# Globalization, Greed, and Exploitation

How to break the baleful path?

**Albrecht Söllner, Europa-Universität Viadrina, Frankfurt an der Oder**

Prof. Dr. Albrecht Söllner
Europa-Universität Viadrina, Frankfurt (Oder)
Lehrstuhl für Allgemeine Betriebswirtschaftslehre,
insb. Internationales Management

Große Scharrnstr. 59
15230 Frankfurt (Oder)
Tel. +49-335 5534 2269
Fax. +49-335 5534 2349
e-mail: soellner@europa-uni.de

# Globalization, Greed, and Exploitation

## How to break the baleful path?

**Abstract**

During the last decades a globalized and free market economy has become the worldwide accepted paradigm for organizing economic affairs. Indeed many positive effects of globalization have materialized and improved the wellbeing of humans particularly in the poorer parts of the world. However, there is a dark side to globalization – negative external effects, e.g. the exploitation and destruction of natural resources - that is causing growing discontent. Different initiatives have been taken in order to deal with the deficits of globalization but have not jet resulted in a resounding success. This paper deals with the downsides of globalization. After presenting some examples for negative side effects of our current economic system, it is argued that capitalism is not only promoting growth through innovation, but that it is following a path of greed and exploitation. Path dependence theory it used to deduce self-reinforcing mechanisms that lead into a lock-in of the current path and make it hard to alter its course. Against this background, three suggestions to tackle the deficits of globalization – the Principles of Responsible Education (PRME), the attempt to restrict globalization (e.g. Steingart), and the implementation of a global governance system (e.g. Homann) – are presented and critically discussed. Finally a conclusion is drawn: A sequenced approach of education / sanction / and institution building might fasten up the slow moving process of breaking the path and of fixing the shortcomings of globalization.

### 1. Introduction

"It´s the economy, stupid" - a slight variation of a phrase coined by Bill Clinton´s campaign strategist James Carville during the 1992 presidential campaign – suggests that the economy has taken on a new and determining role in a globalized world. Twenty years later the simple question is: has it taken on this role for the better or the worse of societies and human beings?

Some positive effects of globalization – as promised in the classical contributions from Adam Smith and David Ricardo and the contributions from the new conceptual classics like Paul Krugman – are clearly visible. However, there is also growing discontent with other effects of globalization. This contribution looks at the promises of a globalized world that have not been kept. Looking at the results of globalization that are more than just collateral damages, it is to be feared that the globalized economy is following a path of greed and exploitation rather than a path of growth through innovation.

Thus, the purpose of this contribution is threefold:

- After discussing some discontents of globalization in the second paragraph, the emergence of a path of greed and exploitation is discussed and substantiated building on path dependence theory in the third section of the article.
- Three suggestions how to break the ominous path – creating the "responsible" manager, turning back the wheel of globalization, and governing globalization via an institutional

environment – are presented in the fourth passage and each suggestion is critically evaluated as to its suitability to cope with the shortcomings of globalization and to change the path.

- Finally, a conclusion is drawn in the fifth section, claiming that a combination of the three proposals might bear fruit and that the sequencing and pacing of the three policies is of overall importance. A sequenced approach of education / sanction / and institution building could fasten up the slow moving process of fixing the shortcomings of globalization.

## 2. Promises and Discontents of Globalization

Globalization describes the removal of trade barriers and the opening up of sales and procurement markets. In other words, globalization in an economic sense refers to markets and production. It results in an increased degree of the international division of labor and international trade. Many firms do not act within the national borders of a country anymore, but worldwide.

According to Adam Smith, globalization promises an increase in wealth and extended consumption of desired products and services. In his groundbreaking book *The Wealth of Nations (Smith 1776),* he claims that countries differ in their efficiency to produce goods. Countries that specialize in the production of goods for which they have an *absolute advantage* will benefit from trading those goods for goods produced in other countries. David Ricardo in his book *Principles of Economy and Taxation* (Ricardo 1817) developed Smith´s theory further, showing that trade would also be beneficial in cases in which a country (or a region, a company, or an individual) does not have an absolute but a comparative advantage, meaning that it can produce a good at a lower opportunity cost than the trading partner.

Increasing economies of scale as a result of specialization or the fact that consumers can choose from a higher variety thanks to international trade (Krugman 1979) – even though the worldwide variety of products declines – are additional arguments.

An important – if not the most important – driving force behind the potential gains from globalization is competition. Competition has been defined by George G. Stigler (1987) as “a rivalry between individuals (or groups or nations), and it arises whenever two or more parties strive for something that all cannot obtain”. In markets, this rivalry exists among companies that strive for turnover and profits. Profit is the criterion by which the economic system selects survivors: those who realize profits are the successful and efficient ones and get rewarded; those who suffer losses are punished by the market mechanism and disappear (Alchian 1950, 213). It is this massive incentive for efficiency and performance that drives innovation and creates value. It is the key argument in favor of liberal markets and rightly the starting point of any reasonable discussion about economic systems.

Globalization has intensified competition, thus being a potential source of even higher economic performance.  However, taking recent developments into account might force us to reconsider the positive effects of global competition. It is true that competitive pressure has resulted in some noteworthy innovations. If we are honest, however, much of what we regard as innovation will turn out to be hazardous (electronic) trash only a few months after the goods have been packed. Overcapacities lead firms to push products into the market by convincing customers to replace their previous goods even though there is no real demand. This type of throw-away economy hardly deserves to be named sustainable, responsible, or efficient. And while it really is debatable if child labor is unethical or not, considering the fact that for many families in the developing world the choice is between child labor or malnutrition and disease (Shleifer 2004, 414), it is beyond any debate that the vast production of negative external effects is unethical and unsustainable.

- Under the title "Turn Down the Heat. Why a 4°C Warmer World must be Avoided" a report published in November 2012 by the World Bank and prepared by the Potsdam Institute for Climate Impact Research and Climate Analytics warns of a dramatically warmer world to become reality in this century: Extreme heat-waves, life-threatening sea level rise and other adverse effects of global warming are "tilted against many of the world's poorest regions" and likely to undermine development efforts and goals (World Bank 2012).
- At the same time, political leaders like Germany´s Minister of the Environment, Peter Altmaier, admit that policy is not going to seriously deal with the problem. Meetings like the 2012 UN Climate Change Conference in Doha will not result in the necessary steps to reduce $CO^2$ emissions, leaving the problems for future generations. A roadmap for negotiating a new treaty is going to be the maximum result that can be hoped for.
- What is to be observed, however, is the widespread use of "cheap" and "clean" nuclear power. Governments and politicians – most of them not able to run a proper public transport system in their capitals – do not feel ashamed to promise that they have the risks of nuclear waste under control for tens of thousands of years. The fact that currently not even the temporary storage sites for nuclear waste fairly work and that the "storage" of nuclear waste has become a lucrative business for the mafia who drops the waste into the Mediterranean Sea, does not seem to impress them.

Global warming and nuclear waste are just two examples for negative external effects that are also caused by a tough global competition and the resulting hunger for cheap energy. Negative external effects are not a coincidental phenomenon, but rather the permanent companion of globalization. That is why the need to be considered in the globalization debate. Figure 1 is summarizing the most important effects in connection with a globalized economy.

Typically production cost per unit are falling with an increasing degree of the international division of labor (see production cost curve) while the transaction cost are increasing with an intensified global cooperation (see transactions cost curve), due to the need of coordination. Actually the transaction costs can become so high, that they spoil the whole benefit of globalization. Therefore, in order to determine an optimal degree of globalization (= degree of international division of labor), both costs – production costs and transaction cost per unit – need to be considered in a total cost contemplation. The optimal degree of globalization, however, can be influenced. We have witnessed falling transactions costs in the last twenty years due to technological advances and political will (see the transaction costs reduced curve in the figure). As a result the total cost minimum is shifted to the right, calling for an intensified division of labor.

As the degree of globalization is extended the negative external effects increase (see external cost curve). The extent of negative external effects increases with the degree of globalization for two reasons: First, intensified global competition forces corporations to cut their costs. This is motivating a behavior that "socializes" costs. Secondly, the institutional voids in the system of global governance enable firms to cut their cost by allowing for a exploitation and destruction of the environment. Without considering the negative external effects, reduced transaction costs and falling production costs per unit suggest an increase in the degree of the international division of labor. The internalization of external cost, however, would shift the "optimal" degree of globalization in the other direction (see total costs [external effects included] curve).

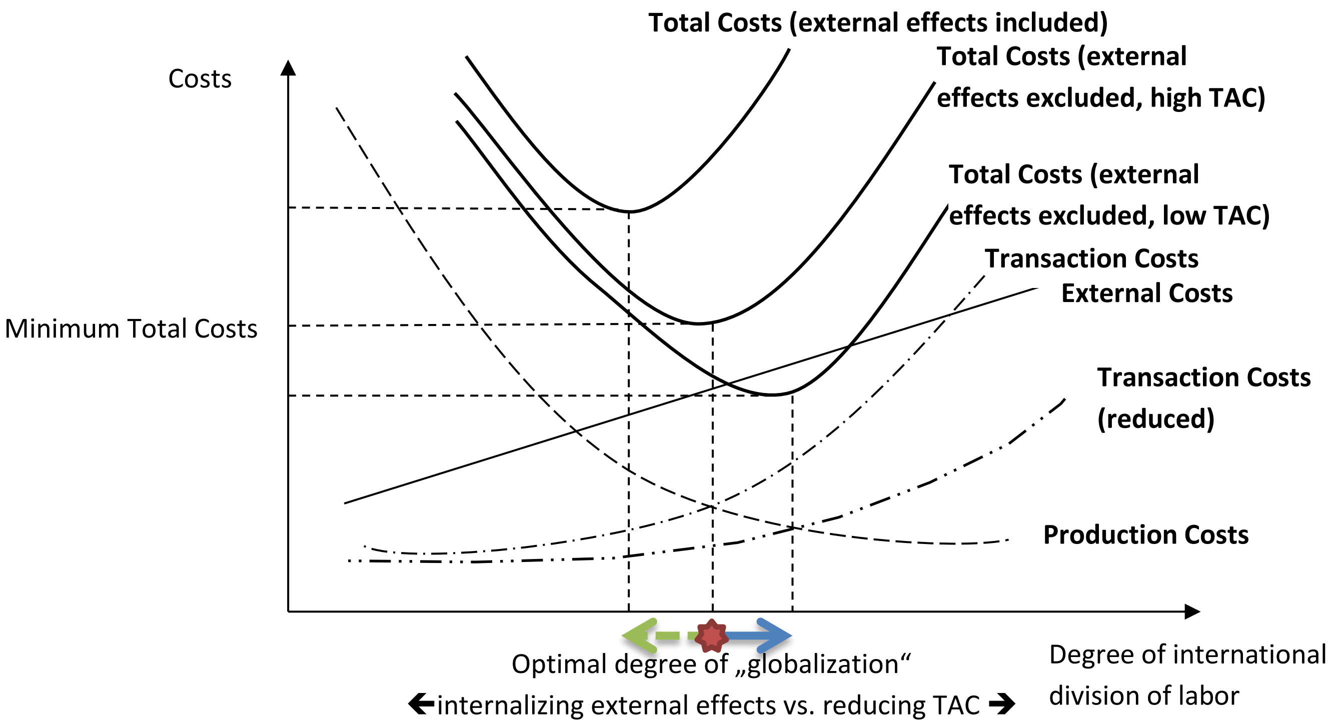


Figure 1: Cost effects of globalization and their impact on the degree of international division of labor

The market seems not to correct the malfunctions of global competition by inducing the internalization of external effects in spite of Andrei Shleifer´s hope that "(a)s societies grow richer, their willingness to pay for ethical behavior, through both government enforcement and private choice, increases as well" (Shleifer 2004, p. 418). A closer look unveils this argument as a pious hope in spite of some very responsible consumer segments. People might show what could be called a CIMBY (clean in my back yard) behavior. They demand pleasant and healthy living conditions in their neighborhood. At the same time most of them purchase low-priced products and do not really care or have not got the information about where they come from and how they were produced. With competitive pressures on the labor market, stagnant or falling real earnings for large parts of the labor-force in the "rich" countries, and a widespread value system that esteems humans according to what they own, this kind of buying behavior is not likely to change soon. A company that cannot meet the low-price expectation will soon have to leave the market in most market segments.

By the way: Who are the "rich societies" anyway? A look at the debt per capita of two of the "richest" countries in the world – the US and Germany – shows a staggering increase in national debt adding another case to the two above mentioned examples of greed and exploitation: The unimaginable amount of money spent at the expense of future generations.

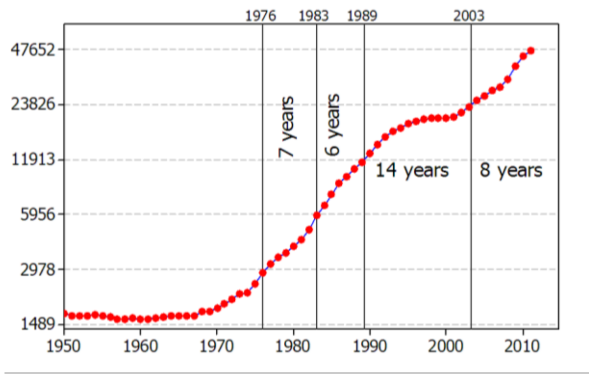


Figure 2: US dept/capita in US $ (1950 – 2010) (http://misleadingindicators.com/wp-content/uploads/2012/02/US_debt_capita_1950-2011_doubling.png)

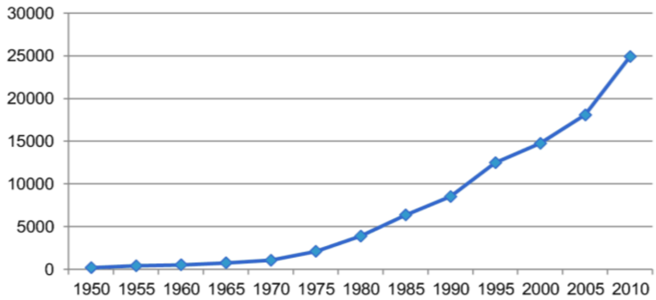


Figure 3: Germany´s dept /capita in € (1950 – 2010) (http://www.grin.com/object/document.195339/d3f30f1754f734b23c802f9c86814e7c_LARGE.png)

The money has been spent by people who expect others to clear their debts. Once again, the pattern of exploitation of the next generation becomes obvious. The current financial crisis in Europe only shows that the exploitation has reached such an extent that the “impeccable” market does not believe the debts can ever be met. It is puzzeling to see how Christine Lagarde (IMF) and Mario Draghi (ECB) appear to support the logic of “consume now let others pay later” in the current Euro-Crisis instead of breaking the ominous path. To make a long story short: Behind the positive forces of globalization a behavioral pattern becomes visible that does not appear to be as positive. It is the logic of “let´s consume now and let others pay later”, in other words the logic of a pattern of greed and exploitation.

**3. The emergence of a path of greed and exploitation**

In his paper “Does Competition Destroy Ethical Behavior?” Andrei Shleifer (2004) discusses the role of competition in spreading activities of firms that are morally sanctioned by societies. Shleifer presents five examples where competition promotes undesirable behavior of firms. Four of his examples – child labor, corruption, executive pay, and earnings manipulation – reduce costs. One example – commercial activities by universities – increases revenues.  Arguing in a manner that is closely related to Gary Becker´s (1957) analysis of discrimination, he identifies a wide range of conditions under which competition promotes unethical behavior. Interestingly, Shleifer does not come to an overall pessimistic conclusion. In spite of his depressing analysis, he presents two reasons why unethical conduct should not become more pervasive (Shleifer 2004, 418): First, competition still is the fundamental source of technological progress and wealth creation around the world. Second, as societies grow richer their willingness to pay for ethical behavior increases and their perception of what is ethical behavior becomes more universal (see point 2 above). As far as Shleifer is concerned, for both of these reasons competition is likely to promote ethical behavior in the long run.

A decade after Shleifer first presented his thoughts at the 116th Annual Meeting of the American Economic Association in San Diego, CA his remarks about the promotion of unethical behavior as a result of tough global competition are still applicable. However, his hope for a promotion of ethical behavior in the long run must be regarded largely unfulfilled.

One reason for this unsatisfactory situation might be that unethical behavior is more than just a temporary phenomenon but is following a stable path of greed and exploitation. However, claiming that economic behavior is not only following the laws of competition and innovation but is also tracking a path of greed and exploitation requires a clear and theoretical description of that path. Otherwise the notion of a path or path dependence is merely metaphorical in nature, as in many contributions that use the term (Sydow et. al. 2009, 689). In this article, a framework developed by Sydow, Schreyögg, and Koch (2009) is used in order to substantiate the presumed path. The framework builds on and develops further the work of David (1985) and Arthur (1989, 1994) and has proved itself successful in a large number of empirical studies on path dependence ([www.pfadkolleg.de](www.pfadkolleg.de)). It can now be considered a sophisticated and well established reference point in path dependence theory.

The framework differentiates among three developmental phases of path dependence, starting with "(1) singular historical events, (2) which may, under certain conditions, transform themselves into self-reinforcing dynamics, and (3) possibly end up in an organizational lock-in" (Sydow et. al. 2009, 690). Although the framework has been created to deal with organizational path dependence in particular, it can be transferred to other examination objects such as technologies, political systems, or individual behavior.

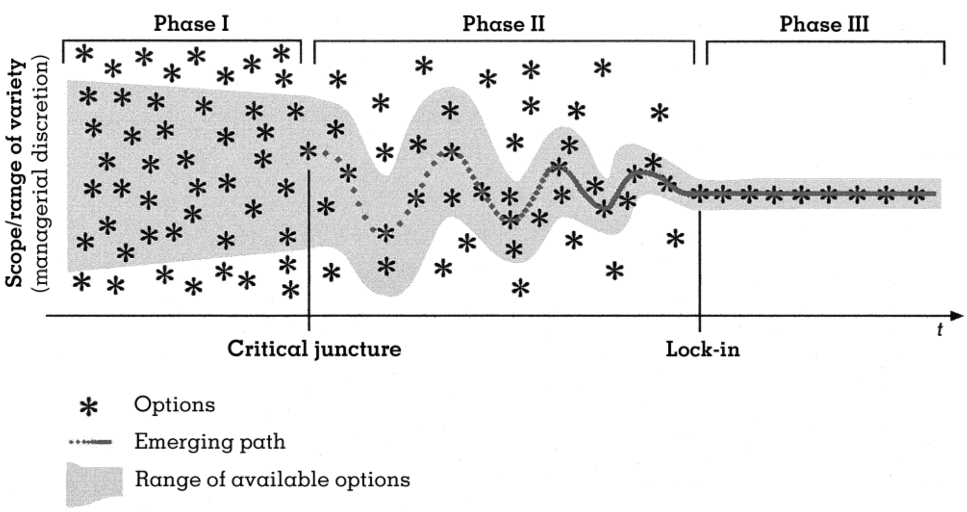


Figure 4: The Constitution of a Path (Sydow et. al. 2009)

Sydow, Schreyögg, and Koch (2009) characterize the different stages as follows:

In the first stage – the preformation phase – a wide range of activities is possible. In this stage, it is an open question, which of the many options will eventually be chosen. However, once a decision is reached this "small event" might well have an impact on future decision making by starting the dynamics of self-reinforcing processes: a critical juncture can – often unintentionally – be reached and suddenly "history matters".

In the second stage – the path formation phase – the process of self-reinforcement develops. A behavioral pattern is likely to emerge with a probability to become persistent and irreversible, thus narrowing the space of feasible options. Although several outcomes are still possible, a path is evolving.

When a decision pattern becomes dominant and deterministic, phase III, the lock-in phase, is reached. All activities follow the established path. The capability to adapt to better alternatives is lost, rendering the fixed behavioral pattern potentially inefficient.

The claim that we have witnessed the emergence of a path of greed and exploitation obviously has to appear as an ambitious task. Greed and exploitation have accompanied any period of economic activity. Slavery in many parts of the world or the deforesting of Europe and especially England in the Middle Ages to build fleets are perfect examples for greed and exploitation. At the same time acts of responsibility and generosity have also always been part of economic life. The establishment of a school for the children of farmworkers in Reckahn, Prussia, in 1773 by land owner Friedrich Eberhard von Rochow can be recognized as a responsible activity that received worldwide credit. Many other generous activities in the past or present of entrepreneurs are known and their positive effects are undeniable.

The substantiation of the claim that a path of greed and exploitation has evolved requires at least three steps. First of all there has to be the presumption or observation of some kind of persistence or rigidity. Secondly, a triggering event leading to a critical juncture that may start a path-building process needs to be identified. The third essential part of a path-dependence analysis is the exploration of the self-reinforcing feedback mechanism.

The first point has been addressed in section two of this paper by pointing out the permanent production of negative external effects as a persistent characteristic of nowadays globalized economy. The two other main tasks, describing a triggering event that is leading to a critical juncture and working out self-reinforcing feedback mechanisms, will be dealt with in the next paragraphs, following the logic of the Sydow, Schreyögg, and Koch model. The analysis will focus on the post WW II area and will have a European perspective. Furthermore, it has to be noted that the activities of managers and organizations are always embedded in an intra-firm and extra-firm environment that will have an impact on decisions and activities. Changes in this environment can influence individual behavior and it is not necessarily a "small" event that starts the dynamics of a self-reinforcing mechanism. Thus, we will have to address activities and developments at different levels: at the level of the environment of firms and at an organizational level (including individuals confessing to methodological individualism). This will be done in a "macro- micro – macro" analysis that has been suggested by Haase et. al. (2009) to explore institutional rigidity.

*Stage I: Preformation phase*

The emergence of a new path of greed and exploitation becomes exceptionally visible in Europe. In Europe the new path represents a much stronger contrast to the post war area as compared for example to the USA. In the post WW II area we observe an economy in Europe that is preoccupied with building up the vastly destroyed countries and economies. Especially in West-Germany, an economic system is created that is labeled “Soziale Marktwirtschaft” (social market economy). Firms and other economic actors enjoy private property, free exchange of goods, free negotiation of contracts including the formation of prices, and free foreign trade. At the same time the state plays a very active role, implementing social security (universal health care, unemployment insurance, pension insurance), distribution of wealth, housing, education, and a number of other regulative interventions (e.g., anti-trust laws, etc.) that supplement or substitute a pure free market economy. The system has strong roots in ordoliberalism (Richter, 2011) and is characterized by building a strong consensus among different groups of stakeholders. Corporations and their stockholders strive for profit, but strong unions represent the workers´ interests. Union bargaining, social insurance and consensus building are characteristics of this particular form of market capitalism, often referred to as “Rhine Capitalism”. Thus, firms have to meet a variety of expectations from society and different stakeholders and they have to survive in competitive markets. They can do this by choosing many strategic options and can emphasize a number of strategic goals. Satisfying the capital market is one of many important interests confronting companies, but not the one and only one.

Later on this system spreads to many other European countries. Typically industries related to infrastructure, communication and transport such as airlines, telecommunication, railroads, hospitals etc., are state owned or controlled. Profit maximization is not the predominant logic in these industries but also not the only goal of privately owned and profit-oriented firms. “Satisficing”, a term that was coined by the US Nobel-laureate Herbert Simon (1956) to describe a strategy that was happy with achieving only satisfactory results, might best describe the strategy of many firms at that time. Decisions would be made to find practical and adequate solutions, but not to reach the optimum. The maximization of profits only plays a secondary role. Building up a better and more peaceful world for future generations seems to be a value that is given higher priority than profit and consumption. Economically speaking, people being active in this time period “invest” hoping to have a positive impact on the future.

*Stage II: Path formation phase*

Stage II begins with the “small” events of two elections. In 1979 Margret Thatcher becomes the Prime Minister of the United Kingdom (in office until 1990) and in 1981 Ronald Reagan becomes the 40$^{th}$ president of the United States (in office until 1989). Both politicians take over power in a period of a weak and unstable economy. Stagflation with high unemployment and inflation rates has become a permanent problem that cannot be tackled easily. Both politicians find similar answers to the economic problems. “Thatcherism” and “Reagonomics” stand for a monetarist and supply-side oriented economic program that is strongly influenced by economists such as Milton Friedman. Deregulation of many industries but in particular of the financial sector, privatization of state-owned firms, disempowerment of unions, flexibilization of the labor market and tax cuts are core elements of the new economic policy. Ronald Reagan put it this way in his first inaugural address on January

20, 1981: "In this present crisis, government is not the solution to our problems; government is the problem." (Reagan 1981)

What started out as a highly controversial program leading to a record low job approval rate for Margret Thatcher by December 1980 became the dominant economic policy paradigm in the eighties with implications reaching out until today: The strong trust in the forces of the free market combined with the goal to get rid of some of the “slack” and slowness that was attributed to the old regime.

Thus, in the formation phase, on a macro level, the political environment of firms and managers is radically changed by two charismatic leaders who demand the West to regain strength politically and economically. The determination to compete with the Soviet Union is accompanied by the claim against everyone – also firms and managers – to give their best in competition. Whereas managers followed a variety of goals in the preformation stage the free market economy becomes the standard even in continental Europe with “competitiveness” and “efficiency” being key-terms in economic debate.

At first sight the Reagan and Thatcher revolution seems related to the concept of imprinting (Beckman, Burton 2008): The contextual conditions of stagflation and the supply-side answer of the new political elites imprint new mental models and amount to patterns of behavior in the political and economic life in the future. But this is not entirely true. In many countries the result of the radical changes in the USA and the UK is quite open in the beginning. Path-dependence and a “greed and exploitation” lock-in are not a compelling outcome. However, what can be observed is a number of strong self-reinforcing mechanisms that towards the end increasingly narrow the scope of activities. The main self-reinforcing mechanisms being operative are learning effects, complementary effects, and adaptive expectations.

*Learning effects*

Supply-side economics is not just a political slogan. It is supported by influential schools such as the Chicago School of Economics that is favoring and promoting free market economies and economic liberalism. The developments are mirrored in the curricula of business schools and universities. Benchmarking and best practice (Boxwell 1994 and Bogan/English 1994) become buzzwords in management but shareholder-value will become the key term of this area. Shareholder-value (Rappaport 1986) is emphasizing the role of the capital market and is giving it priority to other markets, e.g. the labor market or the consumer market. Jack Welch, former CEO of General Electric, popularizes the concept. Management tools are developed and taught and are implemented in practice. “Investor relations” are among the topics and firms create the corresponding positions. In the field of human resource management research is carried out to develop new payment schemes with high performance incentives. “Stock option plans” are designed to link individual performance of managers to the – often enough short term - development of stock prices.

The accumulation of skills and know how that is in sync with the new political regime makes it less and less attractive to look for alternative orientations and behavioral patterns for all actors involved. Realignment is accompanied with increasing switching costs for those who are familiar with the current regime. The longer they act according to its rules, the more they learn and the higher the loss in case of a new orientation.

*Complementary effects*

Learning effects get reinforced by complementary effects when activities are interconnected. Reagonomics at work is characterized by interconnected and interrelated systems at the political level (deregulation, low taxes, self-reliance etc. etc.), in culture (put to an extreme in Gordon Gekko´s "Greed is good" speech in the movie "Wallstreet"), at the organizational level (profit center orientation, profit sharing and stock option plans etc.) and at an individual level (shifting of values towards material and monetary values – the main question no longer being the question how you made your money but how much money you made).

The complementary effects of interconnectedness serve as a powerful self-reinforcing mechanism. In the political climate of the eighties and with the tremendous influence of US management practices on management behavior worldwide, it is not surprising that an initially new approach to economic policy takes the lead and evokes a certain type of action and decision making that becomes self-reinforcing over time.

*Adaptive expectations*

Adaptive expectations are a self-reinforcing mechanism that builds upon the assumption, that preferences are not stable, but vary in the wake of the expectations of others, especially of important reference groups. Leibenstein (1950) showed that a product is perceived as more attractive by a person, if the person expects other people to like the product.

It would be oversimplifying to claim that individual decision makers could assume strong support for Ronald Reagan´s and Margaret Thatcher´s economic program. The opposition towards the program was extremely high especially in areas that were negatively affected by the cuts in public spending e.g. for housing, education, culture, welfare etc. Thus, Derek Jarman´s "The last of England" from 1988 tells a very different story from Oliver Stone´s "Wallstreet".

However, decision makers in business could easily expect support for the values attributed to Reagonomics. Strong competition, survival of the fittest, high salaries for those who deserve them etc. are messages that easily gain support among the – to put it bluntly –male alpha leaders in the world of business in the 1980s. Managers not thinking and acting according to the market liberal zeitgeist had to fear to be perceived as weak and as loosers instead of winners (Kulik, Bainbridge, & Cregan, 2008). This fear itself might serve as a strong self-reinforcing mechanism.

*Stage III: Lock-In*

Eventually the whole process is led into a lock-in in the third stage. Beliefs or mental models probably play a dominant role in this final stage. Managers have completely adopted the logic of maximizing share-holder values. Even though some older decision makers might have their doubts, fresh graduates from business schools and universities have grown up with the new dogma and completely replace alternative perspectives. The third stage of the process has striking similarities with what Thomas Kuhn describes in his Structure of Scientific Revolutions (Kuhn 1962). The self-reinforcing mechanisms described above have cemented the path of greed and exploitation. Managers and firms are in competition for financial funds and have to promise ever higher returns on investments. In a tough global competition, survival is only possible by using any chance to increase revenues or to reduce costs. Thus, Andrej Shleifer is right in his assessment about a tough globel competition destroying ethical behavior. A look at the negative external effects alone is entirely sufficient to prove that point. However, in social groups such as corporations, human behavior will never be fully determined. There is always room for some variation. Some activities, such as the many CSR-strategies of organizations, might even be mistaken for a path breaking event. Unfortunately, the interpretation of CSR as a business case that we witness nowadays can hardly be looked upon as a shift to responsibility in business (Vogel 2005). Thus, the assumption of inefficiency at the level of societies, firms, and individuals holds true, even though the system might be beneficial for certain groups in the short run.

It is an enigmatic paradox that the system that is most advanced and flexible when it comes to adapting to changing circumstances – the free market system - appears to be unable to react to its own systematic malfunctions and to cure them. A look at history however tells us, that it has happened before. Communism and the abolishment of free markets in large parts of the world (with their own well-known negative side-effects) were not an invention of the communists but the consequence of early Manchester capitalism that produced unbearable downsides.

*The macro – micro – macro interplay*

What is specific about the self-reinforcing mechanisms of the path of greed and exploitation is the interplay of mechanisms at different levels. Connecting Coleman´s (1986) work about the interplay of macro- and micro-level phenomena with path analysis, it appears that such an interplay stabilizes the existing path by creating complementarities. A political impetus resulting from the elections of Ronald Reagan and Margaret Thatcher implements a new attitude towards the market. Going hand in hand with an understanding of the market as the superior coordination and problem solving mechanism fast profit seems to become the new leitmotiv and might well result in new mental models (North 1990, 2005 Denzau/ North 1994). At the micro level of organizations and their members we observe a learning process and the implementation of tools that are complementary to the new regime. This once again has a strengthening effect on the macro-level, supporting the initial idea. Denzau/North (1994, 27) remark, "the presence of learning creates path-dependence in ideas and ideologies and then in institutions." Thus the macro – micro – macro interplay and the co-evolution of mental models in the institutional environment and at the level of organizational decision making are processes that result in a lock-in that is very hard to break (see also Haase et. al. 2009).

## 4. Three suggestions to break the path

The discontent with the current state of globalized economy has grown throughout the last years. The financial crisis has undermined the trust in today´s Spielart of capitalism even more. The question of the legitimacy of corporate activities has become a permanent challenge for multinational corporations (Mirkovic 2013).

The unsatisfactory and annoying side-effects of the free market system have resulted in a number of initiatives that are supposed to correct the shortcomings of globalization. In this section three examples of such initiatives are briefly described. In the following paragraph their usefulness to break the path are going to be discussed.

- The UN´s Principles of Responsible Management Education (PRME) formulated by Kofi Annan
- The “turning back the wheel of globalization” approach as suggested by Garbor Steingart
- The establishment of a worldwide governance system as favored by Karl Homann

*The UN´s Principles of Responsible Management Education (PRME)*

The Principles of Responsible Management Education (PRME) stay for an attempt to correct management activities by re-establishing values of honesty, integrity, and sustainability in business. Thus, the initiative aims at leading managers back to a more responsible and ethical behavior.

The PRME emphasize the argument that the education of future managers plays a key role in furthering responsible management. The PRME principles have been developed building on the United Nations Global Compact. On the PRME homepage, the goal of the PRME is described as follows (www.unprme.org): “The mission of the Principles for Responsible Management Education (PRME) initiative is to inspire and champion responsible management education, research and thought leadership globally. The PRME are inspired by internationally accepted values such as the principles of the United Nations Global Compact. They seek to establish a process of continuous improvement among institutions of management education in order to develop a new generation of business leaders capable of managing the complex challenges faced by business and society in the 21st century.”

The PRME initiators claim that issues of corporate responsibility and sustainability still need to become embedded in the mainstream of business-related education. The academic network of the United Nations Global Compact therefore assigned an international group to work out principles for integrating the Global Compact´s core values into management education at business schools and universities worldwide. The results were handed to The United Nations Secretary-General Ban Kimoon in 2007, who has been promoting the endorsement of the six principles of responsible management education since then, which are shown in table 1.

Table 1: The six principles of responsible management education

| **Principles of Responsible Management Education** |
|---|
| **Purpose:** We will develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy. |
| **Values**: We will incorporate into our academic activities and curricula the values of global social responsibility as portrayed in international initiatives such as the United Nations Global Compact. |
| **Method**: We will create educational frameworks, materials, processes and environments that enable effective learning experiences for responsible leadership. |
| **Research**: We will engage in conceptual and empirical research that advances our understanding about the role, dynamics, and impact of corporations in the creation of sustainable social, environmental and economic value. |
| **Partnership**: We will interact with managers of business corporations to extend our knowledge of their challenges in meeting social and environmental responsibilities and to explore jointly effective approaches to meeting these challenges. |
| **Dialogue**: We will facilitate and support dialogue and debate among educators, business, government, consumers, media, civil society organizations and other interested groups and stakeholders on critical issues related to global social responsibility and sustainability. |

*Constraining globalization: Garbor Steingart´s approach*

The idea of constraining globalization is very popular among some politicians and many citizens: The extent of globalization should be limited somehow in order to re-establish fair competition. Garbor Steingart is one of the protagonists of this idea. Steingart is a German journalist who has published several books on the economy and political reform. He has been head of the Berlin bureau of the German news magazine *Der Spiegel* and is now the chief editor of *Handelsblatt*, one of Germany's leading economic newspapers. His popular book “The War for Wealth” has gained a lot of attention and influence recently.

Steingart can be seen as a representative of a “turn back the wheel of globalization” policy. In his book "The War for Wealth: Why Globalization is Bleeding the West of Its Prosperity", Steingart analyzes how globalization has affected different countries. His gloomy outlook for the West is that globalization – the way it works right now – will radically diminish its prosperity, political influence, and democratic ideals whereas the Asian nations will gain ground fast. Steingart foresees a tough competition among nations for resources and for political influence. He emphasises differences between the Western countries and nations like China, India, Singapore, and Malaysia with respect to issues of the environment, labour, the welfare state, and democracy, and draws pessimistic conclusions for the competitiveness of the West. In order to avoid a loss of Western achievements in a “race-to-the-bottom”-type of competition or an Asian dominance, Steingart calls for a much closer cooperation between the USA and Europe. Only the USA and Europe together can reach a critical mass that will be able to match Asia. Thus, free trade would be limited to some kind of transatlantic free trade agreement, including those countries that work along Western values. Not surprisingly Garbor Steingart was among the first to welcome the idea about a free trade agreement between the US and EU.

*Karl Homann´s Framework*

The third suggestions urges for more regulation of the global market, especially in the financial sector. Many European governments currently argue this way (e.g. France, Germany). From a theoretic point of view, this stream of thinking seems sophisticated and interesting. Karl Homann as a representative of this approach can be seen as the founder of a school of thinking that combines ethical aspects with institutional thinking.

Quite in contrast to the PRME the philosopher Karl Homann does not so much emphasize education but rather the role of the framing order (Homann 2006). He acknowledges that companies and managers in many industries face high competitive pressure. In many cases this will result in a conflict between morality and profitability. In a two by two matrix Homann (1994,116) distinguishes among four different cases (see table 2).

Only in case I do we find a positive relation between responsibility – in the sense of a morally desirable behavior – and profitability. One explanation could be that consumers appreciate this kind of (costly) behavior and are willing to pay a premium.

Case II represents a case of ethical conflict. The firm is making a high profit. However, this profit is generated by an irresponsible management behavior, e.g. by producing negative external effects. This might include a behavior that is formally legal but violates central values.

Table 2: Homann´s responsibility-profitability-matrix

| | | | |
|---|---|---|---|
| | responsible behavior | | |
| low profitability | III. Economical conflict | I. Positive compatibility | high profitability |
| | IV. Negative compatibility | II. Ethical conflict | |
| | irresponsible behavior | | |

In Case III, the firm acts morally desirable but damages its profitability. Other companies might not act as responsible and save costs. This might well result in a competitive disadvantage for the responsible firm, if customers are price-oriented.

Case IV could represent a case in which the firm is acting irresponsibly and gets punished by the market.

Obviously, the interesting cases are the cases II and III. They are the ones that put managers in dilemma situations and make them face difficult choices. Homann argues that nobody could reasonably expect managers to come to decisions that would put their firm in a serious competitive disadvantage endangering the firm´s existence in the long run (Homann 1991, 108). He therefore does not primarily count on the integrity of managers, no matter how responsibility oriented their education might have been. He rather interprets the institutional environment as the place for morality and responsibility. For Homann it is the purpose of institutional designs and their enforcement to ensure responsibility in management. The approach therefore focuses on control and enforcement rather than education.

This line of thinking has influenced a number of other researchers who now base their work on the same or a similar theoretic foundations, among them Ingo Pies (see for example Pies et al. 2009) and Andreas Suchanek (see for example Suchanek, Waldkirch 2002).

**5. Discussion and suggestion**

The attempt to break the existing path requires a solid understanding of the factors that have been driving the path building process. This obviously requires some critical self-reflection which is hardly to be expected if the self-reinforcing mechanisms are at work. The critical public debate, however, could push managers as well as politicians to reflect the situation. Whereas managers enjoyed an image of efficiency and high-performance in society for a long time, they are now confronted with serious doubts concerning their achievements. As a result firms and managers have in many ways tried to correct the public´s critical opinion. CSR strategies and codes of conduct are examples. However, many of these attempts have lost credibility in the eyes of the public. CSR-strategy has largely been used as a business case by firms rendering the attempts to correct the path from within not credible.

For this reason the three approaches discussed in this article all represent attempts to break the path from the outside of the firm by means of education, protective action or regulation.

The three approaches have got one thing in common. They all deal with the discontents of a globalized and highly competitive economy. However, they differ greatly in their assumptions and in how they understand or deal with the drivers of the path building processes. Therefore they come to very different conclusions.

Table 3: Coping with the discontents of globalization – three perspectives

| | **The PRME´s "responsible manager"** | **Steingart´s "turn back the wheel"** | **Homann´s" institutional environment"** |
|---|---|---|---|
| **Problem** | Corporate responsibility and sustainability are not yet embedded in business-related education. | The West will lose political and economic influence in a "race-to-the-bottom" kind of global competition. | Managers cannot afford to act responsible in a highly competitive environment. |
| **Assumption about competition** | Competition and the market as a reasonable incentive mechanism that leaves sufficient room for responsible behavior. | Global competition is highly unfair. Western products have to cover the costs for human rights, fair treatment of employees, and the protection of the environment. Asian products are cheaper because they do not have to cover these costs. | Global competition is so tough that managers need to minimize their costs in any (legal) way possible. |
| **Assumption about human beings** | Assumption of a "strong" manager who – once certain values have been internalized through education – will act responsibly. | Consent and "shared values" among decision makers in the US and Europa. No shared values among managers in the West and Asia. | Assumption of a "weak" or rather "pragmatic" manager, who will do whatever needs to be done in order to ensure the company´s survival. |
| **Consideration of processes and mechanisms of self-reinforcement (learning effects, complementary effects, adaptive expectations)** | Learning is centrally addressed; repercussions on complementary effects and adaptive expectations are hoped for. | Self-reinforcing mechanisms are not explicitly addressed. Steingart rather sees the US and Europe on a good path that needs to be defended. An emerging path of greed and exploitation in Asia needs to be isolated in order not to infect the break the path of the West. | Implicitly addresses the complementary effects of shareholder value, global competition and learning. Doubts that managers can change behavior given shareholder expectations and competition. |
| **Conclusion** | Create the "responsible" manager through education. | Limit the free-trade idea to a US and European community of shared values. | Break the path by creating a new framing order. Relieve the manager from difficult moral dilemmas and implement ethical values in the institutional environment. |

It is obvious that the PRME represent a stream of action that focuses on management education as a means to achieve responsible management in a global economy. The UN´s PRME seem to trust the competitive market mechanism. The proponents of the approach see enough leeway in the decision-making of managers to include ethical principles. In other words, the assumption about the manager is one of a potentially strong and principled human being that will act responsibly once universal values are internalized through management education. The proponents, however, are well aware of the fact that it is hard to change existing mental models. The self-reinforcing mechanism of learning is a very strong one. Thus, it is not current managers that the PRME are targeting, but rather the next generation of future leaders.

The positive message of the PRME appeals to everyone. Management students all over the world readily endorse the principles. Until now, however, the impact of education on responsible management in practice is largely unknown. Irresponsible behavior can also be identified in countries in which the management education is structured along the PRME. Correlations between a management education along the PRME and the behavior of managers might, however, not even be meaningful after all. The endorsement of the PRME could be the reaction to events that have occurred recently or in the past. This would result in negative correlations and not demonstrate any form of cause and effect.  Longitudinal data, perhaps focusing on certain issues such as corruption, might be more meaningful and measurable with the help of the existing indices.

Most importantly, however, Shleifer´s suspicion remains that competition might erase responsibility in situations of high competitive pressure. Probably it is meaningful to distinguish among different intensities of competition. In a world of low or moderate competitive pressure, embedding corporate responsibility and sustainability into business-related education might have an impact. In a cut-throat competition, however, charity might begin at home. Unfortunately, globalization stands much more for high competition than for moderate competition. Strong competitive pressures combined with the still dominant logic of shareholder value on capital markets might soon enough re-establish complementary effects and adaptive expectations and prolong the path of greed and exploitation.

The second approach – Steingart´s proposal - does not seem to believe in a chance to break the emerging path of greed and exploitation. Interestingly, Steingart acknowledges a negative path only for the East-Asian countries. He perceives a systematic distortion of competition in favor of those countries that elude Western values. By doing so, they gain a competitive advantage. According to Steingart, Western values are formally or informally implemented in the Western world. They guide the economic activities of managers in the West but are missing in Asia. Management education along the lines of the PRME will not change this situation. Thus, in order to reestablish fair competition, the wheel of globalization has to be turned back according to Steingart. The free flow of goods and services should be limited to the area of those countries that are willing to pay for Western values. When a worldwide compromise to achieve responsibility appears to be unrealistic, why not focus on a kind of coalition of the willing instead of achieving nothing? Thus, Steingart seems to aim at separating the trading world in two areas in order to save the existing Western path.

Two observations, however, should temper high expectations. First of all, the bad boy Asia might not be so bad after all. The countries that Steingart is talking about are countries in transition. A look at Japan´s way in the second half of the twentieth century clearly shows that economic success goes hand in hand with the justified claim for higher wages and better working and living conditions. This foreseeable development could well undermine the competitiveness of the new powerful Asian economies. The process might help to restore what Steingart might call fair competition but at the same time result in severe political instability in Asian countries.

Secondly, the assumption that the USA and Europe represent the good guys with respect to “responsibility” in management and economy is highly questionable. Admittedly, we have seen tremendous achievements in Europe and the US as compared to a situation of Manchester Capitalism. However, a look at our examples – $CO^2$ emission, the use of nuclear power, and national debt - shows that the logic of exploitation is still working. A vast number of other examples can easily be found. Even if this logic is combined with some CIMBY (clean in my back yard) elements that might appear positive locally, the path of living a good life at the expense of others, especially future generations is not broken. Steingart may be very right with his conclusion that many achievements in Europe need to be protected. His conclusion, however, will not automatically shape a path of responsibility and sustainability.

Homann on the other hand observes a tough competition that leaves hardly any room for responsible behavior, since it would result in a competitive disadvantage. He acknowledges the self-reinforcing mechanism of a strong belief in free markets and a reward system that is built on a shareholder value ideology. In moral dilemmas he perceives managers as weak and over challenged. They will give up moral principles instead of giving up their corporation. In this situation, Homann suggests to resolve moral dilemmas by implementing ethical values in the institutional environment. The implementation and enforcement of values will generally result in a responsible behavior and will make sure that a fair competition will reward the efficient market participants.

Homann´s emphasis on the institutional environment appears to be an attractive alternative to the PRME approach and to Steingart´s suggestion. It seems to be much more in sync with economic theory. Self-interested or even opportunistic actors (Williamson 1985, 47 pp.) might call for legal control and enforcement rather than education. However, it is obvious that the implementation of an institutional environment that guides and controls managers is a very difficult task. Especially in an international context, large institutional voids are the rule rather than the exception. Furthermore, institutions are not only an instrument to cope with bounded rationality and opportunism, the process of shaping and enforcing an institutional environment is also distinctly marked by these two attributes. Additionally, a wide variety of expectations, interests and perspectives on values will not help to fill the institutional voids soon. The WTO as the only worldwide operating organization dealing with global trade does not promote responsible behavior and the internalization of negative external effects. The recent results – or rather non-results – of the different Climate Conferences show once again that a worldwide institutional framework that would break the evil spell of greed and exploitation seems utopian.

So, what is to be concluded from this line of reasoning? The globalized and free market economy is a wonderful idea with huge potentials. The market is the mechanism that best sets free human creativity and innovativeness. The three approaches mentioned above try to rescue this mechanism by addressing the dark sides of the globalized economy. Unfortunately, none of the approaches gives an easy and feasible answer to the pressing question of how to save capitalism from the capitalists. The dominant logic is not “Globalization, Innovation, and Responsibility”, but “Globalization, Greed, and Exploitation”. The fact that the world is flat as Thomas Friedman claims, then only means that we all can easily fall off the disc.

*Sequencing and pacing of the three approaches as an answer*

Although, each of the above mentioned proposals will probably not achieve much, a *sequenced approach* of the three suggestions might perhaps lead to some results:

The starting point needs to be an honest assessment of where we stand. The economy *has* expanded its influence on each and every one of us as suggested in James Carville´s famous phrase during the presidential campaign. But although some of us have turned rich, the only tolerable overall conclusion for the current situation is: *There is not that much to be proud of!*

Education – as suggested in the PRME – plays a fundamental role in coming to an honest assessment as to where we stand. The ability to critically reflect the long-term effects of an implicit exploitation paradigm requires a solid education – not only at business schools – and access to the relevant information. The willingness and capability to speak up and to remind our politicians of their task to shape the rules of our economies and countries so that our societies will prosper in the future is based on character and education.

Fortunately, in some parts of the world, e.g. in parts of Europe, people have had the privilege to enjoy a very good education and an easy access to information. They are able to use their voice in the sense of Albert Hirschman (1970) and to speak up in order to achieve improvement. It is interesting that the media in Germany has coined the discrediting term “Wutbürger” (“enraged citizens”) for those well-informed and well-educated citizens, who – from very different perspectives – denounce the miserable failure of politics (e.g. in handling the shortcomings of the economic system). Although education along the PRME alone might not break the path in question, it is an important answer to the self-reinforcing mechanism of learning effects and an important starting point for change.

If – and only if – the pressure from educated citizens should result in changing the economic exploitation paradigm in a large enough part of the world – be it the USA and Europe or any other “coalition of the willing” – then Steingart´s suggestion might be worth considering at least as a temporary arrangement. Should Europe ever break the exploitation path and widen, not limit the chances of future generations, then something like Steingart´s suggestion of sanctioning states and corporations that exploit our resources and future might further the dissolution of the current path. However, the purpose of such an arrangement should not be to blame or exclude countries like China, India or others. It should rather be a credible incentive for politicians in other countries to give the issues of responsibility and sustainability the priority they deserve. The Steingart incentive to prioritize responsible economic behavior instead of exploitation in emerging countries might then lead to an institutional environment of supranational agreements, contracts and treaties that could replace the old regime. Thus, the threat of something like the Steingart solution might help to implement an institutional environment in the sense of Homann. China and other countries are countries in transition and will look very different in 50 years from now. The only problem is that – if we believe the scientists – we do not have 50 years. Steingart´s “turning back the wheel of globalization” might help politicians in the emerging countries to find arguments for fastening up the implementing a framing order for a sustainable economy in the sense of Homann.

An enforceable institutional environment that would break the path of exploitation would render Steingart´s trade barriers redundant sooner or later. The WTO has taken on different roles in its short existence. Although it still is the advocate of free trade and a strong believer in free markets, it acknowledges that the market alone is not able to cope with market failure, e.g. with respect to the enforcement of intellectual property rights. Why should not the WTO accept the role of moderating the necessary process of change and of becoming the advocate of markets and an institutional environment that minimizes negative external effects? The arguments to do so might appear political or ethical at first sight. First and foremost, however, they are economic arguments aiming at reducing waste – the waste of our future. This new role for the WTO surely would not only help to legitimize the organization´s existence but also help to legitimize our system of a free market economy.

**Literature**


Alchian, A. (1950), Uncertainty, evolution and economic theory, Journal of Political Economy 58, 211-221

Arthur, W. B. (1989), Competing technologies, increasing returns, and lock-in by historical events. Economic Journal, 99: 116–131.

Arthur, W. B. (1994), Increasing returns and path dependency in the economy. Ann Arbor: University of Michigan Press 1994

Beckman, C. M., Burton, M. D. (2008), Founding the future: Path dependence in the evolution of top management teams from founding to IPO. Organization Science**,** 19: 3–24

Becker, G. (1957), The economics of discrimination, Chicago: University of Chicago Press

Bogan, C.E., English, M.J. (1994), Benchmarking for Best Practices. Winning Through Innovative Adaptation, New York: Mc Graw-Hill 1994

Boxwell, R.J. (1994), Benchmarking for Competitive Advantage, New York: Mc Graw-Hill 1994

Coleman, J.S. (1986), Social Theory, Social Research, and a Theory of Action, American Journal of Sociology 91, 1986, 1309-1331

David, P. A. 1985. Clio and the economics of QWERTY. AmericanEconomic Review, 75: 332–337

Denzau, A.T., North, D.C. (1994), Shared Mental Models: Ideologies and Institutions, Kyklos 47, 1994, 3-31

Friedman, T. (2005), The World Is Flat: A Brief History of the Twenty-First Century, New York: Farrar, Straus, Grioux 2005

Haase, M., Roedenbeck, M., Söllner, A. (2009), A sketch of a mechanism-based explanation of cognitive path processes, lock-in of individual mental models and institutional rigidity, in: Scherer, A.G., Kaufmann, I.M., Patzer, M. (Ed.), Methoden in der Betriebswirtschaftslehre, Wiesbaden 2009, 21-46

Homann, K. (1991), Der Sinn der Unternehmensethik in der Marktwirtschaft, in: H. Corsten u.a. (Ed.), Die soziale Dimension der Unternehmung“, Berlin 1991, 97-118

Homann, K. (1994), Marktwirtschaft und Unternehmensethik, in: Forum für Philosophie Bad Homburg (Hrsg.), Markt und Moral – Die Diskussion um die Unternehmensethik, Bern u.a. 1994, 109-130

Homann, K. (2006), Competition and Morality, DISCUSSION PAPER NR. 2006-4, edited by Wittenberg-Center for Global Ethics, Zentrum für Globale Ethik e.V.

Krugman P. R. (1979), Increasing returns, monopolistic competition, and international trade, Journal of International Economics, Vol. 9, Issue 4, Nov. 1979, pp. 469-479

Kuhn, T.S. (1962), The Structure of Scientific Revolutions, University of Chicago Press 1962

Kulik, C. T., Bainbridge, H. T. J., Cregan, C. (2008), Known by the company we keep: Stigma-by-association effects in the workplace, Academy of Management Review, 33: 216–230

Leibenstein, H. (1950), Bandwagon, snob, and Veblen effects in the theory of consumers' demand. Quarterly Journal of Economics, 64: 183–207

Mirkovic, S. (2013), Corporate Legitimacy in a Postnational Constellation. Sitting on the fence between private authority and legitimacy crisis, PhD Thesis, Europa-Universität Viadrina, Frankfurt (Oder) March 2013

North, D.C. (1990), Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press 1990

North, D.C. (2005), Understanding the Process of Economic Change. Princeton: Princeton University Press 2005

Pies, I., Hielscher, S., Beckmann, M. (2009), Moral Commitments and the Societal Role of Business: An Ordonomic Approach to Corporate Citizenship, in: *Business Ethics Quarterly*, 19:3, S. 375-401.

Rappaport, A. (1986), Creating shareholder value: The new standard for business performance. New York: Free Press 1986

Reagan, R. (1981): "Inaugural Address," January 20, 1981. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=43130

Ricardo, D. (1817), Principles of Political Economy and Taxation, London/New York: J.M. Dent and & Sons 1911

Richter, R. (2011), German "*Ordnungstheorie"*From the Perspective of the New Institutional Economics, ISNIE, Annual Conference, Stanford 2011

Shleifer, A. (2004), Does Competition Destroy Ethical Behavior? The American Economic Review, Vol. 94, No. 2, May 2004, pp. 414-418

Simon, H. A. (1956), Rational Choice and the Structure of the Environment, Psychological Review 63 (2): 129–138

Smith, A. (1776), An Inquiry into the Nature and Causes of the Wealth of Nations, Londen: Strahan and Cadell

Steingart, G. (2008), War for Wealth: The Truth About Globalization and Why the Flat World is broken, New York: McGraw-Hill, 2008

Stigler, G.  J., "competition", "The New Palgrave: A Dictionary of Economics", Eds. John Eatwell, Murray Milgate and Peter Newman, Palgrave Macmillan, 1987, The New Palgrave Dictionary of Economics Online, Palgrave Macmillan. 27 November 2012, DOI:10.1057/9780230226203.2244

Stiglitz, J. (2002), Globalization and its discontents, London: Penguin

Suchanek, A. , Waldkirch, R. (2002), The task of business ethics, Katholische Universität Eichstätt, Ingolstadt, Wirtschaftswissenschaftliche Fakultät Ingolstadt

Sydow, J., Schreyögg, G., Koch, J. (2009), Organizational Path Dependence: Opening the Black Box, Academy of Management Review, 34, 4, 689-709

Vogel, D. (2005), The Market for Virtue. The Potential and Limits of Corporate Social Responsibility, Brookings Institution Press: Wahington, D.C. 2005

World Bank (2012), Turn down the Heat. Why a 4°C Warmer World must be Avoided, A Report for the World Bank by the Potsdam Institute for Climate Impact Research and Climate Analytics, November 2012, International Bank for Reconstruction and Development / The World Bank, Washington DC