Is Economic Globalization Good News?

BY JOSEPH A. MCKINNEY

Undeniably we are living in a time of profound change as different national economies become integrated into a global economic system. What is globalization's impact in countries where many people live in absolute poverty? And why are these economic changes causing the greatest anxiety in richer countries?

We hear a lot about economic globalization today. Literally hundreds of books, some of them bestsellers, and thousands of articles have been written about it since 1995. Globalization has been the subject of almost endless debate in the media and in the halls of government. It has triggered demonstrations, sometimes violent, by those who are fearful of its adverse consequences.

While globalization is a complex phenomenon with many ramifications, here I am thinking of it as the integration of different national economies into a global economic system. Economic globalization has been made possible by the extension of relatively unrestricted markets to more and more countries after the USSR disintegrated and China opened to the outside world and by outward-looking policy changes in many lesser developed countries, such as India and Vietnam, that have removed market restraints. To a large extent the recent globalization is being driven by a technological revolution that involves application of digital technologies to both production processes and communications.

A reasonable question to ask is whether the recent globalization is significant enough to justify all of the attention given to it? In my opinion, it is. Undeniably we are living in a time of profound change. Production processes have been dispersed around the globe as never before. The volume of world trade is increasing at almost three times the rate of increase in world output.[1] United States firms sell more through subsidiaries located in other countries than they export from this country. Three times as many persons cross national boundaries today for business purposes, tourism, or immigration as in 1980.[2] Internet usage is growing exponentially.

Yet the move toward a global economy may be in its infancy. The overwhelming majority of business transactions, investments, phone calls, and Internet messages are still local. McKinsey & Company estimates that while perhaps one-fifth of world production and investment are open to foreign competition today, as much as four-fifths may be within thirty years.[3] That is almost certainly an overestimate, but a movement even half that far toward global economic integration would have profound implications.

In considering the significance of these changes, it may be helpful to put things into historical perspective. Up until the Industrial Revolution, the great majority of the world's population lived at or near a subsistence level. After the mechanization of production in the eighteenth and nineteenth centuries, the rate of world economic growth increased to more than one percent per year, and over time this resulted in a dramatic improvement in living standards in much of the world. Previously, the larger part of the world's production had taken place in countries that are today considered emerging economies such as China and India. After the Industrial Revolution, countries that adopted the new production methods, such as Western Europe and the United States (and later Japan), experienced phenomenal increases in their standards of living and greatly increased their share of world output.[4]

Recently, as a result of the semiconductor revolution and extension of relatively unrestricted markets to much larger portions of the world, global output has increased at well over twice the rate that it did during the Industrial Revolution. During the first years of the new millennium, the world economy has expanded more rapidly than ever before in history.[5] Countries that have participated vigorously in this process, such as South Korea, Singapore, and Malaysia, and more recently China and India, have experienced the most rapid rates of growth.

IMPLICATIONS FOR POORER COUNTRIES

A matter of particular concern for Christians is the impact of globalization on the countries of the world where a large percentage of the population lives in absolute poverty. World Bank economist David Dollar, writing in 2004 after studying the effects of globalization on poverty and inequality since 1980, concluded that

> Poor country growth rates have accelerated and are higher than rich country growth rates—for the first time in modern history.

> The number of poor people in the world has declined significantly—by 375 million people since 1981—the first such decline in history. The share of developing world population living on less than one dollar per day has been cut in half since 1981.
>
> Global inequality (among citizens of the world) has declined—modestly—reversing a 200-year-old trend toward higher inequality.
>
> Furthermore, the trends toward faster growth and poverty reduction are strongest in the developing countries in which there has been the most rapid integration with the global economy, supporting the view that integration has been a positive force for improving lives in the developing world.[6]

It is interesting that most of the opposition to globalization has originated in the richer countries in the world. Generally, people in the poorer countries view it as an opportunity for improving their lot in life. Opponents of globalization worry that it will worsen environmental conditions in less developed countries and that exploitative labor conditions will be employed there. While instances of both environmental degradation and labor exploitation resulting from the activities of multinational firms in less developed countries have been documented, as a rule their presence there improves conditions. The economic growth that results from globalization provides resources needed for improving environmental conditions in less developed countries and, in general, as incomes rise in such countries, environmental regulations are strengthened and their enforcement improved.[7]

Also, studies have repeatedly shown that, while multinational firms in less developed countries pay wages far below what they would pay in the United States and Western Europe, they generally pay wages higher than those of domestic firms in such countries and provide superior working conditions.[8] It is sometimes said that globalization increases the use of child labor. Again, the opposite is usually the case. As higher-wage job opportunities are made available for adults, parents are better able to send their children to school as opposed to putting them to work in order that the family can survive. A growing economy increases future job prospects, providing further incentive for parents to seek education for their children.[9]

While globalization is generally beneficial to the poor in less developed countries, there definitely are instances in which the poor in such countries are harmed by globalization. An example would be the too-rapid removal of restraints on agricultural trade so that many small farmers lose their livelihood. A case in point is the removal of restraints on corn imports into Mexico, more rapidly even than the North American Free Trade Agreement (NAFTA) had scheduled. As a result, small farmers were driven from the land, pushing many of them to emigrate to the United States.

The poor in the less developed countries are much more likely to benefit from globalization if complementary policies are put in place, such as technical assistance and availability of credit, improvements of transportation and marketing networks, and increased access to education.[10] In any economic change there are likely to be both winners and losers, and when the losers are abjectly poor it is incumbent on societies to implement policies for their protection. Christians can be involved in helping the poor of the world through joining advocacy groups on their behalf, supporting mission agencies, and assisting the churches in such countries that are often critical change agents. Also, Christians in business are increasingly viewing their business operations in poorer countries as opportunities for both Christian witness and the improvement of social conditions there.[11]

It is often said that the world trading system is biased against less developed countries, and consequently the World Trade Organization has been the target of many demonstrations. In general, the world trade regime works to the benefit of less developed countries. It provides a rules-based system in which less powerful countries have recourse to dispute settlement procedures when the rules are violated. But while less developed countries benefit on balance from the rules of the world trading system, in some ways they have not been treated fairly in it.[12] Both import tariffs and other trade restrictions fall more heavily on the products (such as food products and textiles) exported by less developed countries. Multilateral agreements to liberalize trade in services have focused on those services (such as banking) in which the richer countries have a comparative advantage to the neglect of those (such as construction) in which less developed countries have an advantage. International agreements on intellectual property protection have in some instances restricted the ability of less developed countries to produce low-cost pharmaceuticals needed to save the lives of those who could not afford to pay for them. The poorest countries lack the capacity to participate fully in trade negotiations and in the World Trade Organization's dispute settlement procedures. These problems must be addressed in multilateral trade negotiations if poorer countries are to reap the full benefits of a global economy.

Most opposition to globalization has originated in the richer countries in the world. People in poorer countries view it as an opportunity for improving their lot in life. Opponents worry that it will exploit labor and worsen environmental conditions.

IMPLICATIONS FOR DEVELOPED COUNTRIES

The greatest anxiety concerning globalization is manifested in the richer countries of the world. There are two main reasons for this unease. First, globalization speeds up the rate of economic change and makes jobs that before seemed secure now seem to be at risk. Second, while incomes have grown rapidly overall in the richer countries during the globalization era, the distribution of these incomes has become increasingly unequal.

During the past two decades, when globalization has progressed most rapidly, there has been only a very modest increase in the compensation of middle- and lower-wage workers in the United States, at the same time that both profits and the wages of skilled workers have increased rapidly. In Western Europe, where labor markets are less flexible, the gap between unskilled and skilled wages has widened by much less than in the United States, but unemployment rates there have remained stubbornly high.

The insecurity caused by globalization is greater where there is a weak social safety net—when unemployment compensation payments are low and health insurance benefits are not portable from job to job.

A lively debate has ensued among economists concerning how much of this wage disparity is due to increased international trade and how much is attributable to technological change. The preponderance of evidence indicates that while some of the widening gap is due to increased international trade (and the effective doubling of world labor supply with the entry of China and India into world markets), most of it can be attributed to technological change.[13] That a widening gap between skilled and unskilled workers can also be observed in the poorer countries is evidence of this. Application of semiconductor technologies to production processes has allowed automation of much work that previously required relatively unskilled labor. At the same time, demand for skilled workers such as engineers and computer programmers has increased. Therefore, decreased demand for unskilled workers and increased demand for skilled workers has caused a widening wage gap around the world.

The full implications of globalization for workers in the United States cannot be fully known at this time. Previously it was relatively unskilled workers producing manufactured goods that were in danger of having their jobs outsourced overseas. Now skilled workers in the service sector face potential competition from overseas. In some ways international trade in the services of skilled workers over the Internet is easier than trade in goods, because shipping costs and customs procedures are not involved. Most economists view international outsourcing of services favorably, seeing it as simply an extension of the benefits of trade to areas of the economy where this was not possible before the Internet. But prominent Princeton economist Alan Blinder believes that the implications are more profound. He estimates that as many as forty million jobs in the United States are of the type that potentially could be outsourced internationally, many of them highly skilled jobs such as graphic design, financial analysis, and computer programming.[14] The fact that skilled jobs are now at risk is likely to increase the effective opposition to globalization.

The insecurity caused by globalization is, of course, greater where there is a weak social safety net. When unemployment compensation payments designed to provide income to discharged workers while they search for new jobs are low or difficult to obtain, then workers who perceive their jobs to be at risk are likely to oppose globalization. Likewise, when health insurance benefits are not portable from job to job and can be maintained between jobs only at exorbitant cost, then workers reasonably oppose policies that are likely to put their jobs at risk.

If the opposition to globalization arises from the fears of workers that they could possibly be harmed by it, then it would seem reasonable to strengthen the social safety net to reduce the chances of workers being harmed. There is a tradeoff involved, however. As is evident from Western Europe, a generous social safety net can lead to higher levels of unemployment and a less dynamic economy. In Western European economies such as France and Italy (and until recently, Germany), the unemployment rate has stayed persistently at almost double the level of that in the United States, and the rate of economic growth has been only about one-half as great in recent years.

A certain amount of market-determined income inequality is necessary to provide the incentives for work, investment, and entrepreneurship, and policy makers must take this into account as they consider possible changes. Balancing the need for incentives in the system with social welfare needs is a complex task. There seems to be a growing sentiment among economists that the degree of inequality in the United States economy in the past few years is more than is necessary for providing incentives, and because of it those at the bottom of the income scale lack the equality of opportunity to allow them to realize their full human potential.

What could be done to soften the blow of globalization to those who are adversely affected by it? Since the 1960s we have had trade adjustment assistance programs to provide for the retraining of those displaced by foreign competition, but among major industrial countries our spending in the United States on active labor market adjustment programs is by far the lowest relative to national income. And most assessments of the effectiveness of the programs rate them poorly. Retraining workers, particularly those who are older and often lack education, so that they can qualify for the types of jobs that are in demand is very difficult. New approaches are needed, such as wage subsidies to compensate those who have had to take lower-paying jobs and portability of health insurance and pensions for those who have permanently lost jobs. For those whose skills are being made obsolete by technological change or structural changes in the economy, a tax credit for education and training expenditures is recommended.[15]

While we appreciate the benefits of globalization, we should also have concern for those harmed by it. Institutional mechanisms must be developed to see that the benefits are spread throughout societies, in both poorer and richer countries.

While my focus has been on cushioning the blow to workers displaced by globalization, the economic costs of adjustment should be put in context. Economists at the Institute for International Economics, using a variety of methods that give fairly consistent results, have estimated that the annual benefits of globalization amounted in 2003 to between $2,800 to $5,000 of additional income to the average person in the United States, and between $7,100 to $12,900 for the average household. While in absolute terms most of these benefits accrued to higher income households, the benefits as a percentage of income were much larger for lower income households since low-cost imports are a more important component of consumption for them. The annual benefits are more than eighteen times as large as the estimated annual labor adjustment costs.[16] The challenge is to devise policies that can transfer enough of the benefits to those adversely affected so that everyone is made better off by globalization.

CHRISTIAN RESPONSE TO GLOBALIZATION

Given what we know about economic globalization, what should be the response of Christians to it? Certainly, we should rejoice in the alleviation of absolute poverty that has resulted from it and in the potential for further progress in this area. The technological revolution that is driving globalization and the market processes that characterize it have the potential for raising living standards throughout the world to levels heretofore unimaginable.

At the same time that we appreciate the benefits of globalization, we should also have concern for those who may be harmed by it. The rate of structural change resulting from globalization is unprecedented and is possibly in its early stages. Institutional mechanisms must be developed to see that the benefits of globalization are spread throughout societies, in both poorer and richer countries. This is imperative first and foremost because it is the right thing to do, but also because without it a backlash against globalization could disrupt the process. Retrogression has occurred in the past.

The level of globalization was quite high by most measures at the end of the nineteenth century. Trade barriers were relatively low, massive amounts of capital moved internationally, and the movement of labor throughout the world was virtually unrestricted. During the period between World War I and World War II a trade war greatly restricted international trade, extensive capital controls were applied, and stringent immigration laws were put in place. Only slowly and with much effort were most of these restrictions removed during the post-World War II period.

Globalization could be disrupted again by a backlash against it from those who fear being adversely affected by it, by terrorist incidents such as the explosion of a nuclear device in a major port, or by a worldwide pandemic such as the bird flu. While many people are fearful of the effects of globalization, perhaps the greater fear should be that the process might be disrupted, for the world would have much to lose if it were.

I have emphasized globalization's potential for improving productivity and therefore material standards of living. Certainly, the potential for globalization to reduce absolute poverty is good news, as the alleviation of poverty is an important moral issue. Economic growth can also have favorable benefits in ways other than its effects on material living standards. In a recent book entitled *The Moral Consequences of Economic Growth*, Benjamin Friedman presents evidence that steady economic growth "…more often than not fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness and dedication to democracy."[17] In a stagnant economy cooperation is less because one person's gain tends to be another person's loss. In growing economies the potential exists for everyone to benefit, and realizing this people are more likely to cooperate.

Friedman's definition of morality is admittedly limited in scope, and it is possible that increased prosperity could have adverse effects on morality in other ways. Certainly, without spiritual moorings societies can decay even as they become more prosperous. The benefits of globalization by no means guarantee a better world. In a global economy, as in every other circumstance, the truly reliable good news is, and will always be, the gospel message of Jesus Christ.

NOTES

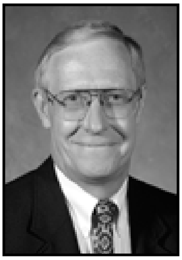
1 Gary C. Hufbauer and Jeffrey J. Schott, "Trade Policy at the Institute: 25 Years and Counting," in Michael Mussa, ed., *C. Fred Bergsten and the Institute for International Economics* (Washington, DC: Peterson Institute for International Economics, 2006), 44.

2 Earl H. Fry and Jared Bybee, *NAFTA 2002: A Cost/Benefit Analysis for the United States, Canada and Mexico* (Orono, ME: Canadian American Center), 5.

3 Unpublished work of Jane Fraser and Jeremy Oppenheim at McKinsey & Company, cited in Fry and Bybee, *NAFTA 2002*, 5.

4 "The New Titans: A Survey of the World Economy," *The Economist* (September 16, 2006), 1-30.

5 Ibid.
6 David Dollar, "Globalization, Poverty and Inequality since 1980," World Bank Research Working Paper 3333 (June 2004), 1.
7 For a good discussion of the issues, see Werner Antweiler, Brian R. Copeland, and M. Scott Taylor, "Is Free Trade Good for the Environment?" (August 1, 1998) NBER Working Paper No. W6707. This article is available at Social Science Research Network (*ssrn.com/abstract=111280*).
8 See, for example, Robert J. Flanagan, *Globalization and Labor Conditions: Working Conditions and Worker Rights in a Global Economy* (New York: Oxford University Press, 2006).
9 See Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004), chapter 6. Bhagwati provides an excellent overview and assessment of the most frequently discussed issues concerning globalization.
10 Ann E. Harrison discusses these issues in "Globalization and Poverty" (July 2006), NBER Working Paper No. W12347. This article is available at Social Science Research Network (*ssrn.com/abstract=913310*).
11 Johnny Combs describes this movement in *Kingdom Catalyst* (Lewisville, TX: Paradigm Publishing, 2006).
12 For an informed and sophisticated critique of the world trading system, see Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development* (New York: Oxford University Press, 2005).
13 See Robert Feenstra, "Globalization and Its Impact on Labor," Global Economy Lecture, 2007, Vienna Institute for International Economic Studies. This lecture is available online at *www.econ.ucdavis.edu/faculty/fzfeens/pdf/globalization.pdf* (accessed May 23, 2007).
14 Alan S. Blinder, "Offshoring: The Next Industrial Revolution?" *Foreign Affairs,* (March/April 2006), 116-128. To put Blinder's estimate into perspective, it should be pointed out that each year in the United States economy about twenty million jobs are created and about eighteen million are destroyed.
15 Catherine L. Mann, with Jacob Funk Kirkegaard, *Accelerating the Globalization of America: The Role for Information Technology* (Washington, DC: Peterson Institute for International Economics, 2006), 125-158. The full text is available online at *bookstore.petersoninstitute.org/book-store/3900.html* (accessed May 28, 2007).
16 Lori G. Kletzer and Howard Rosen, "Easing the Adjustment Burden on US Workers," in C. F. Bergsten, ed., *The United States and the World Economy: Foreign Economic Policy for the Next Decade* (Washington, DC: Institute for International Economics, January 2005), 313-342.
17 Benjamin M. Friedman, *The Moral Consequences of Economic Growth* (New York: Alfred A. Knopf Publishing, 2005), 4.



JOSEPH A. MCKINNEY
is Ben Williams Professor of International Economics at Baylor University in Waco, Texas.