glob•ali•za´•tion

The irrational fear that someone in China will take your job

Bruce C. Greenwald
and Judd Kahn

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Praise for *glob•ali•zá•tion*

"This extremely well-written book explodes some of the myths about globalization. For those who want to better understand the economic issues raised by globalization, this book is a must read."

—Frederic S. Mishkin, Alfred Lerner Professor of Banking and Financial Institutions,

Graduate School of Business, Columbia University, former member of the Board of Governors of the Federal Reserve System, author of *The Next Great Globalization:*

How Disadvantaged Nations Can Harness Their Financial Systems to Get Rich

"Bruce Greenwald and Judd Kahn masterfully demystify "globalization" and forcefully rebut the fears of job loss in the developed world as a result of trade. Bringing a popular Columbia Business School class to life, the book is a must-read for business people and commentators—and our new President."

—R. Glenn Hubbard, Dean and Russell L. Carson Professor of Finance and Economics at Columbia Business School

"In their book on globalization, Greenwald and Kahn have done what seemed impossible. They have written a short, eminently readable book that explains the economics of globalization to the non-specialist.They dispel our ignorance, refute or refine the myths and cliches that dominate current public discourse, and show that globalization is an opportunity, not a threat. And they have managed to do all this with clear and lively prose, data that English majors can understand, and admirable balance and nuance."

—Peter H. Schuck, Simeon E. Baldwin Professor at Yale Law School, co-editor (with James Q.Wilson) of *Understanding America: The Anatomy of an Exceptional Nation (Public Affairs)*

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To Norbert W. Doyle, one of the great
unsung theorists of globalization,
and for Sara, Nora, Mateo, and Alessandro,
global grandchildren

Acknowledgments

This book arose chiefly out of a course on globalization that Bruce has taught since 2002 with Joseph Stiglitz. It has benefited greatly from his kind and helpful comments, his broad knowledge of globalization, and his keen economic insight. It has also profited from the contributions of over 1,000 outstanding students who have taken the course and actively challenged and improved the material. Readers familiar with the literature on globalization will note the extent to which the positions taken here differ from those articulated by Professor Stiglitz's own first-rate books on the subject. Those differences are entirely our responsibility. He did his best to make us see the light as he sees it. The fact that both views coexist in the same course, and have been tolerated by the students, is testimony to the enduring value of civilized academic discourse. We are grateful to Professor Stiglitz and to the students.

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Introduction

Just How Global Are We?

Globalization is a big deal. It envelops us, like the weather. To borrow the reactions of an early reader of this manuscript, “We sense it.We live it.We hear it in the voice on the phone.We see it in the closing of local shops and the opening of supermarkets with French names.We certainly experience it talking with the help desk, when the 800 number we called is clearly answered in some exotic place eight or ten time zones away from us.” A nightly program on a major news channel is devoted to the perils of globalization. A search of Amazon.com for books with *globalization* in the title returns over 4,000 names, and the catalogue of the New York Public Library has almost 500 (with this book yet to be included).

But when we leave the indefinite *we* of this statement and coolly examine our own specific lives, these feelings look more like fantasy than fact. We (the authors) live in one of the great global cities (New York) and are affiliated with a great global university (Columbia). Yet in most of the things we do, we neither sense nor see nor experience lives substantially different from the ones we led before globalization permeated the atmosphere and the airwaves.The balance between foreign and domestic, global and local, exotic and familiar, has not been dramatically altered.

More students, especially doctoral candidates, come from overseas, but that trend has a long history. The flood of foreigners doesn’t apply to education in general, not to elementary or high schools, not even to most colleges. Also, globalization implies a reciprocal relationship, and the number of American students going abroad for their education remains minuscule. There are more immigrants than 20 years ago, but the history of New York City is filled with successive waves of immigration, and the proportion of foreign-born residents is basically the same as it was in 1900 (36%), and lower than in 1910 (41%).

We live in typically American homes or apartments, send our children to typically American schools, shop for the most part in typically American stores, are treated by American certified (if not American-born) doctors in American hospitals, work largely with other Americans, and, with limited exceptions, eat American food.To be sure, many of the goods we buy are either made abroad or produced in the United States by foreign companies. But that is also an old story, dating back to at least the early 1980s, when all things Japanese represented the wave of the future. We have yet to see, but eagerly anticipate, the openings of local supermarkets with French names and French products. When local shops close, they are most frequently replaced by chains like Wal-Mart, Barnes & Noble, Home Depot, Bed Bath & Beyond, Target, and in New York, Duane Reade—all bona fide American companies. Foreign banks such as HSBC have made an appearance, but when they do, they operate not as foreign entities but under U.S. regulations and are scarcely distinguishable from their American competitors, who continue to dominate the market. The phone company remains thoroughly American. The principal novel element of globalization in our experience is the occasional voice on the other end of the phone from Cork or Mumbai. If that is truly the extent of how the new globalization is penetrating our lives, it is a very meager thing indeed. Globalization has a far larger presence in the news than it does in our daily rounds, and as New Yorkers our lives are probably more cosmopolitan than most.

To its critics, globalization is a terrible development that makes almost everybody worse off and threatens the survival of the planet. They blame it for everything from mass poverty in Africa and Latin America to the falling living standards for workers in Europe and North America. They also charge it with subverting local democracies, when powerful international corporations exert unchecked power in pursuit of their own narrow self-interest. In contrast, globalization's advocates argue that it is the greatest force for good in human history. According to Martin Wolf, a well-informed and articulate proponent of globalization, and chief economics commentator for the *Financial Times*,

> . . . a world integrated through the market should be highly beneficial to the vast majority of the world's inhabitants.The market is the most powerful institution for raising living standards ever invented. . . . The problem today is not that there is too much globalization but that there is too little. (Wolf, *Why Globalization Works*, preface, xvii)[1]

Between these extremes, opinions range from generally positive but with warning signals about tough times ahead (Thomas Friedman, *The World Is Flat*), to generally negative but with a nod to potential benefits (Joseph Stiglitz, *Globalization and Its Discontents*).[2]

Despite the disagreements about its merits, a surprising consensus about the nature of globalization cuts across all these divergent views. There are five fundamental assumptions about globalization that are widely taken for granted:

1. Globalization is the future, an irresistible and growing part of economic reality.
2. Globalization is the dominant force shaping the world's economies.Whether for good or ill, whatever happens is due to globalization. Fixing the future means fixing globalization.

3. The fate of the world’s workers depends on globalization, both in rich countries and in developing ones. Those who adapt will do well; those who do not will suffer.
4. Businesses face the same imperative. Either they globalize successfully or they stagnate and may even die.
5. Financial markets will be the most affected by globalization. Trying to resist the forces of financial globalization is like trying to turn back the tide.

The problem with these accepted truths is that they are either highly questionable or largely false. It is time to take a deep breath and look more closely at the real impact of this phenomenon as of today, and to assess its future in the same sober spirit.

Our goal in this book is to present a more accurate picture of the present status of globalization and its future consequences. A good place to begin is by understanding why the conventional wisdom is so wide of the mark and therefore provides such a shaky foundation for predicting the future of a global world.

First, most of the people writing on the subject treat globalization as something entirely novel. The process is rarely examined from a historical perspective detailed enough to distinguish something genuinely new from something that has occurred before in slightly different form. Some commentators, such as Thomas Friedman, paint historical comparisons with such a broad brush that they are of little use.

In the late 1950s and into the 1960s, as imports started to flood into the United States and ultimately exceeded exports, commentators worried about whether the United States was losing its competitive edge to other countries, especially the recovering economies in postwar Europe. By the 1970s and into the 1980s, it had become “Japan, Inc.” that embodied the forces of global competition, which were going to undermine the economies of both Europe and the United States. In the early 1990s, Ross Perot heard a “giant sucking sound” that was supposed to record the rapid exit of jobs moving from the United States to a low-wage haven in Mexico.

None of these dire forecasts about the impending decline of the U.S. economy came to pass. If we can understand why they fell wide of the mark, we will be better positioned to anticipate the likely consequences of today’s globalization bogeymen, the threats from China and India. Yet no one has seriously compared the current situation with these earlier episodes that have such a similar look and feel.

Second, by concentrating so intently on globalization, we ignore the role of other important trends and attribute every change to globalization. A similar misconception took place in England during the first half of the nineteenth century, during what may have been the earliest debates on international economic integration. There was a widespread fear, especially among landowners, that a flood of cheap food from North and South America, produced on recently opened acreage and using modern farming techniques, would bury British agriculture. Since few imagined that Britain could survive without its food-producing farms, the collapse of agriculture was widely regarded as the death knell of British prosperity. But powerful trends in productivity and consumption patterns were able to offset the impact of imported food. High productivity growth in agriculture, combined with limits on the demand for raw food and other agricultural commodities, were making agriculture a steadily diminishing part of overall British economic activity, even without the import of cheap foods. Today, farms in Britain are a quaint, expensive, and negligible part of a national economy that is many times larger than when concerns about agricultural decline were rampant.

People in Europe and America currently concerned about globalization focus on the loss of jobs in manufacturing and routine services, which they fear will be either imported from China or provided by a back office or call center in India. Yet improvements in productivity and changes in demand are doing to manufacturing and routine services what they did to agriculture in the nineteenth century—making them cheaper and therefore less central to the economy. Ignoring these powerful trends and other broad forces at work produces a distorted view of the impact and significance of globalization.

The third glaring weakness with the globalization debate is that it largely ignores information that is essential to understanding what is really going on. There are readily available data on occupation and employment, on the composition of national output and trade, on economic development and growth, on business profitability, and on the balance of payments and debt levels that, properly interpreted, could help resolve at least some of the disagreements. Instead, for much of the literature, the preferred form of evidence is the anecdote: the friend who finds himself competing with Indian data service providers, the radiologists who read American X-rays in Bangalore and transmit back the results, the bank data center in Manila.These stories command attention and elicit sympathy, but there is no way to tell whether they are interesting anomalies or telling examples of the wave of the future. Sometimes, as in the oft-cited case of the coming surge of Indian radiologists, who receive X-ray and other diagnostic files from U.S. hospitals and return interpretations of them over the same Internet connections, they turn out to be simply false.

Aware that anecdotes are not enough to make a solid case, some writers have buttressed their stories with references to academic studies that are based on systematic analyses of data. But a substantial number of these studies have fundamental flaws that simply get ignored in the summary references. For example, reports have claimed to show that under current global conditions, landlocked, mountainous countries never develop modern standards of living. Bolivia, Paraguay, Kazakhstan and all the “stans” of the former Soviet Union, Afghanistan, and Mongolia are offered up as examples, with Switzerland the only counterexample. But looked at more broadly, what we see is that large parts of Latin America and Central Asia have failed to develop coastal plains as well as remote highlands. Central Europe, however, and the states and provinces in the central United States and Canada, have succeeded. Properly considered, the underlying evidence on which these studies are based is at best inconclusive; at worst it tells a story quite different from the one that it is intended to support.

In a similar vein, these studies often treat each year’s data as a separate and equally compelling piece of evidence.Yet year-to-year differences may be due to random, short-term fluctuations. This is “noise” and it can obscure important conclusions and allow spurious relationships to take their place. One frequently cited conclusion is that greater openness to trade—knocking down tariffs and other barriers to both imports and exports—is essential if any nation hopes to develop a modern standard of living. This finding is based on the parallel growth over time in a country’s trade and in its gross domestic product, and it assumes that increasing trade makes the country more prosperous.

In fact, the causal relationship almost certainly runs the other way—greater prosperity leads to increased trade.

Chinese and Indian exports began to swell in the 1980s and 1990s, not because these countries suddenly opened themselves to export markets, but because they had begun to eliminate the dead hand of oppressive domestic economic systems. These changes unleashed local economic energies, which led to rapid productivity growth and quality improvements. Only then did China and India have things to export that the rest of the world wanted, and at competitive prices. At the same time, rising incomes generated a demand for imports. The rise in measured international trade was clearly a result of these domestic reforms. Instead of trade leading to overall economic development, development drove trade.

One other tactic employed by writers on globalization is to quote from experts. But expert opinion is available on all sides of these issues, and writers on globalization, like everybody else, have a far higher estimate of the intelligence and expertise of those who agree with them than of those who differ. The result of an approach that relies in varying degrees on anecdotes, on selective and unexamined statistical studies, and on expert opinion chosen to support conclusions already reached is a body of literature that uniformly endorses the five basic propositions about globalization with which we started, even as it disagrees about who wins and who loses from the process, and what can and should be done to influence its future course.

There is a glaring need for a clear, inclusive, digestible presentation of the wide range of systematic data that addresses the question of the likely future of globalization. This absence is particularly unfortunate, since those data shine a bright light on many of the fundamental issues. Unlike anecdotes or selective citation of experts, this kind of evidence can clear up many of the points at issue and put