

Coming to terms with globalization

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Outline

America and the world

How should Americans approach globalization?

Foreign investment

Trade

Culture

Political decision making

Which road will we choose?

America and the world

America and the world

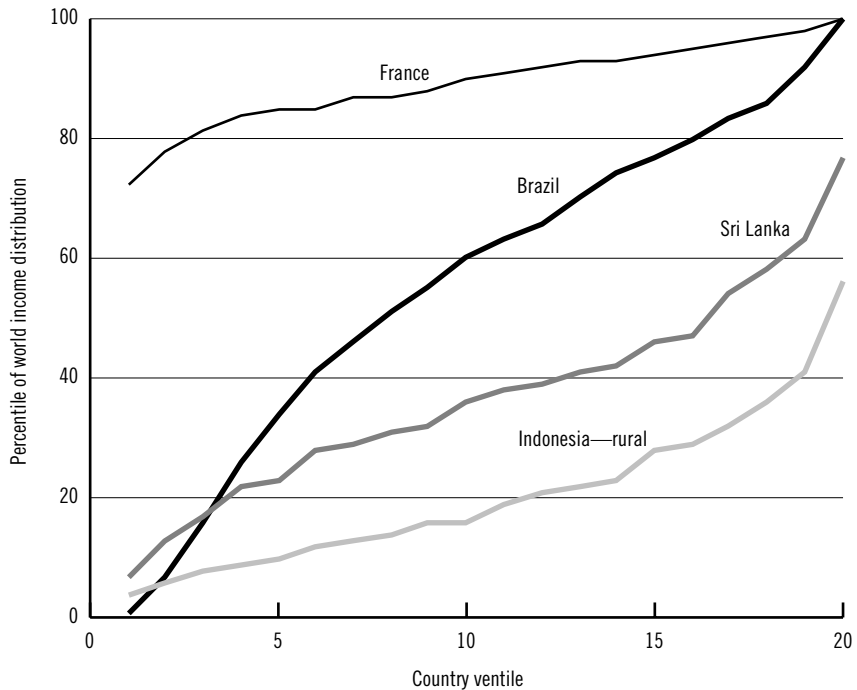
How should the United States relate to the rest of the world?

In terms of human well-being, this is the most important question we've considered in this course

The U.S. has more impact on world politics and economics than any other single country

Much of the world's population is far poorer than those at the bottom of the distribution here in the United States

Figure 1: The position of different countries' ventiles in global income distribution



Source: Calculated from World Income Distribution (WID) data. Available at <http://econ.worldbank.org/projects/inequality>.

America and the world

Our policy makers won't ever make the world's poor their number one priority

But they could be *one* of our top priorities

A key is to embrace globalization

America and the world

What is globalization?

Globalization = integration between countries

Jobs: foreign investment

Goods and services: trade

Money: finance

People: migration

Culture

Military intervention

Political decision making

America and the world

In the last two lectures, I've looked at two ways for the U.S. to embrace globalization

Military intervention in humanitarian crises or to restore democracy

Immigration

Today I'll discuss four others

Foreign investment

Trade

Culture

Political decision making

America and the world

One aspect I won't address: finance

Financial globalization has improved poor countries' access to resources, but it also has created enormous instability and vulnerability

1997-98 Asian financial crisis

Current financial and economic crisis

I don't yet have a good answer on this

Foreign investment

Foreign investment

Is foreign investment bad for citizens of poor countries?

Sweatshops with long hours and poor working conditions

Low wages

Multinational firms ship profits back home and leave when costs get too high

Foreign investment

These concerns are valid

They've sparked

- activism to pressure multinational firms

- efforts to monitor and expose worst practices: Wal-Mart, Nike

- attempts to impose minimum wages and working standards

Foreign investment

Yet foreign investment nevertheless tends to be good for the world's poor

- More jobs

- Better wages

- Better working conditions

- Skills and ideas that can lead to entrepreneurship

- Tax revenues that can be used for roads, schools, hospitals, etc.

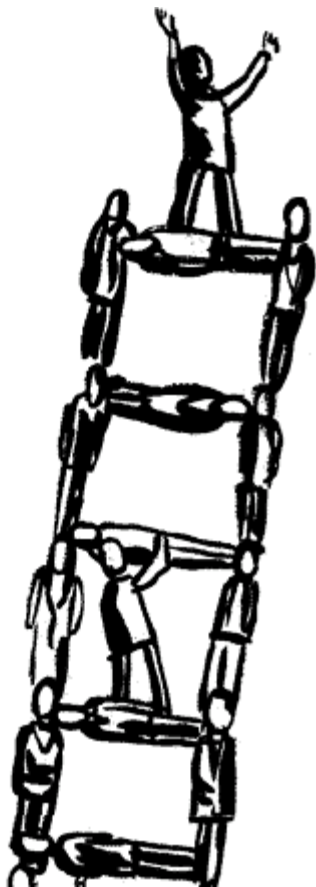
The poor in many countries need more foreign investment, more sweatshops

Foreign investment

That doesn't mean activists, international agencies (UN, ILO), and governments shouldn't try to prohibit violations of human rights such as slavery or forced child labor

Nor does it mean governments in poor countries should simply let the market be; in the most successful developing nations, in Asia, the government has played an active role in the economy

It does imply that attempts to force multinational firms to conform to rich-country norms in their pay and employment practices is likely to hurt the world's poor rather than help them



In Praise of Cheap Labor

Bad jobs at bad wages are better than no jobs at all.

By Paul Krugman

(1,669 words; posted Thursday, March 20; to be composted Thursday, March 27)

For many years a huge Manila garbage dump known as Smokey Mountain was a favorite media symbol of Third World poverty. Several thousand men, women, and children lived on that dump--enduring the stench, the flies, and the toxic waste in order to make a living combing the garbage for scrap metal and other recyclables. And they lived there voluntarily, because the \$10 or so a squatter family could clear in a day was better than the alternatives.

January 15, 2009

OP-ED COLUMNIST

Where Sweatshops Are a Dream

By [NICHOLAS D. KRISTOF](#)

PHNOM PENH, Cambodia

Before Barack Obama and his team act on their talk about “labor standards,” I’d like to offer them a tour of the vast garbage dump here in Phnom Penh.

This is a Dante-like vision of hell. It’s a mountain of festering refuse, a half-hour hike across, emitting clouds of smoke from subterranean fires.

The miasma of toxic stink leaves you gasping, breezes batter you with filth, and even the rats look forlorn. Then the smoke parts and you come across a child ambling barefoot, searching for old plastic cups that recyclers will buy for five cents a pound. Many families actually live in shacks on this smoking garbage.

Mr. Obama and the Democrats who favor labor standards in trade agreements mean well, for they intend to fight back at oppressive sweatshops abroad. But while it shocks Americans to hear it, the central challenge in the poorest countries is not that sweatshops exploit too many people, but that they don’t exploit enough.

Talk to these families in the dump, and a job in a sweatshop is a cherished dream, an escalator out of poverty, the kind of gauzy if probably unrealistic ambition that parents everywhere often have for their children.

Foreign investment

Does movement of U.S. factories and offices abroad hurt our economy or cost us lots of jobs?

Probably very little if any; outward foreign direct investment is about 3% of GDP

Trade

Trade

A key problem faced by poor countries is import barriers imposed by rich nations to protect their own farmers and manufacturing firms

Every successful economic development story in the past half-century has relied heavily on exports to rich countries

South Korea

Taiwan

Hong Kong

Singapore

China

Brazil

Botswana

Mauritius

Trade

But trade and movements of jobs may reduce employment and/or wages for the less-skilled here in the U.S.

They almost certainly do, though we aren't sure how large the impact is

The question is: What to do?

Reduce trade and/or offshoring

or

Improve Americans' ability to adapt to change

Trade

Many on the left and a segment of those on the right (Pat Buchanan and others) favor restrictions on trade and offshoring

This would help some Americans who will otherwise lose their jobs

But it's bad for Americans as consumers and very bad for the poor in the rest of the world

Trade

What about the period from 1830 to 1885, when the United States had high tariffs but industrialized rapidly, passing most of western Europe in GDP per capita?

Actually, this apparent exception doesn't contradict the conclusion

This type of strategy only works if other countries don't follow suit

In any case, despite the high tariffs, U.S. imports *increased* during this period due to a sharp decline in transportation costs (Bernstein, *A Splendid Exchange*)

Trade

A preferable alternative is to embrace trade and help its victims here adjust

- Better education

- Unemployment insurance

- Wage insurance

- Portable health insurance

- Retraining

- Assistance with job placement

These programs would be good to have even if there were no cross-country trade. They would help with effects of technological change, within-country trade, and immigration.

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Why Populists Need to Re-think Trade

Progressives prioritize a trade agenda that would not actually achieve the objectives they have in mind. It's time they adopted a reality-based approach.

JAMES K. GALBRAITH | *May 10, 2007* | web only



The 2006 election opened up American politics, for the first time in decades. It has presented progressives with the opportunity, and the obligation, to define themselves on the big issues. Of these, trade is clearly one of the most potent; alongside the war, it is one of the few questions plainly capable of turning elections in the battleground states.

In a *Washington Post* [essay](#) published late last year, on the eve of the Democrats' ascension to the majority, Senators Byron Dorgan and Sherrod Brown articulated a trade policy that typifies the consensus view of the party's labor-liberal wing. They criticize "free trade," call for strong labor and environmental standards in future trade agreements, and argue for aggressive policies to open foreign markets to American goods. Their critique reflects a genuine anger, and the concerns their piece embodies deserve to be met. Their program is populist, nationalist, muscular, and in tune with the mood of the Democratic base.

But it is not reality-based. As policy, it would not achieve the senators' basic objective -- namely, more jobs at higher wages in the United States. As politics, the danger is not that it will fail but that it might succeed. And then, progressives in power will repeat the pattern that conservatives set in 1981, pushing a program based on high expectations and illusions that ends in confusion, reversals, defeats, and an eventual lapse into incoherence and disrepute.

Culture

Culture

The pessimistic view

Competition may lead to disappearance of cultural forms and producers — music, movies, books, sports, restaurants, languages — that have a small audience or are inferior in quality

The result might be a world dominated by hip-hop music, Hollywood films, Harlequin romance novels, soccer (surely not baseball), McDonalds, and the English language

Culture

The optimistic view

Access to rich-country markets may help unknown but high-quality cultural forms/producers survive and prosper

Also, globalization may enhance cultural diversity in dominant countries: Thai restaurants, Argentine basketball players, African music, etc.

CREATIVE DESTRUCTION

How Globalization Is Changing the World's Cultures



TYLER COWEN

Culture

The verdict isn't yet in on this question

Political decision making

Political decision making

Should there be a supranational body with real decision-making authority over countries?

Political decision making

We've been moving in that direction

The United Nations now authorizes military interventions

The UN's International Court of Justice and the International Criminal Court prosecute people who commit war crimes.

The ICC recently, for the first time, issued an arrest warrant for a sitting government head (president of Sudan)

The European Union has assumed decision making authority in a (still limited) number of areas

Political decision making

A true world government seems unimaginable

Economic interests, cultures, and identities are too different

Yet Americans in the original 13 colonies felt the same way prior to 1789

And European countries that have chosen to join the EU are highly diverse

"One person, one vote" would enable the world's poor to confiscate our wealth

Opponents of democracy raised exactly the same concern in the 1700s and 1800s

Political decision making

Potential benefits

Greater order and predictability

Enhanced fairness

Improved ability to deal with crises

Political decision making

An example: environmental sustainability

The key challenge is getting developing countries to forego some of the benefits of rapid industrialization in favor of the long-term health of the planet

Perhaps they can be bought off

Perhaps they'll act altruistically (farsighted political leaders sometimes do the right thing even when it contradicts public opinion: Lincoln in the Civil War, FDR in World War II)

It would be easier if a world government could force them to do it (with some compensation)

Political decision making

It's very unlikely that a world government would have full powers vis-à-vis national governments

But it could have authority in particular areas

The European Union experiment is worth studying to get a sense of the possibilities and limits

**Which road will we
choose?**

Which road will we choose?

"Stop the world": One option is to close ourselves off from the world — to erect barriers (to trade, immigration) and focus solely on our own problems

But this is neither feasible nor desirable

January 6, 2008

ECONOMIC VIEW

Stop the World (and Avoid Reality)

By ALAN S. BLINDER

IN the early 1960s, a Broadway musical called “Stop the World, I Want to Get Off” was all the rage. But you hear the sentiment of that title a lot these days.

Opinion polls show that Americans are both weary with and wary of the rest of the world. It’s as if they wish it would all just go away. Naturally, this sentiment is reflected in the current presidential campaign. Among Democrats, it may manifest itself in attitudes toward international trade that range from lukewarm support to outright hostility. Among Republicans, it shows up in attitudes toward [immigration](#) — and most things foreign — that border on xenophobia.

Part of the Stop-the-World Syndrome clearly stems from despair over the Bush administration’s foreign policies, especially in Iraq and Afghanistan. But part of it seems to have economic origins. Increasingly, Americans seem to be losing faith in globalization. Why?

Which road will we choose?

America has been at its best when we've embraced globalization and sought to improve the well-being of people in other countries

World Wars 1 and 2

Marshall Plan

Opposition to communist expansion

Peace Corps

Leadership in creating and supporting international organizations and procedures (UN, IMF, World Bank, Bretton Woods, GATT)

Which road will we choose?

The evidence suggests that we would do well to continue this orientation

With appropriate policies in place, any damage to our citizens will be limited

The benefits to the world's least well-off will be enormous

Parting wisdom

Be optimistic: The world and our country face big challenges, but we have the resources and the will to address them

"The moral arc of the universe is long, but it bends toward justice."

- Martin Luther King, Jr.