

WEIGHING THE PROS AND CONS OF GLOBALIZATION

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This is a progress report — or perhaps more accurately — a lack of progress report on my ongoing assessment of the diverging views on globalization. Globalization is still one of the great vacuum words of our time. It sucks up any meaning you wish to give it. The anti-globalization protesters that accompany major international meetings have ranged from opponents of the capitalistic order to supporters of more funds to fight AIDS.

To simplify matters, I will focus on the array of impacts that arise from the increasing tendency for national borders to be crossed by people, goods, services, and information.

In terms of lack of progress, it is still true, sadly, that very few look at both the bright side and the dark side of globalization. In fact, the gulf is wider than ever. Economists continue to sharpen their tools of analysis and, at least most of the time, demonstrate that a more open international economy generates widespread benefits, to both developed and developing societies.

But, simultaneously, the critics seem to associate a more global economy with almost every shortcoming that faces humanity. It seems accurate, unfortunately, to describe the process as the dialogue of the deaf. Shouting does not seem to help at all.

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Most economists and business leaders focus on the benefits or what I call the bright side of globalization. By now, their litany is familiar. A greater flow of international trade and investment stimulates economic growth. That rising output requires more employment and generates higher living standards. In this benign environment, rising living standards in turn increase the willingness of the society to devote resources to the environment and other important social goals.

Global competition also keeps domestic businesses on their toes. It forces them to innovate and improve the quality of their products. After all, if competition is good, spreading it out internationally is even better. More fundamentally, rapidly developing economies generate a new middle class. That is the bulwark of support for personal liberty as well as economic freedom. This terse summary does not do justice to the serious analytical work that underlies these conclusions.

Nevertheless, the real shortcoming of this gospel of globalization is not that the specific facts or the basic analyses are wrong. The problem is that it does not respond to the genuine concerns of the critics.

The other voices in the globalization debate emphasize a very different set of issues — the dark side of the international economy. The critics live in a world where workers are threatened by unfair competition from low-cost sweatshops overseas. Citizens worry about the conditions in those foreign sweatshops, especially the presence of children in the workplace. Overseas investments are viewed as designed mainly to take advantage of low labor costs.

Worse yet, profiteering multinational enterprises are singled out as the prime instrument for all sorts of evils, ranging from war to poverty to environmental degradation. In extreme form, Americans are urged to adopt a policy of economic self-

sufficiency in order to minimize the “evil” role of business in our society. Remember the protestors’ sign, “Food is for people, not for export.”

It is sad to report that globalization is still seen as either the bright sun or the dark side of the moon. Well, which is it? First of all, serious comparisons of advantages and disadvantages are difficult to make. The costs of globalization, whether or not they are as high as the public believes, are far more visible than the benefits. The companies and workers hurt by imports know who they are. The shortcomings of individual multinational corporations are well publicized. In contrast, the beneficiaries of international commerce are so widely distributed all through society that few people even understand the connection between international commerce and domestic prosperity.

Let us seek some lessons — or perhaps a warning — from history. By some measurements, the world economy was almost as integrated in the nineteenth century as it is today. Before passports were generally required for crossing borders, people were actually far freer to travel and to migrate than now.

Globalization did not decline in the early 20th century because of a bad press or mass protests about its shortcomings. The causes were far more fundamental — World War I, the worldwide depression of the 1930s, and World War II. That long period was a time of rising isolationism, both political and economic.

Is it possible that the world is approaching a somewhat similar turning point? No dramatic change seems to be in the offing. Yet I find the financial plight of airline and telecommunications companies — two key mechanisms for globalization — to be quite worrisome. The adoption of new technology has been an important characteristic of both of these industries, leading to lowering the cost of transportation and communication around the world.

In any event, public reaction to the rapid changes generated by globalization are often negative, especially when international commerce is viewed as the mechanism for an alien cultural invasion.

The instinctive response by economists is to correct the substantial amount of misinformation that has fueled this backlash. After all, multinational enterprises can be effective mechanisms for economic development of the poorer countries, providing new technology as well as the investment capital to apply it. The really poor areas of the world have been bypassed by globalization rather than being victims of the “greedy” MNCs.

Frankly, the critics quickly brush aside these points as mere apologetics. Many of them do not believe any numbers that contradict their established positions (that may be a more widespread phenomenon than we would like to believe). It appeals to my sense of irony that the more vehement the critics, usually the less has been their exposure to the actual workings of an international business. But, I’m reluctant to repeat the old suggestion, “Get a job!” It is the rare company that will deliberately hire an experienced agitator or chronic dissident.

No amount of technical brilliance is going to convince the people who are concerned about the dark side of globalization. And surely the education and information approach does not help with the newest negative force, the international terrorist networks. The sad fact is that the combination of terrorism and our strong response to it is making international trade more difficult and costly and international investment more hazardous and financially more risky. The disappointing data on air travel surely confirm these concerns. National borders have regained much of their importance in the global marketplace and the process of crossing them has become more burdensome.

How should those of us seriously concerned with constructive international relationships proceed under these circumstances? Let us turn to the two conventional sides of the globalization divide — those who favor freer markets and those who have other peaceful priorities. However, even here there is little trust and open-mindedness on either side. It is sad to note that, in each of the camps in the globalization debate, there are people who are not disposed to compromise in any significant degree. To many that would be “selling out.”

The overriding task is restoring a sense of trust among the various parties concerned with globalization. I have not encountered any panaceas on that score. I suggest that a sensible first step is to take seriously the concerns expressed by the critics. It is not necessary to adopt their conclusions and recommendations — nor to reject them all at the outset.

As you may know, my approach is to break the ice by identifying some common ground on which people of good will on both sides of the heated controversies on globalization might possibly agree. My focus is on some useful but undramatic changes in policy, what we can call the “nuts and bolts” of problem solving. I have assembled five suggestions, but they are just examples of the possibilities.

1. Reform the World Trade Organization

Many of the criticisms of the World Trade Organization are on target. They deserve a positive response. It often has become closed and bureaucratic. At least, it is viewed that way from those of us on the outside. But I see no value in shutting down the WTO. Its fundamental notion of advancing the rule of law on an international front is very appealing.

It does not diminish my adherence to free and open trade to state that the WTO has become somewhat inbred and rigid in its operations. The call by the Sierra Club and the National Wildlife Federation for “transparency and accountability” in trade policy is both sensible and constructive. For starters, the general sessions of trade negotiations should be open to the public, like the Congress is.

So should the hearings at which the various interest groups present their views. Yet, like our legislative committees, the members should be expected to go into closed executive sessions when they begin to do the actual negotiations and drafting of trade agreements. I submit that is a sensible distinction.

Similarly, the WTO’s critical process for settling trade disputes should be opened up. The critics should be allowed to see for themselves the nitty-gritty of the workings of the WTO. Rather than any conspiracy to harm the public, they will find boring minutiae and excessive focus on legal procedures. The hearings of the dispute panels should be open, as courtroom proceedings typically are. This does not require that the panel deliberations be public events. After all, jury deliberations are not held in public.

2. Help the People Hurt by Globalization

Let us start with the basics. Every significant economic change generates winners and losers. I have never encountered an exception to that rule. It does not satisfy the people hurt by globalization to tell them that far more people benefit from international trade and overseas investment. That response may be accurate. But it is so cavalier that it only infuriates those concerned with the dark side of globalization.

I suggest a two-prong approach. In the advanced industrialized nations, we must do better in helping the people who lose their jobs due to imports or the movement of production to overseas locations. Simultaneously, we must grapple with the issue of the

labor and environmental standards followed in poor countries that export to the developed nations. Many of these overseas factories are either owned by companies in the developed world or they sell the bulk of their output to those western companies. Let us take up both of these complicated issues in turn.

In the developed nations, the most effective way to help those who lose their jobs due to globalization — or for other reasons, such as technological change — is to achieve a growing economy that generates an ample supply of new jobs. Looking at today's reality, that is a difficult challenge. But without a strong economy, no adjustment policy for unemployed workers will be effective. However, a successful macroeconomic policy is not enough. More specific actions must be taken to improve the adjustment process.

Often laid-off workers need just a modest bit of help, but they need it quickly. Many of them went straight from school to work and never had to conduct a real job hunt. For them, the most effective assistance is modest but essential: show them how to locate a new job, how to prepare for a job interview, and how to fill out a job application.

Other unemployed people, however, find that their job skills are obsolete and that much of their knowledge is only useful to their previous employer. They may be long on what we can call institutional information, but short of the math and language capabilities required for many new and well paying jobs. These people could benefit from some pertinent education and training. Such “trade adjustment” programs have existed in the United States for four decades, but their track record is not very inspiring.

Those public sector adjustment assistance programs need to be adjusted. They should be made more user friendly. “One stop” registration should be offered. It is disheartening for newly unemployed workers to feel like a ping-pong ball being tossed from bureau to bureau.

Older workers present an especially difficult challenge. They have limited motivation to undertake training programs that, at best, will prepare them for positions that pay much less than their customary wages — and in a labor market where they will compete against youngsters half their age.

One example of fresh thinking is the idea that almost was adopted in the new “fast track” legislation — providing “wage insurance” to older workers who lose their jobs due to imports. Wage insurance passed the Senate but it did not survive the conference committee that included the House of Representatives. This proposal — which was advocated unanimously by our commission to review the trade deficit — would cover a portion of the difference in earnings between a new lower paying job and the previous higher paying position.

The idea is to give the older workers the incentive to get back to work quickly before their skills become rusty and they become discouraged. If they get the opportunity to demonstrate to their new employers their greater worth in terms of seasoned judgment and good work habits, they may find the wage gap between the old and new jobs narrowing. That would minimize the need to draw on the wage insurance.

In passing, I would like to refer to the impacts of the rise of China as a major supplier of manufactured goods and components. This development is causing adjustments, some very painful, in other parts of the global economy. But the rise of a new competitive force in the international marketplace is not unprecedented.

The role of Japan in the twentieth century generated somewhat similar impacts. So did the rise of the United States in the nineteenth century. In each case, the newcomer elbowed its way into the club of the major economic powers. The older members lost market share. But the result overall was a dynamic process in which total flows of trade

and investment rose, as did living standards generally. The process of adjustment is complex and it includes expectations of rising imports as well as expanding exports. For example, simultaneous with its growth as an exporter of manufactured goods, China is now the largest petrochemical demand center in Asia and it is moving ahead of the United States as the world's biggest consumer of refined copper. We can expect both the rise of a more substantial consumer class in China as well as expanding demand for raw materials and other production components not adequately available in that country.

The impact of China in the global marketplace leads to the second contentious issue — establishing labor and environmental standards for overseas locations that make products for export to the developed nations. There are several contending groups involved. Each has its own agenda.

The labor unions in the industrialized countries resent the competition from workers in countries with lower working standards and hence lower costs of production. Certainly compared with pay and factory conditions in the United States, it is easy and sometimes accurate to label these places as “sweatshops.” Surely, China's statutory minimum wage, even when it is adhered to, is a small fraction of ours.

As would be expected, employers have a different attitude. They view using low cost production overseas as necessary to meet global competition. Many U.S. firms report that the factories they own or buy from in developing countries pay their workers substantially above locally prevailing wages. They also claim that they maintain above average working conditions. From my own personal inspections, I can report that this is often — but not always — the case.

There is a third force in this debate, which complicates the issue — the governments of the developing countries, such as India, Egypt, and Brazil. They openly

resent the expressed concern on the part of Westerners with the working conditions in their countries. They view that interest as phony and a poorly disguised form of protectionism designed to keep their products out of our markets. To them, our high-minded positions are preventing their businesses and workers from participating in the benefits of globalization.

These suspicions were strengthened by the labor union opposition to giving the products of the poorest African countries even limited duty-free access to U.S. apparel markets — despite the linkage of higher worker standards in the African trade bill. The result was very modest legislation.

A somewhat similar lineup of interest groups occurs in the case of environmental standards. On the international trade front, unions and environmental groups often join forces. On domestic issues, however, they tend to go their separate ways. This is especially so when the question involves jobs versus the environment.

Most unions and many environmental organizations want to make any new international trade agreement contingent on the inclusion of labor and environmental standards. Products produced in violation of the standards would be barred from entering other nations. The opposition to that approach is not limited to teachers of international trade theory. The most vehement opponents are business interests in the developed nations and governments in developing countries. The result is a standoff, almost ensuring the failure of any new round of trade liberalization.

Let us, however, continue our effort to develop some common ground.

3. Strengthen the International Labor Organization

Many U.S. citizens are truly uncomfortable with the vision of children in Central America or East Asia replacing adult workers in North Carolina or Arkansas. If

imposing costly standards via the WTO is not practical, then effective alternatives need to be considered. A global organization that warrants more attention is the International Labor Organization. It is the only international agency in which labor is fully represented. Yet unions are reluctant to rely on it to enforce international labor standards — and for good reason.

When it comes to ensuring compliance with the enlightened standards it adopts, the ILO has been a paper tiger. Worse yet, Congress has not gotten around to approving all of the “core” labor standards the ILO has promulgated — the right to form unions, ridding the workplace of discrimination in employment, and eliminating child labor and forced labor. Ironically, compared to our domestic labor laws and regulations, these core standards are quite mild — albeit not too carefully drafted.

Congress should endorse the ILO core labor standards. To follow up, the United States should take the lead in urging the other industrialized nations to join in providing adequate resources and support to the ILO.

4. Give People a Voice Via the Internet

There is a way of promoting adherence to the ILO labor standards without resorting to trade sanctions or other forms of compulsion. The ILO should post on the Internet the names of the countries that are not complying with the core labor standards. Such a “seal of disapproval” should be widely publicized. The supporting information should be made available to the media worldwide. Consumers around the world would be discouraged from purchasing goods made in those nations.

Did I say boycott? Well, yes and no. No, I am not advocating that governments use force to keep out the products from the offending countries. But, yes, I do urge

giving each individual consumer the ability to back up concerns with personal action — with that action being based on knowledge.

This approach does not provide the entertainment of puppet-parading protests. However, it may be more effective. To be successful it requires a conscientious citizenry that takes the pains to inform itself and then acts voluntarily — on an individual basis. I like the idea of people making up their own minds rather than relying on the compulsion of government or even the intimidation of group pressure.

5. Welcome Voluntary Business Standards

If I show enthusiasm for voluntary compliance with labor standards it is because of personal experience. In the last few years, I have been a member of a team of independent outsiders who check the compliance of an American toy company (Mattel) with the high standards it has voluntarily set for domestic and overseas production. I do not claim perfection for the voluntary approach, yet the genuine progress that has been made in improving local working conditions appeals to my sense of realism.

While governments and non-governmental organizations still continue to debate and disagree, Mattel and other U.S. private enterprises are succeeding in enhancing the work environments in their factories in developing countries. Based on my own on-the-ground inspections, Western-owned or managed factories are at the top of the scale, often setting the pace for local firms.

Why are these Western-based companies so altruistic? Certainly, a good portion of their motivation is to avoid adverse publicity. They are also responding to pressure from customers and shareholders. But I can attest to the fact that you can successfully appeal to profit-maximizing business executives who care about the conditions under which their products are made.

Simultaneously, a serious international standards movement has developed. These voluntary efforts often have been sponsored by professional or business associations. Some of them have teamed up with labor unions and non-governmental organizations in writing specific standards. The subjects covered range from the environment to social responsibility to detailed engineering specifications.

Perhaps the most hotly debated area of international standards today covers accounting and financial reporting. The major European countries tend to favor broad and general principles while Americans traditionally prefer detailed and specific rules and regulations. Serious shortcomings have arisen under both approaches, as recent corporate scandals on the two sides of the Atlantic demonstrate.

Widely followed financial standards — principles or rules — might go a long way in restoring investor and public confidence in private business. Surely continuing mistrust of the basic reports issued by large corporations is destined to reinforce the natural suspicions of the critics of globalization. Voluntary international standards, whether at the company or industry level, are no panacea. Yet, the broader adoption of these voluntary codes of conduct would be a useful step in reducing the current high level of mistrust that characterizes so much of the present-day debates on globalization.

Conclusion

Just a few concluding thoughts. Moving to the high middle ground on globalization is difficult and will take time. Developing a feeling of trust, or at least common understanding, is a badly needed precondition. But in order to achieve real progress, we must break the ice — by taking the concerns of the critics seriously and responding with constructive action rather than just more talk.

Let me end with a final point. The most fundamental and positive result of globalization is not economic at all. By enabling more people to use modern technology to communicate across traditional national boundaries, the international marketplace makes possible a far greater exchange of the most powerful of all factors of production — new ideas. That process enriches and empowers the individual in ways never before possible.

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