debates will be destabilizing in the short term, and because issues of fairness will be difficult to address without some pretty significant changes to the current system.

But it's good news because the long-term sustainability of any economic system depends on its legitimacy. Any economic system has to work for everyone if it is to work at all.

Rather than pretending that calls of unfairness are merely distractions, our leaders need to start addressing this issue. The success of our efforts to rebuild the current financial system will depend on their response.

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