Globalization Debate

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LO4 The Globalization Debate

Is the shift toward a more integrated and interdependent global economy a good thing? Many influential economists, politicians, and business leaders seem to think so.[48] They argue that falling barriers to international trade and investment are the twin engines driving the global economy toward greater prosperity. They say increased international trade and cross-border investment will result in lower prices for goods and services. They believe that globalization stimulates economic growth, raises the incomes of consumers, and helps to create jobs in all countries that participate in the global trading system. The arguments of those who support globalization are covered in detail in Chapters 6, 7, and 8. As we shall see, there are good theoretical reasons for believing that declining barriers to international trade and investment do stimulate economic growth, create jobs, and raise income levels. As described in Chapters 7 and 8, empirical evidence lends support to the predictions of this theory. However, despite the existence of a compelling body of theory and evidence, globalization has its critics.[49] Some of these critics have become increasingly vocal and active, taking to the streets to demonstrate their opposition to globalization. Here we look at the nature of protests against globalization and briefly review the main themes of the debate concerning the merits of globalization. In later chapters we elaborate on many of the points mentioned below.

ANTIGLOBALIZATION PROTESTS

Demonstrations against globalization date to December 1999, when more than 40,000 protesters blocked the streets of Seattle in an attempt to shut down a World Trade Organization meeting being held in the city. The demonstrators were protesting against a wide range of issues, including job losses in industries under attack from foreign competitors, downward pressure on the wage rates of unskilled workers, environmental degradation, and the cultural imperialism of global media and multinational enterprises, which was seen as being dominated by what some protesters called the "culturally impoverished" interests and values of the United States. All of these ills, the demonstrators claimed, could be laid at the feet of globalization. The World Trade Organization was meeting to try to launch a new round of talks to cut barriers to cross-border trade and investment. As such, it was seen as a promoter of globalization and a target for the antiglobalization protesters. The protests turned violent, transforming the normally placid streets of Seattle into a running battle between "anarchists" and Seattle's bemused and poorly prepared police department. Pictures of brick-throwing protesters and armored police wielding their batons were duly recorded by the global media, which then circulated the images around the world. Meanwhile, the WTO meeting failed to reach agreement, and although the protests outside the meeting halls had little to do with that failure, the impression took hold that the demonstrators had succeeded in derailing the meetings.

Emboldened by the experience in Seattle, antiglobalization protesters now often turn up at major meetings of global institutions. Smaller scale protests have occurred in several countries, such as France, where antiglobalization activists destroyed a McDonald's restaurant in August 1999 to protest the impoverishment of French culture by American imperialism (see the Country Focus, "Protesting Globalization in France," for details). While violent protests may give the antiglobalization effort a bad name, it is clear from the scale of the demonstrations that support for the cause goes beyond a core of anarchists. Large segments of the population in many countries believe that globalization has detrimental effects on living standards and the environment, and the media have often fed on this fear. For example, former CNN news anchor Lou Dobbs ran TV shows that were highly critical of the trend by American companies to take advantage of globalization and "export jobs" overseas. As the world slipped into a recession in 2008, Dobbs stepped up his antiglobalization rhetoric (Dobbs left CNN in 2009).

Both theory and evidence suggest that many of these fears are exaggerated; both politicians and businesspeople need to do more to counter these fears. Many protests against globalization are tapping into a general sense of loss at the passing of a world in which barriers of time and distance, and vast differences in economic institutions, political institutions, and the level of development of different nations produced a world rich in the diversity of human cultures. However, while the rich citizens of the developed world may have the luxury of mourning the fact that they can now see McDonald's restaurants and Starbucks coffeehouses on their vacations to exotic locations such as Thailand, fewer complaints are heard from the citizens of those countries, who welcome the higher living standards that progress brings.

GLOBALIZATION, JOBS, AND INCOME

One concern frequently voiced by globalization opponents is that falling barriers to international trade destroy manufacturing jobs in wealthy advanced economies such as the United States and Western Europe. The critics argue that falling trade barriers allow firms to move manufacturing activities to countries where wage rates are much lower.[51] Indeed, due to the entry of China, India, and states from Eastern Europe into the global trading system, along with global population growth, estimates suggest that the pool of global labor may have quadrupled between 1985 and 2005, with most of the increase occurring after 1990.[52] Other things being equal, one might conclude that this enormous expansion in the global labor force, when coupled with expanding international trade, would have depressed wages in developed nations.

This fear is supported by anecdotes. For example, D. L. Bartlett and J. B. Steele, two journalists for the *Philadelphia Inquirer* who gained notoriety for their attacks on free trade, cite the case of Harwood Industries, a U.S. clothing manufacturer that closed its U.S. operations, where it paid workers $9 per hour, and shifted manufacturing to Honduras, where textile workers receive 48 cents per hour.[53] Because of moves such as this, argue Bartlett and Steele, the wage rates of poorer Americans have fallen significantly over the past quarter of a century.

In the past few years, the same fears have been applied to services, which have increasingly been outsourced to nations with lower labor costs. The popular feeling is that when corporations such as Dell, IBM, or Citigroup outsource service activities to lower-cost foreign suppliers—as all three have done—they are "exporting jobs" to low-wage nations and contributing to higher unemployment and lower living standards in their home nations (in this case, the United States). Some lawmakers in the United States have responded by calling for legal barriers to job outsourcing.

Supporters of globalization reply that critics of these trends miss the essential point about free trade—the benefits outweigh the costs.[54] They argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently. When a country embraces free trade, there is always some dislocation—lost textile jobs at Harwood Industries, or lost call center jobs at Dell—but the whole economy is better off as a result. According to this view, it makes little sense for the United States to produce textiles at home when they can be produced at a lower cost in Honduras or China (which, unlike Honduras, is a major source of U.S. textile imports). Importing textiles from China leads to lower prices for clothes in the United States, which enables consumers to spend more of their money on other items. At the same time, the increased income generated in China from textile exports increases income levels in that country, which helps the Chinese to purchase more products produced in the United States, such as pharmaceuticals from Amgen, Boeing jets, Intel-based computers, Microsoft software, and Cisco routers.

The same argument can be made to support the outsourcing of services to low-wage countries. By outsourcing its customer service call centers to India, Dell can reduce its cost structure, and thereby its prices for PCs. U.S. consumers benefit from this development. As prices for PCs fall, Americans can spend more of their money on other goods and services. Moreover, the increase in income levels in India allows Indians to purchase more U.S. goods and services, which helps to create jobs in the United States. In this manner, supporters of globalization argue that free trade benefits *all* countries that adhere to a free trade regime.

If the critics of globalization are correct, three things must be shown. First, the share of national income received by labor, as opposed to the share received by the owners of capital (e.g., stockholders and bondholders), should have declined in advanced nations as a result of downward pressure on wage rates. Second, even though labor's share of the economic pie may have declined, this does not mean lower living standards if the size of the total pie has increased sufficiently to offset the decline in labor's share; in other words, if economic growth and rising living standards in advanced economies have offset declines in labor's share (this is the position argued by supporters of globalization). Third, the decline in labor's share of national income must be due to moving production to low-wage countries, as opposed to improvement in production technology and productivity.

Several studies shed light on these issues.[55] First, the data suggest that over the past two decades the share of labor in national income has declined. The decline in share is much more pronounced in Europe and Japan (about 10 percentage points) than in the United States and the UK (where it is 3 to 4 percentage points). However, detailed analysis suggests the share of national income enjoyed by *skilled labor* has actually *increased*, suggesting that the fall in labor's share has been due to a fall in the share taken by *unskilled labor*. A study by the IMF suggested the earnings gap between workers in skilled and unskilled sectors has widened by 25 percent over the past two decades.[56] The average income level of the richest 10 percent of the population in developed economies was nine times that of the poorest 10 percent, according to 2010 data. The ratio in the United States was among the highest, with the top 10 percent earning 14 times as much as the bottom 10 percent.[57] These figures strongly suggest that unskilled labor in developed nations has seen its share of national income decline over the past two decades.

However, this does not mean that the *living standards* of unskilled workers in developed nations have declined. It is possible that economic growth in developed nations has offset the fall in the share of national income enjoyed by unskilled workers, raising their living standards. Evidence suggests that real labor compensation has expanded in most developed nations since the 1980s, including the United States. Several studies by the Organization for Economic Cooperation and Development, whose members include the 34 richest economies in the world, conclude that while the gap between the poorest and richest segments of society in OECD countries has widened, in *most* countries real income levels have increased for all, including the poorest segment. In a study published in 2011, the OECD found that between 1985 and 2008 real household income (adjusted for inflation) increased by 1.7 percent annually among its member states. The real income level of the poorest 10 percent of the population increased at 1.4 percent on average, while that of the richest 10 precent increased by 2 percent annually (i.e., while everyone got richer, the gap between the most affluent and the poorest sectors of society widened). The differential in growth rates was more extreme in the United States than most other countries. The study found that the real income of the poorest 10 percent of the population grew by just 0.5 percent a year in the United States between 1985 and 2008, while that of the richest 10 percent grew by 1.9 percent annually.[58]

As noted earlier, globalization critics argue that the decline in unskilled wage rates is due to the migration of low-wage manufacturing jobs offshore and a corresponding reduction in demand for unskilled workers. However, supporters of globalization see a more complex picture. They maintain that the weak growth rate in real wage rates for unskilled workers owes far more to a technology-induced shift within advanced economies away from jobs where the only qualification was a willingness to turn up for work every day and toward jobs that require significant education and skills. They point out that many advanced economies report a shortage of highly skilled workers and an excess supply of unskilled workers. Thus, growing income inequality is a result of the wages for skilled workers being bid up by the labor market and the wages for unskilled workers being discounted. In fact, evidence suggests that technological change has had a bigger impact than globalization on the declining share of national income enjoyed by labor.[59] This suggests that a solution to the problem of slow real income growth among the unskilled is to be found not in limiting free trade and globalization, but in increasing society's investment in education to reduce the supply of unskilled workers.[60]

Finally, it is worth noting that the wage gap between developing and developed nations is closing as developing nations experience rapid economic growth. For example, one estimate suggests that wages in China will approach Western levels in about 30 years.[61] To the extent that this is the case, any migration of unskilled jobs to low-wage countries is a temporary phenomenon representing a structural adjustment on the way to a more tightly integrated global economy.

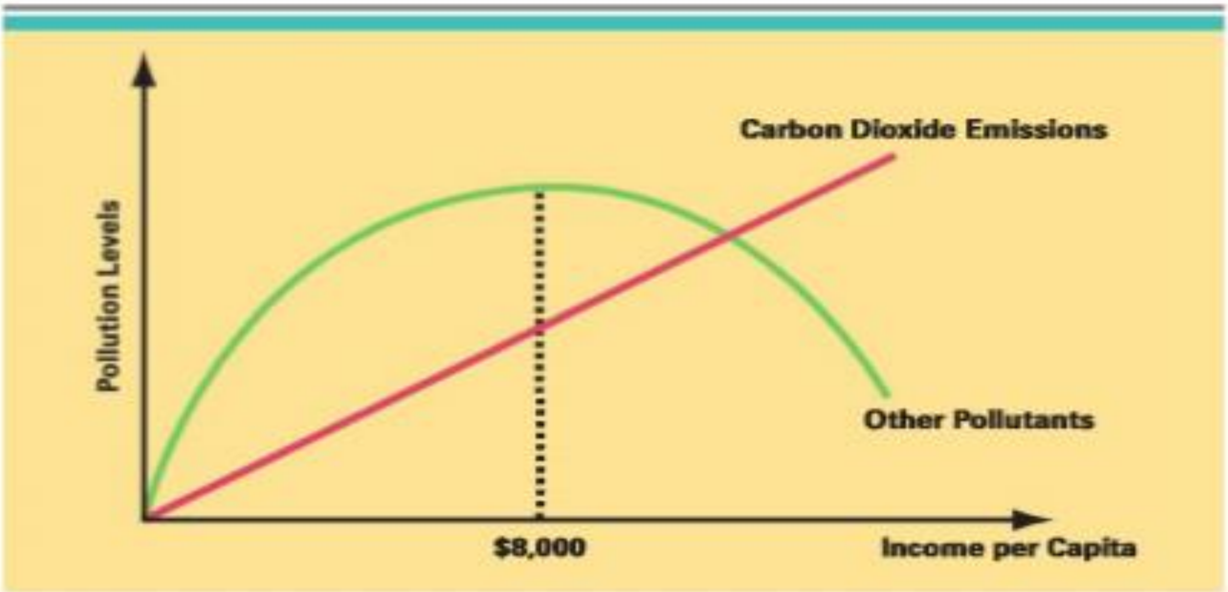
GLOBALIZATION, LABOR POLICIES, AND THE ENVIRONMENT

A second source of concern is that free trade encourages firms from advanced nations to move manufacturing facilities to less developed countries that lack adequate regulations to protect labor and the environment from abuse by the unscrupulous.[62] Globalization critics often argue that adhering to labor and environmental regulations significantly increases the costs of manufacturing enterprises and puts them at a competitive disadvantage in the global marketplace vis-à-vis firms based in developing nations that do not have to comply with such regulations. Firms deal with this cost disadvantage, the theory goes, by moving their production facilities to nations that do not have such burdensome regulations or that fail to enforce the regulations they have.

If this were the case, one might expect free trade to lead to an increase in pollution and result in firms from advanced nations exploiting the labor of less developed nations.[63] This argument was used repeatedly by those who opposed the 1994 formation of the North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States. They painted a picture of U.S. manufacturing firms moving to Mexico in droves so that they would be free to pollute the environment, employ child labor, and ignore workplace safety and health issues, all in the name of higher profits.[64]

Supporters of free trade and greater globalization express doubts about this scenario. They argue that tougher environmental regulations and stricter labor standards go hand in hand with economic progress.[65] In general, as countries get richer, they enact tougher environmental and labor regulations.[66] Because free trade enables developing countries to increase their economic growth rates and become richer, this should lead to tougher environmental and labor laws. In this view, the critics of free trade have got it backward—free trade does not lead to more pollution and labor exploitation, it leads to less. By creating wealth and incentives for enterprises to produce technological innovations, the free market system and free trade could make it easier for the world to cope with pollution and population growth. Indeed, while pollution levels are rising in the world's poorer countries, they have been falling in developed nations. In the United States, for example, the concentration of carbon monoxide and sulphur dioxide pollutants in the atmosphere decreased by 60 percent between 1978 and 1997, while lead concentrations decreased by 98 percent—and these reductions have occurred against a background of sustained economic expansion.[67]

A number of econometric studies have found consistent evidence of a hump-shaped relationship between income levels and pollution levels (see Figure 1.5).[68] As



an economy grows and income levels rise, initially pollution levels also rise. However, past some point, rising income levels lead to demands for greater environmental protection, and pollution levels then fall. A seminal study by Grossman and Krueger found that the turning point generally occurred before per capita income levels reached $8,000.[69]

While the hump-shaped relationship depicted in Figure 1.5 seems to hold across a wide range of pollutants—from sulphur dioxide to lead concentrations and water quality—carbon dioxide emissions are an important exception, rising steadily with higher income levels. Given that increased atmospheric carbon dioxide concentrations are a cause of global warming, this should be of serious concern. The solution to the problem, however, is probably not to roll back the trade liberalization efforts that have fostered economic growth and globalization, but to get the nations of the world to agree to tougher standards on limiting carbon emissions. Although UN-sponsored talks have had this as a central aim since the 1992 Earth Summit in Rio de Janeiro, there has been little success in moving toward the ambitious goals for reducing carbon emissions laid down in the Earth Summit and subsequent talks in Kyoto, Japan, in 1997 and in Copenhagen in 2009. In part this is because the largest emitters of carbon dioxide, the United States and China, have failed to reach agreements about how to proceed. China, a country whose carbon emissions are increasing at an alarming rate, has so far shown little appetite to adopt tighter pollution controls. As for the United States, political divisions in Congress have made it difficult for even a progressive administration such as that of Barack Obama to move forward with tight legislation on climate change.

Notwithstanding this, supporters of free trade point out that it is possible to tie free trade agreements to the implementation of tougher environmental and labor laws in less developed countries. NAFTA, for example, was passed only after side agreements had been negotiated that committed Mexico to tougher enforcement of environmental protection regulations. Thus, supporters of free trade argue that factories based in Mexico are now cleaner than they would have been without the passage of NAFTA.[70]

They also argue that business firms are not the amoral organizations that critics suggest. While there may be some rotten apples, most business enterprises are staffed by managers who are committed to behave in an ethical manner and would be unlikely to move production offshore just so they could pump more pollution into the atmosphere or exploit labor. Furthermore, the relationship between pollution, labor exploitation, and production costs may not be that suggested by critics. In general, a well-treated labor force is productive, and it is productivity rather than base wage rates that often has the greatest influence on costs. The vision of greedy managers who shift production to low-wage countries to exploit their labor force may be misplaced.

GLOBALIZATION AND NATIONAL SOVEREIGNTY

Another concern voiced by critics of globalization is that today's increasingly interdependent global economy shifts economic power away from national governments and toward supranational organizations such as the World Trade Organization, the European Union, and the United Nations. As perceived by critics, unelected bureaucrats now impose policies on the democratically elected governments of nation-states, thereby undermining the sovereignty of those states and limiting the nation's ability to control its own destiny.[71]

The World Trade Organization is a favorite target of those who attack the headlong rush toward a global economy. As noted earlier, the WTO was founded in 1994 to police the world trading system established by the General Agreement on Tariffs and Trade. The WTO arbitrates trade disputes between the 154 states that are signatories to the GATT. The arbitration panel can issue a ruling instructing a member state to change trade policies that violate GATT regulations. If the violator refuses to comply with the ruling, the WTO allows other states to impose appropriate trade sanctions on the transgressor. As a result, according to one prominent critic, U.S. environmentalist, consumer rights advocate, and sometime presidential candidate Ralph Nader:

> Under the new system, many decisions that affect billions of people are no longer made by local or national governments but instead, if challenged by any WTO member nation, would be deferred to a group of unelected bureaucrats sitting behind closed doors in Geneva (which is where the headquarters of the WTO are located). The bureaucrats can decide whether or not people in California can prevent the destruction of the last virgin forests or determine if carcinogenic pesticides can be banned from their foods; or whether European countries have the right to ban dangerous biotech hormones in meat. . . . At risk is the very basis of democracy and accountable decision making.[72]

In contrast to Nader, many economists and politicians maintain that the power of supranational organizations such as the WTO is limited to what nation-states collectively agree to grant. They argue that bodies such as the United Nations and the WTO exist to serve the collective interests of member states, not to subvert those interests. Supporters of supranational organizations point out that the power of these bodies rests largely on their ability to persuade member states to follow a certain action. If these bodies fail to serve the collective interests of member states, those states will withdraw their support and the supranational organization will quickly collapse. In this view, real power still resides with individual nation-states, not supranational organizations.

GLOBALIZATION AND THE WORLD'S POOR

Critics of globalization argue that despite the supposed benefits associated with free trade and investment, over the past hundred years or so the gap between the rich and poor nations of the world has gotten wider. In 1870, the average income per capita in the world's 17 richest nations was 2.4 times that of all other countries. In 1990, the same group was 4.5 times as rich as the rest.[73] While recent history has shown that some of the world's poorer nations are capable of rapid periods of economic growth—witness the transformation that has occurred in some Southeast Asian nations such as South Korea, Thailand, and Malaysia—there appear to be strong forces for stagnation among the world's poorest nations. A quarter of the countries with a GDP per capita of less than $1,000 in 1960 had growth rates of less than zero from 1960 to 1995, and a third had growth rates of less than 0.05 percent.[74] Critics argue that if globalization is such a positive development, this divergence between the rich and poor should not have occurred.

Although the reasons for economic stagnation vary, several factors stand out, none of which have anything to do with free trade or globalization.[75] Many of the world's poorest countries have suffered from totalitarian governments, economic policies that destroyed wealth rather than facilitated its creation, endemic corruption, scant protection for property rights, and war. Such factors help explain why countries such as Afghanistan, Cambodia, Cuba, Haiti, Iraq, Libya, Nigeria, Sudan, Vietnam, and Zaire have failed to improve the economic lot of their citizens during recent decades. A complicating factor is the rapidly expanding populations in many of these countries. Without a major change in government, population growth may exacerbate their problems. Promoters of free trade argue that the best way for these countries to improve their lot is to lower their barriers to free trade and investment and to implement economic policies based on free market economics.[76]

Many of the world's poorer nations are being held back by large debt burdens. Of particular concern are the 40 or so "highly indebted poorer countries" (HIPCs), which are home to some 700 million people. Among these countries, the average government debt burden has been has high as 85 percent of the value of the economy, as measured by gross domestic product, and the annual costs of serving government debt consumed 15 percent of the country's export earnings.[77] Servicing such a heavy debt load leaves the governments of these countries with little left to invest in important public infrastructure projects, such as education, health care, roads, and power. The result is the HIPCs are trapped in a cycle of poverty and debt that inhibits economic development. Free trade alone, some argue, is a necessary but not sufficient prerequisite to help these countries bootstrap themselves out of poverty. Instead, large-scale debt relief is needed for the world's poorest nations to give them the opportunity to restructure their economies and start the long climb toward prosperity. Supporters of debt relief also argue that new democratic governments in poor nations should not be forced to honor debts that were incurred and mismanaged long ago by their corrupt and dictatorial predecessors.