

Free trade or fair trade?

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Outline

America and the world

How should Americans approach globalization?

Trade

Foreign investment

Culture

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 poorer than those at the bottom of the distribution here in the United States

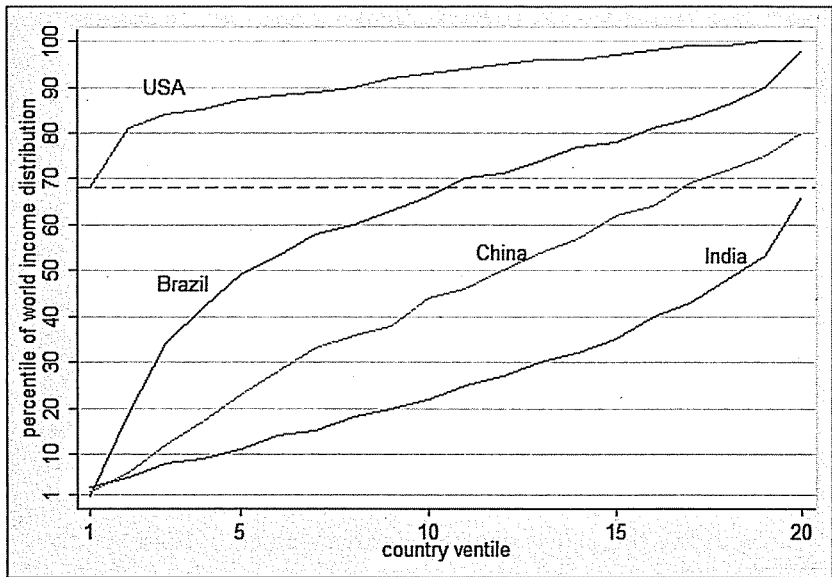


FIGURE 3 Inequality in the world, by country and income class

Note: The graph shows that the income of the poorest 5 percent of Americans (country ventile 1 on the horizontal axis) situates them at the 68th percentile of world income distribution (see the horizontal broken line at level 68). The interpretation for all other points is the same.

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HAVES
and the
HAVE-
NOTS

A BRIEF AND IDIOSYNCRATIC HISTORY OF GLOBAL INEQUALITY

America and the world

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

But they could be *one* of our priorities

America and the world

What is globalization?

Globalization = integration between countries

Goods and services: trade

Jobs: foreign investment

Culture

People: migration

Money: finance

Military intervention

Political decision making

America and the world

One aspect I won't address: finance

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

1997-98 Asian financial crisis

2008ff financial and economic crisis

I don't yet have a good answer on this

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

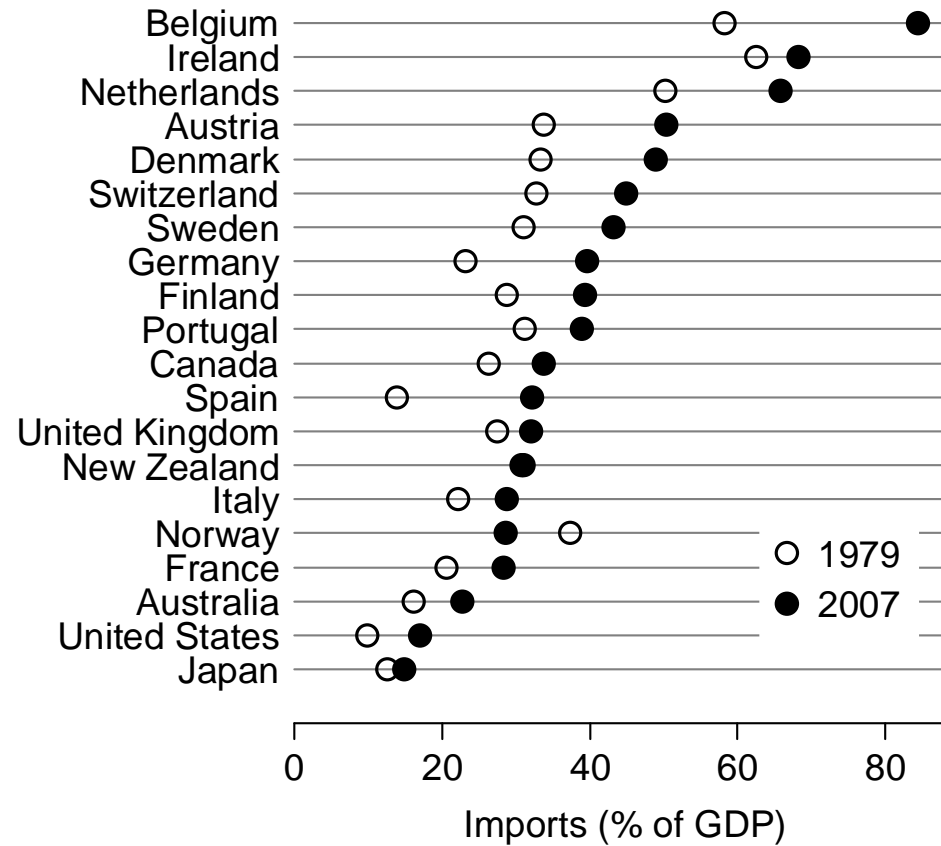
Mauritius

Trade

But imports may reduce employment and/or wages here in the United States, especially for the less-skilled

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

Trade



Imports as a share of GDP (%). Data source: OECD.Stat.

Trade

What to do?

Reduce imports

or

Improve Americans' ability to adapt to change

Trade

Many on the left and some on the right favor restrictions on imports

This would help some Americans who will otherwise lose their jobs or experience stagnant pay

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

Trade

An alternative: embrace trade and help its victims adjust

Better education

Unemployment insurance

Retraining

Assistance with job placement

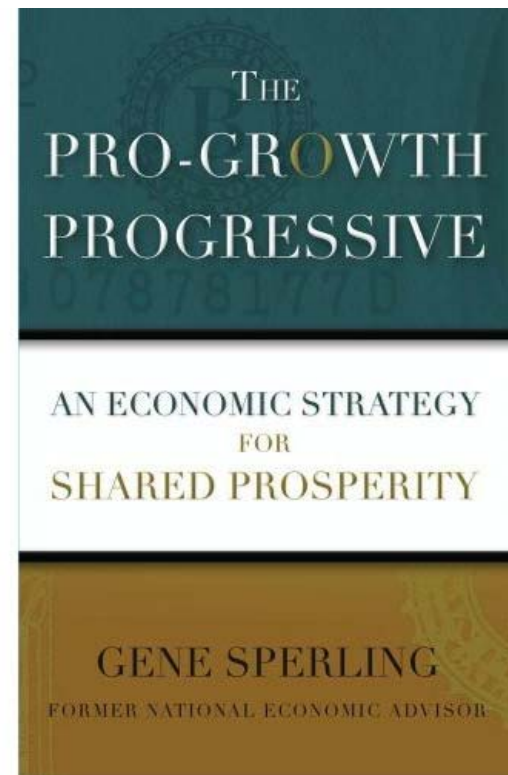
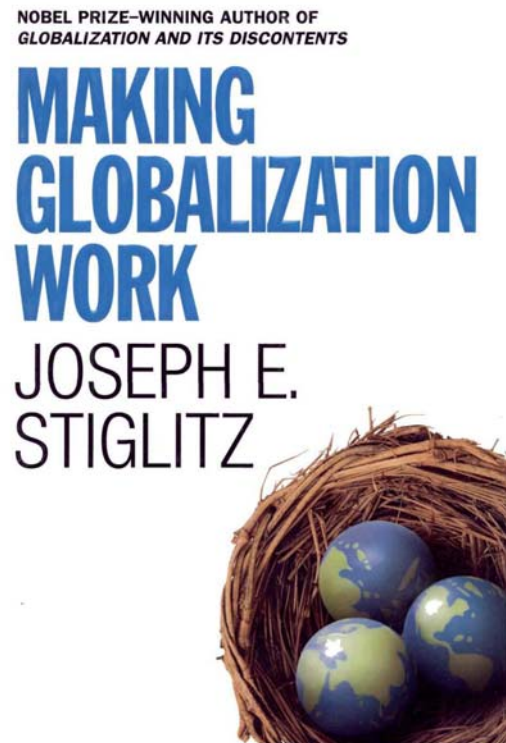
Wage insurance

Portable health insurance

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

Trade

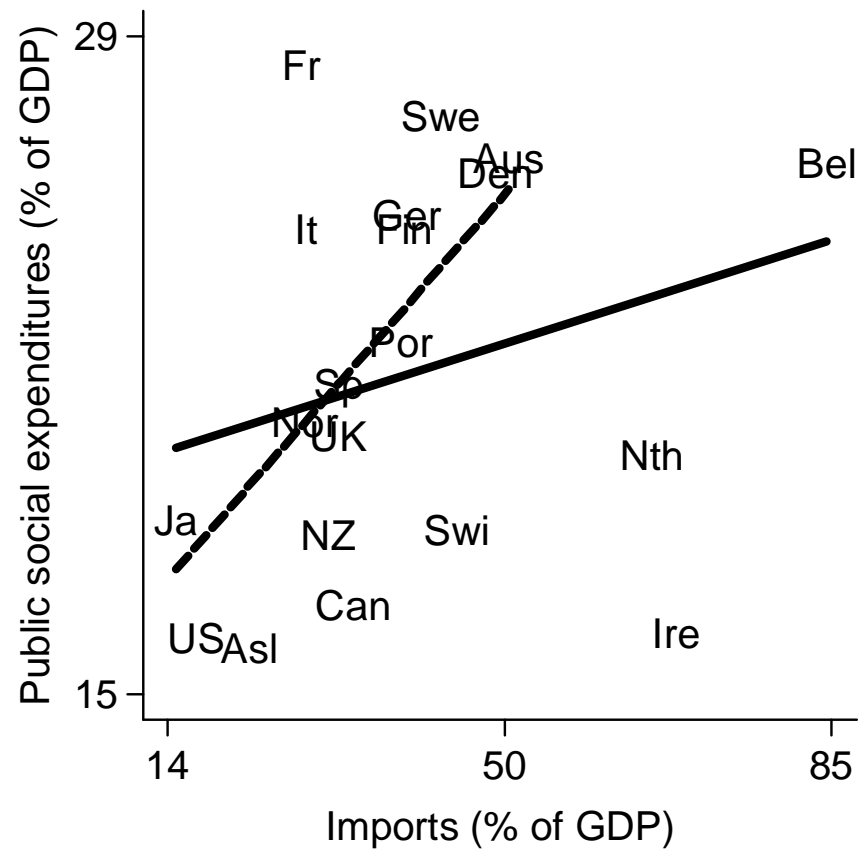
An alternative: embrace trade and help its victims adjust



Trade

Among the rich countries, those in which imports are more prominent tend to provide more generous cushions

Trade



The solid regression line describes the pattern for all twenty countries. The dashed line describes the pattern with Belgium, the Netherlands, and Ireland excluded. Data source: OECD.Stat.

Foreign investment

Foreign investment

Does movement of U.S. factories and offices abroad ("outward investment") hurt our economy or cost us lots of jobs?

Definitely some, but perhaps not that many

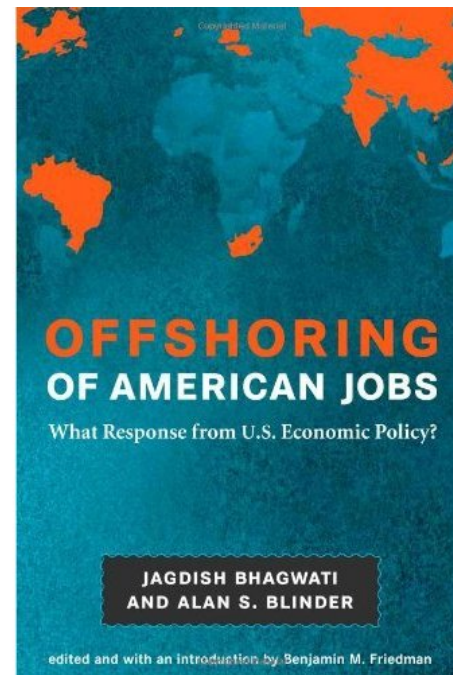
Outward foreign direct investment is only 3% of GDP

And we receive a lot of inward investment

Foreign investment

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

Then again, this may be changing



Foreign investment

But the same solution is available as for technological change, within- and between-country trade, within- and between-country immigration, and shifts of offices and plants across states

Help the victims adjust

Foreign investment

Is foreign investment bad for citizens of poor countries?

Sweatshops with long hours and lousy 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: Nike, Walmart

- 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

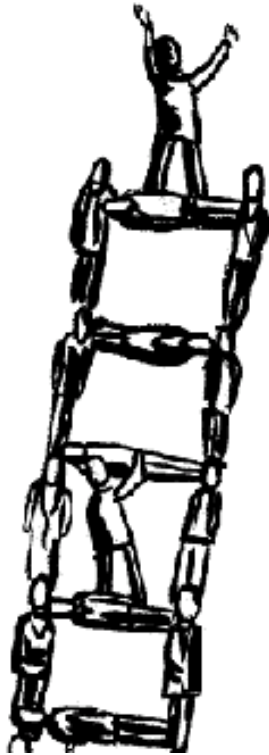
- Skills and ideas that can lead to entrepreneurship

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

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

Foreign investment

Foreign investment tends to be good for the world's poor



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.



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 may hurt the world's poor rather than help them

Culture

Culture

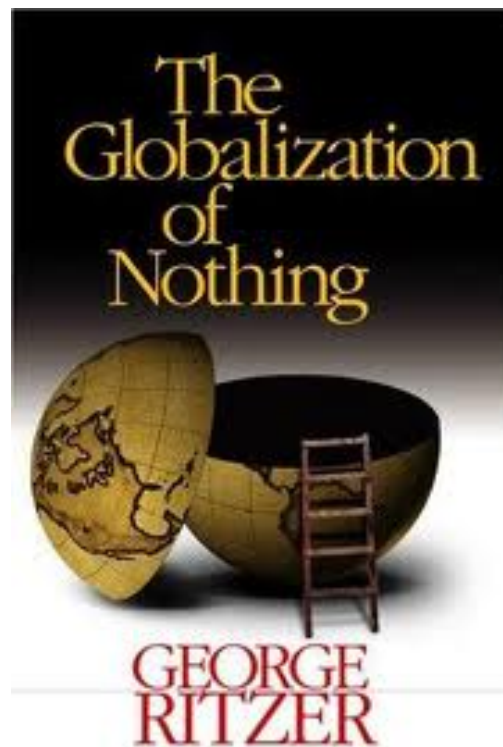
The pessimistic view

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

The result might be a world dominated by hip-hop music, Hollywood films, romance novels, soccer ("football"), McDonalds, and the English language

Culture

The pessimistic view



Culture

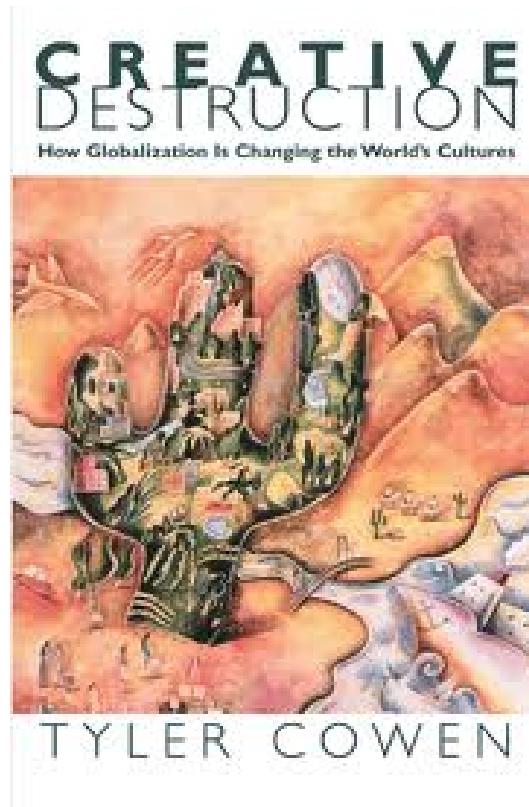
The optimistic view

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

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

Culture

The optimistic view



Culture

The verdict isn't yet in on this question

**Which road will we
choose?**

Which road will we choose?

One option is to close ourselves off from the world — to erect barriers and focus solely on our own well-being

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?

In my view, we ought to continue this orientation

In important respects — consumption, security — embracing globalization is good for our own well-being

With appropriate policies in place, the damage to our citizens can be limited

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