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Globalization in Interdisciplinary Perspective
A Panel

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Clive Crook

History has shown us that globalization is reversible. It was in fact catastrophically reversed after 1914, and the earlier trend toward international economic integration was not then reestablished until after 1945. Two world wars and a Great Depression in between is thankfully an extreme scenario. What history does not tell us very clearly is whether something less than a cataclysm of that magnitude is capable of reversing globalization—in particular, whether globalization might be interrupted and set back by the action of democratic politics, at a time of comparative peace and prosperity.

Certainly globalization has a powerful economic momentum of its own. Technological progress, left to its own devices, promotes integration. And there is more to it than that, because integration tends to undermine certain kinds of economic regulation. In finance, which has globalized as much as any industry one can think of, technology and deregulation (sometimes reluctant deregulation) have created a self-reinforcing mechanism pushing strongly in that direction. Integration seems in many ways a natural economic process, which can only be reversed, if at all, when policies are deliberately framed to that end.

But political support for just such policies is on the rise. The antiglobalization protests in Seattle marked a dramatic escalation. But what is most striking, and most worrying, about that protest and the others that have followed it is the measure of tacit support that the protesters command among ordinary citizens. The view that globalization hurts workers and keeps poor

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countries poor is widely shared. Opinion polls on globalization and on trade agreements such as the North American Free Trade Agreement (NAFTA) show lukewarm support, at best. And politicians, even those supposedly committed to liberal trade, are beginning to respond to voters' anxieties.

Bill Clinton said he wanted to see the Seattle protesters inside the meeting, not out on the street. At the April 2001 Summit of the Americas meeting in Quebec City, George Bush, making his first appearance on the world stage, said that "Our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards." Lori Wallach of Public Citizen, an antiglobalist group, said, "You could have dialed 911 when I heard what Bush said. I needed to be resuscitated. When we started organizing and educating on trade in the early '90s, no one but a handful of progressive Democrats understood what we were talking about. And now comes Mr. Trade-uber-alles Bush, saying we need to respect labor and environmental concerns. It shows the political shift. Now we've got to see the policy shift" (Paul Blustein, "Protests a Success of Sorts: Labor, Environment on Leaders' Agenda," *Washington Post,* 22 April 2001, p. A11).

If it comes, it will be because governments have responded so inadequately to voters' fears. I count seven main worries about globalization, most of them already touched on in earlier remarks. First is the fear that wages of low-skill workers will fall in markets that face cheap imports. Second, that economic insecurity will increase for almost everyone: As economic change speeds up, nobody has a job for life. Third, that patterns of existing income support and other forms of subsidy will become more explicit, and therefore harder to sustain (farm support in the European Union would be one example). Fourth, that poverty in developing countries gets worse because of "unbalanced growth." Fifth, that social spending falls under pressure of "international competitiveness." Sixth, another kind of race to the bottom, that environmental standards come under pressure. Seventh, that much international trade is "unfair" because it is based on exploitation.

To varying degrees, fears four through seven are misconceived, on my reading of the evidence—yet, far from saying so, governments and international institutions either endorse them or, at best, ignore them. What President Bush said in Quebec City, for instance, endorses the view that globalization, unless carefully managed, poses a threat to the environment. That is why Wallach was right to be pleased. Fears one through three, on the other hand, have some basis in reality. In these cases, the right response from governments would be policies aimed at mitigating the problems: better training policies, say, more generous wage-insurance policies, or mechanisms for buying out interest groups that have acquired a kind of property right over subsidy. None of this gets much attention.

Politically this is the worst of all worlds. Governments bolster rather than repudiate the false antiglobalization arguments, and fail to respond to the ones that have some force. And if all that were not bad enough, they also deploy false arguments of their own to support the case in favor—for instance, the argument that trade liberalization creates jobs. People are suspicious of that argument, and they are right to be, of course, because it is wrong. Really there can be very little mystery about weak popular support for globalization.

How far, if at all, does globalization require our big social goals to be traded off against each other? Dani Rodrik has argued that the question can be seen as involving a "trilemma," somewhat like the well-known exchange rate trilemma. Just as countries must choose only two from capital mobility, exchange rate stability, and monetary independence, so they are constrained to choose just two from economic integration, the social contract (meaning high levels of social spending), and national sovereignty. If you choose national sovereignty and high social spending, you must take steps to impede integration (otherwise, for instance, tax competition kicks in). This is the antiglobalists' choice. If you choose sovereignty and integration, you must scale down your ambitions for social provision. Judging by their own policy announcements, this is a choice that many Western governments have often made. Finally, if you choose integration and high social spending, avoiding the race to the bottom requires you to embark on closer international economic cooperation (level playing fields of labor-market regulation, tax harmonization in Europe, and so on), thus inhibiting your sovereignty.

As I have said, though, the "race to the bottom" argument is flawed—and just plain wrong when applied to social spending. This plausible-seeming trilemma is much more about perceived political constraints than economic constraints. Integration and sovereignty can happily coexist with high levels of social spending—as indeed they do. Come to Europe. High-income countries can choose and sustain high levels of social protection, redistribution, and regulation if they wish to. Tax competition, even on corporate taxes (where you might expect it to be intense), has had only limited effects. The European model of social provision is not, so far as one can tell, being crushed under the pressure of global competition.

Despite this, the trilemma seems to sum up the political options, at least as implied by what governments tell their voters. The argument for political integration within Europe is put to citizens as though the trilemma were true. You could argue that the case for bringing labor and environmental standards within the jurisdiction of the World Trade Organization (a case that President Bush, at any rate, is willing to entertain) points the same way. And the recent vogue for free-trade areas such as NAFTA may also owe something to the idea that a balance involving less sovereignty (or less integration?) is needed to defend the rich countries' economic settlement.

Globalization, on this view, poses difficult choices—choices perhaps best avoided altogether. This view is wrong, on the evidence, but governments are failing to say so. The case for integration is strong, but nobody is making it. The case against integration is weak, but leaders are implicitly conceding it. Given all this, the possibility is surely real that opposition to integration might one day succeed in slowing or even reversing globalization, despite its extraordinary benefits over the past fifty years.

Gerardo della Paolera

This conference offered a wonderful menu of papers written by the best minds in economic history and economics to tackle a perennial, but still unresolved, issue: globalization. A "dream team" was assembled to take up the challenge of grasping the issues of globalization: its causes, historical roots, and welfare consequences. To use Woody Allen's expression, everything you always wanted to know about globalization and history, but did not dare to ask, could be found in this conference.

Or almost everything. Maybe you thought you would leave the conference with a definitive handbook on globalization, but you ended up with still more questions and a vast agenda for future research. I believe most of us are thankful for standing on the shoulders of Jeffrey Williamson's (1996) pathbreaking work on globalization and history, which he began long before globalization became a buzzword. This and subsequent works have opened up new directions to our understanding of the globalization process and its impact on the welfare and attitudes of the many heterogeneous actors that participate in the world economy.

Before jumping to some reflections on the view of globalization from my own viewpoint in a persistently peripheral country, Argentina, let me reframe some of the main questions that were asked here.

- Are globalization and convergence connected?
- What are the transmission mechanisms that spur a global economy, and how strong are their interrelationships? For example, the movement of goods and services (purchasing power parity or arbitrage conditions are a long-run "must" in an integrated world economy), money (interest rate parity), and people and capital, technology, geography, and so on?
- In support of the convergence and globalization process, which institutions take center stage, and which are in the wings?

Here I offer some reflections on these questions, as far as I could distill answers from the output of this impressive conference.

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First, taking the very long view, it looks as if convergence—and hence globalization—is a temporary though recurrent phenomenon. This transpires clearly from the DeLong-Dowrick and Eichengreen-James papers. If this is the case, it is particularly important for the developing and emerging-market countries, some of which are eternal candidates to join the ranks of the "truly" integrated nations. To explain the nonmonotonic aspects of this process, pure and simple economic models are not sufficient. Certainly it is always the case that a developing economic ethos can unleash strong forces: Under grotesque economic distortions even slight improvements will set in motion dynamics for more integration and growth. Still, how long will this process last? The existence of dramatic reversals of fortune in historical experience, most spectacularly the divergence of Argentina, is a phenomenon that calls for more than what conventional unadorned neoclassical models can offer. For example, the historical and institutional facts presented by Eichengreen and James for interwar Europe are crucial to our understanding of the contemporary tensions between the developed and the developing world.

Second, an important aspect in explaining divergences and reversals is to relate the globalization process to the transition economies. I was very surprised by Anne Krueger's statement that globalization and transition are two entirely different issues: They are not for a developing society. Transition economies are generally classified relative to a benchmark that uses as a reference the set of institutions and policies adopted by the core societies. In this perspective, to understand developing countries' stop-and-go cycles in the convergence process (for example, the jumps in income distribution described in the Williamson-Lindert paper) will require much closer attention to the degree of institutional development and the political-economy process. To give an example, in the very good textbook on transition economies by Roland (2000), I was surprised to see that, even though the author is dealing almost entirely with open economies, the word *globalization* is not quoted in the index. Scholars should talk to each other!

Third, we must recognize the importance of truncated political-economy reforms—which many times will produce true and perceived reversals in the globalization cost-benefit calculus for a peripheral economy. In dynamic terms this is precisely a manifestation of the second-best theorem: When an economy is trapped with one or more big distortions, after a while the remaining Pareto improvements are not attainable, and under stress they may become less and less desirable. Thus, if you cannot engineer a well-behaved take-off toward integration with the world economy, the engines of modernization might stop and crash, and a reversal is likely to occur. Argentina is the most remarkable—and for me, most sad—historical and contemporaneous example.

Fourth, if the frequency of stop-and-go cycles in the integration of emerging-market societies is very high, wherein failure is the norm, the citizenry may finally adopt more credible foreign institutions. Argentina again is a good case in point, the most notable example being the Argentines' demand for an American institution, by their de facto (if not yet de jure) adoption of the U.S. dollar, now almost the only money of use after successive governments abused the inflation tax. This reality, where a group or subgroup can start importing institutions (again we might think of responses by the "losers" and "winners") is a striking new element that demands attention in any analysis of globalization and how it can ultimately constrain the voracity of politicians and rent-seekers.

Therefore, I think we take away from this conference an extraordinary panorama of what happened to the world economy in the last two or more centuries. It is now well understood that, at the end of the day, an enlargement of global integration was a world-welfare-improving development—but then, how can we account for all those incredible stop-and-go stages? One explanation, à la Patrick O'Brien, might eventually be constructed around a very difficult metanarrative, engaging a variety of factors from hypocrisy to incompetence. However, the introduction of the dynamics of institutions as causing particular economic outcomes seems essential. The unbalanced speed of reforms among those who want to join the "convergence club" is the main cause for political-economy design failures. The nature of human capital, and its specificity, also raises the question as to how one can cope with or undo such social or human capital obsolescence.

To sum up, I basically came to envisage the intimate linkages that I have discussed here because they came to the fore during the heat of debate during the conference, thanks to the extraordinary crowd of scholars that only Jeff, Mike, and Alan could have gathered here in globalized Santa Barbara.

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Niall Ferguson

> What would a universal society be like which would have no particular country, which would be neither French nor English, nor German, nor Spanish, nor Portuguese, nor Italian, nor Russian, nor Tartar, nor Turkish, nor Persian, nor Indian, nor Chinese, nor American, or rather which would be all of these societies at the same time? . . . Under what similar rule, under what single law would this society exist? (François René, vicomte de Chateaubriand, 1841[1])

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1. Quoted by Emma Rothschild (1999).

In many ways, the conference that produced this volume was itself a metaphor for globalization. A majority of the participants—65 percent—were employed by American institutions, though I suspect that not much more than half were American-born. (This could be taken as evidence either that the global market for intellectual capital is not perfectly integrated and that some "home bias" operated in the selection of contributors, or that flows of intellectual capital, both inherited and acquired, have for some time been disproportionately toward the United States.) As one of the minority of non-American participants, I found it very easy, in the space of just a few days, to travel from Oxford to Santa Barbara and back again: a journey which, if my great grandfather had made it a hundred years ago, would have been once-in-a-lifetime and one-way. David Lodge's satire of academic globalization *Small World* was published in 1984. That world is even smaller today. On the second day of our conference, I was able to read—in the international edition of the London *Financial Times*—this exemplary vignette: "A man thought to be the eldest son and heir-apparent of Kim Jong-il, the North Korean leader, arrived in China yesterday after having been deported from Tokyo for trying to enter Japan on a fake passport to visit Disneyland. . . . His companions carried Louis Vuitton suitcases" (Gillian Tett, "Japan Deports North Korean Leader's Son to China," *Financial Times,* 5/6 May 2001). The fact that globalization applies to politics as well as economics is one of the messages of table 1, which offers a simple schema of globalization. The first column lists what can be regarded as "givens" about the globe we inhabit; the second lists those things that can flow around that globe; the third lists the mechanisms that facilitate such flows; the fourth lists the policies that allow those mechanisms to operate.

I have highlighted in bold type the aspects of globalization that, with a few exceptions, the main chapters in this volume neglect. Economists and

Table 1 Globalization: An Overview

Given (more or less)	Flows	Mechanism	Policy
Laws of physics: gravity, second law of thermodynamics, etc.	Goods	Transport technology	Free trade
Human biology	Capital	Communications technology	Free capital flows
Climate	Labor	Financial markets and institutions	Free migration
Topography	Technology	Nongovernmental organizations	Free information flows
Resource endowment	Services	Government	The rule of law
	Institutions		Monetary standards
	Knowledge		Fiscal transparency
	Crises		Coercion
	Crime		Conquest
	Disease		

economic historians alike tend to focus their attention on flows of commodities, capital, and labor when trying quantify and periodize the process of globalization. However, there are other flows that are susceptible to globalization: Flows of technology and services have been discussed, though in less detail, but relatively little has been said about flows of disease, institutions, knowledge, culture, and "crises" (the process whereby a particular event like a revolution or a financial crisis is transmitted by a kind of mimesis around the world).[2] The history of the fourteenth century would be incomprehensible without the globalization of the bubonic plague, just as the conquest of the Americas by Europeans would not have happened so easily without the export of infectious diseases, which decimated native populations. As well as infections, the conquistadors and colonists brought institutions and ideas: the Church and Christianity in the first place (witness the old Spanish Mission at Santa Barbara, which existed to convert the indigenous Chumash people), later the idea of representative government and democracy. Slow and erratic though it has been, the process of global democratization since the 1770s illustrates the way both institutions and ideas can be spread internationally as readily as goods can be traded across borders or money invested abroad. And the phenomenon of contagion, familiar to students of international money and capital markets, has its political counterpart in the international revolutionary waves after 1789, 1848, 1917, and 1989.

Economic historians also tend to pay more attention to the ways government can facilitate globalization by various kinds of deregulation (the first four items in the last column of the table) than to the ways it can promote globalization more actively. It is only relatively recently that we have come to understand the importance of political institutions—the rule of law, credible monetary systems, and transparent fiscal systems—in encouraging cross-border capital flows. Little work, by contrast, has been done on the way globalization can be imposed by the use of force. "Empire" is the concept that seems to lurk between the lines of a number of the preceding chapters, which have perhaps discussed the economic globalization of the eighteenth and nineteenth centuries with too little regard for the remarkable political globalization brought about by the European empires in the same period.

Before discussing these issues further I would like to sketch the methodological problems that seem to me to arise when we attempt to historicize a modern concept like globalization. There is something very alluring about the story implied by the "U" shape visible in some charts depicting long-run levels of capital mobility. In this narrative, we find ourselves at the right-hand side of the U, where international capital flows have resumed a rela-

2. For a useful introduction to the noneconomic facets of globalization see Held et al. (1999).

tive importance not seen since the 1900s. The notion captured by the U—that there have therefore been two eras of globalization—makes sense if we are interested only in flows of commodities, people, and capital. But it makes much less sense if we are talking about flows of culture or disease.[3] A further question is whether or not we regard our model of globalization as "closed." Are certain things exogenous—for example, wars, so often caricatured by economists as "exogenous shocks"? Within the model, what is the direction of causation? Does it run from trade to capital flows or migration, from the development of the financial system to industrialization, or from globalization to international monetary systems?

A simpler question to ask might be: How much distance does a flow have to cover to qualify as global? Or does it just have to cross an international border? If so, we must ask ourselves why that particular criterion has been chosen, given the enormous variety in the sizes and longevity of nation-states. And in a similar vein, why privilege transoceanic flows of goods, capital, and labor? Was the trans-Siberian railway not as much a part of nineteenth-century globalization as the transatlantic steamship routes?

A further set of questions relates to the nature of the flows themselves. Are long-term flows more important than short-term flows? The question is usually asked with respect to capital flows, but one could also pose the question about movements of people: Is tourism less important than permanent migration? Are we more interested in gross flows than net flows? As Obstfeld and Taylor show in chapter 3 in this volume, this can make a big difference to our assessment of the scale of recent financial globalization, which looks much less impressive when net flows are measured. Does it matter if globalization is even or uneven? An important difference between the world of 1901 and the world of 2001 is that a much higher proportion of commodity trade and capital flows goes on within the developed economies, to the exclusion of the rest of the world. Around 63 percent of foreign direct investment in 1913 went to developing countries, whereas in 1996 the proportion was just 28 percent (Baldwin and Martin 1999, 20). In many respects, it appears, modern globalization is not really global at all. Finally, does competition matter? Or, to put it differently, are we mainly interested in the extent to which market forces are free? This is an important question to address, since the advance guard of globalization in the eighteenth century was made up of aggressive monopolistic trading companies like the East India Company, whereas in the twentieth century the Soviet system had considerable success in continentalizing, if not globalizing, the system of the planned economy in the greater part of what used to be called the "Eurasian land mass."

Each pair of authors has given a different implicit answer to these questions. To my mind, however, our most serious omission is that there is no

3. See Diamond (1997).

chapter in this book about "political globalization," with the partial exception of Eichengreen and James's chapter on global financial architecture. That there is a political dimension to the phenomenon is clear from almost every contribution. Crafts and Venables suggest that, given the geographical unevenness of industrial and urban development, there may still be a role for tariffs in modern policy; Chiswick and Hatton emphasize the importance of forced migration (slavery) and immigration restrictions in long-run trends in convergence and divergence; Lindert and Williamson point to the importance of bad government in limiting the benign effects of economic globalization; and Rousseau and Sylla demonstrate the linkage from warfare to financial innovation. Even Bordo and Flandreau's idea of "original sin"—the lack of which allows a country to issue bonds in its own currency—alludes implicitly to the enduring importance of political events, since most historic "sins" of currency depreciation were consequences of unsuccessful warfare. There is a general assumption that, in the periodization of globalization, the year 1914 was a watershed, a date whose significance is, needless to say, primarily political. Yet on what seems to me the most important aspect of political globalization—the role of *empires*—there is an uneasy silence, apart from an aside in Clark and Feenstra to the effect that their role is not important compared with the mysterious "factor C" that accounts for differences in total factor productivity.

That empires did not (and do not) matter in globalization seems implausible. Perhaps the most striking political fact about the period from around 1880 until 1939 was that a small number of European countries governed an inordinately large amount of the rest of the world. On the eve of the First World War, Great Britain, France, Belgium, Holland, and Germany—which between them accounted for around 0.9 percent of the world's land surface and 7.5 percent of its population—ruled in the region of 33 percent of the rest of the world's area and 27 percent of its people (Townsend 1941, 19). All of Australasia, nearly all of Polynesia, 90 percent of Africa, and 56 percent of Asia were under some form of European rule. And although only 27 percent of the American continent—mainly Canada—found itself in the same condition, nearly all the rest had been ruled from Europe at one time or another in the seventeenth and eighteenth centuries.

The economic implications hardly need to be spelled out. The history of the integration of international commodity markets in the seventeenth and eighteenth centuries is inseparable from the process of imperial competition between Portugal, Spain, Holland, France, and Great Britain. The spread of free trade and the internationalization of capital markets in the nineteenth century are both inseparable from the expansion of British imperial, and especially naval, power. Is it really conceivable that there would have been so much migration as well as capital export from Western Europe to the less developed economies of the world—and hence so much global convergence before 1914—without the encouragements and reassurances of empire? By the same token, the eclipse of globalization in the middle of the twentieth century was in large measure a consequence of the immensely costly and destructive challenge to British hegemony mounted by Germany between 1914 and 1918. Nothing did more than the First World War to promote alternative models of economic organization to that of the international free market. War was actively waged against seaborne trade. Yet, according to Taylor's earlier figures, the years 1914 to 1919 also saw the pre-1990s peak of international capital flows measured by the size of current account deficits and surpluses in relation to gross domestic product (GDP) (Taylor 1996). In the same way, it was the various wartime experiments with the control of trade and foreign exchange, the centralized allocation of raw materials, and the rationing of consumption, that provided the inspiration for later theories of economic planning in the Soviet Union and elsewhere.

Trying to conceive of the history of empire as a chapter in the history of globalization raises some fascinating questions. The British Empire in the nineteenth century, for example, can be understood in part as an agency for imposing free trade and the rule of law directly on about a quarter of the world's land surface and indirectly on a great many other places, to say nothing of the world's oceans. If we believe that economic openness is good, then, by extension, one might have expected some global benefit to result from this immense undertaking. (Interestingly, this is not the way most British economic historians have tended to approach the question: The debate has almost always been about the costs and the benefits of the empire to Great Britain.) Yet there is a paradox. India, more than any other major economy, had free trade and Western commercial norms imposed upon it. Yet the result was deindustrialization and economic stagnation. The United States, by contrast, threw off British rule and adopted the kind of protectionist tariff rates—averaging 44 percent on imported manufactures—that we would now condemn in a developing economy (Bairoch 1989). The result? By the end of the nineteenth century the United States overtook the United Kingdom by most measures of economic performance (see fig. 1). Clark's figures for labor productivity in the cotton industry are even more startling: In 1944 an American textile worker could doff 606 spindles per hour, compared with 354 for a British worker and just 124 for an Indian.

Conversely, the globalization of warfare in the twentieth century must bear a large share of the responsibility for the breakdown of international trade, capital flows, and migration. The wars of the eighteenth and nineteenth centuries had already ranged over a huge area, of course: Think only of the global character of the Seven Years' War. But these imperial wars were circumscribed by the available military technology and the limited coercive powers of government. At most, even the French Revolutionary and Napoleonic wars put together accounted for the lives of 0.3 percent of the world's population. It was only in the twentieth century that it became pos-

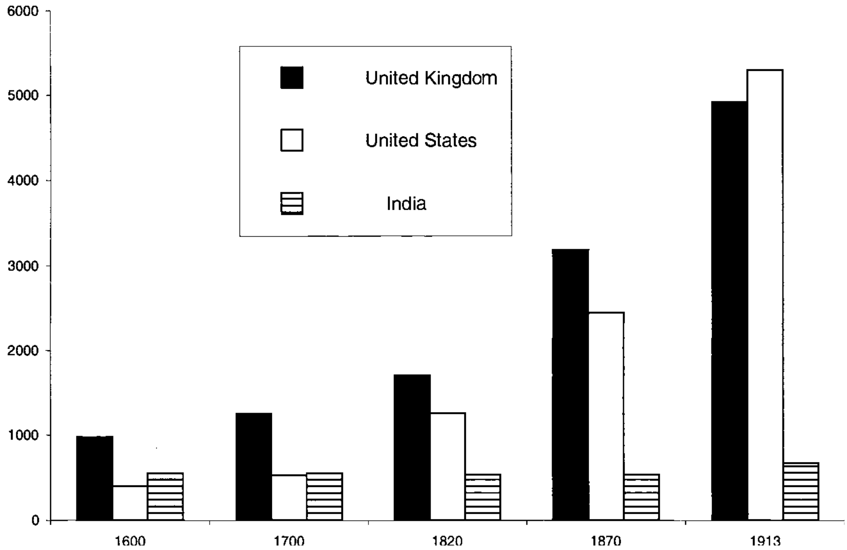

Fig. 1 Per capita GDP in Great Britain, America, and India, 1600–1913 (1990 international dollars)
Source: Maddison (2001, p. 264, table B-21).

sible to mobilize men—and kill men, women, and children—in millions. The total death toll of the Second World War was in the region of 57 million, around 2.4 percent of the world's population.[4]

More cheering, though no less remarkable, has been the globalization of democracy as a political institution. According to some estimates, more than half the world's countries were democracies in the 1990s, for the first time in history (see fig. 2). In part, democratization has been a consequence of decolonization, but it is also the fulfillment of "that irresistible revolution," which de Tocqueville detected already in the 1830s, "which has advanced for centuries in spite of every obstacle and which is still advancing in the midst of the ruins it has caused" (de Tocqueville [1835] 1945, 3, 7).

What is the relationship between the globalization of democracy and the globalization of the market? There are those who would like to think of the two processes as self-reinforcing. Yet the evidence on this point is ambiguous. To cite just one example, one phenomenon associated with (and perhaps fomented by) democratization has been political fragmentation. As democracy has spread, so the number of recognized states has risen from 74 in 1946 to 192 fifty years later. According to Alesina, Spolaore, and Wacziarg (1997), this process may impose some costs in terms of economic inefficiency (1, 23). It certainly imposes costs if secession is accompanied, as it often has been, by civil war. A striking paradox, in short, is that

4. My own calculations: for details see Ferguson (2001, appendix 1).

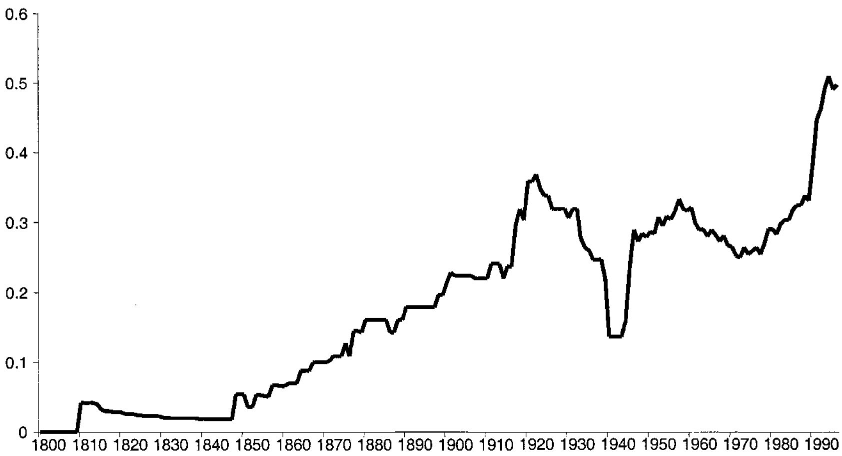

Fig. 2 Proportion of states in the world with a Polity III score of between 7 and 10 out of 10, 1880–1996

Source: Kristian S. Gleditsch and Michael D. Ward (adapted from the Polity III database)

nineteenth-century globalization coincided with political centralization, whereas today it seems to coincide with political fragmentation.

The evidence that economic openness raises living standards—or would, if the world economy were truly globalized—looks compelling, even if globalization will always have its losers, as hitherto privileged or protected social groups are exposed to international competition. But the principal barriers to an optimal allocation of labor, capital, and goods in the world are again in large measure political: On the one hand, civil wars and corrupt governments, which together (as Lindert and Williamson argue) have condemned so many countries in sub-Saharan Africa and parts of Asia to decades of immiserization; on the other, the reluctance of the United States and her allies to devote more than a trifling share of their vast resources to programs of economic aid, effective peacemaking, and the policing of "rogue" states. It is worth recalling that, at the time this conference took place, the conventional wisdom was that the new Republican administration should cut back America's military presence abroad.[5]

The events of 11 September 2001 put paid to such isolationist daydreams by demonstrating that political violence also has the potential to be globalized. It is a sobering thought that the very same planes that carried this book's contributors to their conference in May could have been used as weapons of mass murder just four months later. The dangers of neglecting the political dimensions of globalization have, regrettably, become much clearer since we met.

5. See O'Hanlon (2001).

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Anne O. Krueger

There is a natural unease among economists and others about the current backlash against globalization. A large part of that unease originates from our understanding of the effects of globalization: In large measure, we believe that the evidence shows that the "ascent of man" has at a minimum been accelerated by, and at a maximum been enabled by, the phenomena that are now called "globalization" and that are under attack. But part of it stems from failure to recognize that there have always been opponents of change, and that there have always been opponents of the phenomena associated with globalization.

My comparative advantage lies in interpreting U.S. trade policy and in discussing the effects of globalization on the prospects for growth and

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poverty reduction in developing countries. The change in tone in trade policy discussions, and the reactions of internationalists to it, probably reflects our failure to recognize the sources of change, and I will address that first. Thereafter, I will turn to the effects of globalization on developing countries' prospects for improved well-being, an instance where those protesting globalization seem to be largely ignorant of the facts.

Any economic historian can tell us that protectionist pressures, and resistance to freer trade, are not new. But those pressures have changed markedly over time, both in their political effectiveness and in their intensity. In the case of the United States, on which I shall concentrate, U.S. foreign trade policy was largely determined by Cold War considerations in the post–World War II era, supported by a coalition of humanitarians. The "realists"—that is, the Cold Warriors—wanted open trade and foreign aid in order to build alliances and support allies in the Cold War. The humanitarians wanted open trade and foreign aid because they wanted economic development in poor countries. This alliance between the realists and the idealists provided a fairly strong political support base for those policies that we would today associate with proglobalization. This included support for the international financial institutions (IFIs) and the regional development banks, the General Agreement on Tariffs and Trade (now the World Trade Organization), bilateral foreign aid, and successive rounds of very successful multilateral trade liberalization. The different motivations of the two groups led to a need for enormous political skills in forging a majority for internationalist objectives, as evidenced by the increasing constraints on foreign aid as various special interests achieved amendments requiring a multitude of actions.

What changed recently was the end of the Cold War as a driving force in international economic policy in the United States (and in other countries as well). That removed an important constituency from the pro–free trade coalition. It is not that most former Cold Warriors turned protectionist: It is that they failed to support trade liberalization with the same vigor as before.

At the same time, however, the humanitarians seem to have decided (erroneously, based on available evidence) that globalization is hurting poor countries. They have some genuine issues, and it is certainly true that globalization, or increasing economic integration with the rest of the world, is not a seamless process in which all benefit incrementally at the same rate. Addressing these issues is certainly important.

But there is also an irrational element. Part of that has always been there, as the quotation from Governor Clinton's letter made clear. There were warnings that train travel in excess of fifteen miles per hour would be hazardous to health; and that was resistance to change. In some cases, the concerns have a valid basis, such as with the environment, because as we get richer we can afford to address some of the side effects of having gotten there.

But in the present circumstances, I think there are some causes for concern. The first, already implicitly stated, is that those who perceive globalization to be harming the poor are in fact largely misinformed. Secondly, many of those people have formed nongovernmental organizations (NGOs) that have been very vocal in disproportion to their membership; those NGOs are not accountable as governments are and yet they demand voices at the table alongside governments. This is dangerous for a number of reasons, but since many of the NGOs are focused on globalization, the politicians seem to have been willing to "give those issues" to the NGOs, regardless of the merits of the case. The resulting international paralysis regarding international institutions and progress in addressing the genuine issues associated with globalization strikes me as potentially dangerous.

Let me turn now to policy with respect to developing countries. When most developing countries were very poor and almost entirely rural, the humanitarians could support giving them greater access to developed countries' markets and few special interests (including labor) in developed countries were concerned.

At the same time, the examples of East Asia clearly showed that very rapid development could be achieved with appropriate economic policies and open economies. Simultaneously, however, the newly industrializing countries (as they were then called) were gaining economic muscle, and it is often forgotten how very poor people were in countries such as Korea. With the competitive ability of the East Asian economies, and later others, greatly enhanced, protectionist pressures increased. Yet that runs the risk of greatly impairing the prospects for economic growth and poverty reduction in those countries that are now attempting economic policy reform. Even if governments in those countries are able to do the politically necessary (which is often painful and requires fighting vested interests there), they cannot achieve gains anywhere nearly as quickly as they could with less protection against their products in developed countries. To be sure, they can still achieve much more satisfactory results with appropriate policies, but given the depths of poverty and the degree of catch-up needed, less market access surely reduces the feasible rate of economic growth.

Let me finally turn to something more to the direct interest of economic historians. About fifteen years ago, I was asked to give a paper at a conference of economic historians. The question that I was asked to address was "what is different about twentieth-century globalization from nineteenth-century globalization, or in the catch-up process, to use the economic historians' term?" So I did some research. On that basis, I was confident that one could say that, at least for the East Asian countries that began their process of opening up in the late 1950s and 1960s, the opportunity to export enabled them to grow much more rapidly than they could have done had they had to rely on the domestic market, as nineteenth-century growth did. The difference in the twentieth century was that those who wanted to change policy regimes had achieved much bigger benefits than a similar policy switch could have done in the nineteenth century. This was partly due to lower transport and communications costs, but also partly due to lower tariff and other trade barriers. One statistic illustrates this: South Korea's per capita income growth in percentage terms over any single decade between 1960 and 1995 was greater than British per capita income growth over the entire nineteenth century!

There are reasons for this more rapid growth: a largely unskilled labor force (in the 1960s) could be employed to produce unskilled labor–intensive goods without encountering rapidly diminishing returns; competition from foreign producers is a major spur in countries with small domestic markets (as they necessarily are when people are very poor). There is also a role for importing technology and ideas, although in my judgment that is more important once countries have attained "middle income" status than it is for very poor countries.

And growth, and maintaining appropriate economic policies, is politically easier when growth is rapid: Losers lose less, and there are more new opportunities to shift into new and profitable activities. If one tries to identify those who lost absolutely in Korea in the 1960s or 1970s, there were relatively few factory closings, and the losers were largely older peasants, and even then their offspring often sent remittances from their urban jobs, so that rural living standards were rising rapidly. Urban employment grew 10 percent per year, while real wages were growing an average 8 percent. In those circumstances, there are few absolute losers. Even after 1997, all Koreans would agree that living standards had skyrocketed since the 1960s. That is not the same process as in the nineteenth century: Opportunities and living standards for the poor rose much more rapidly in the late twentieth century.

The countries that have not yet achieved the transition to more open economies, with their attendant supporting domestic policies, are having a hard time doing so. Political opposition is a major factor, and that gets intensified both by slower growth and by the rhetoric and reality of protection in developed countries.

How to get the antiglobalizers to recognize that the policies they advocate by and large achieve results opposite to those intended seems to me to be a major challenge for the international economic policy community.

Ronald Rogowski

I have taken seriously the brief to try to identify the cost and benefits, the winners and the losers, from easier trade in goods, factors, and services—from what is commonly called "globalization." That's obviously related to

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the question that Clive Crook raised, "Will this kind of globalization continue?" What are the odds that, exactly as happened in the waning nineteenth century, globalization will stall out or self-destruct because the costs are too high for too many people?

On one level we have a standard story of generalized benefits and localized costs. The benefits are clear for the world at large, and indeed for each individual country in what Dowrick and Delong called, in their paper for this conference, "the convergence club." From that standpoint, what we need is more globalization, not less; and we need to think more about the remaining barriers. Anna J. Schwartz raised the issue of migration, and there's a strong case to be made for much greater and possibly unlimited migration. As Niall Ferguson pointed out, increasing political fragmentation is also a concern, particularly in the light of an important literature—which somehow has hardly been mentioned here—about how high borders are. Even with relatively open policies, political fragmentation can significantly impede exchange of goods, services, and factors.

The costs of globalization get less discussion, but they are crucial. Following Williamson and Lindert's paper here, I'll discuss them under two headings: *within* countries and *between* countries. Both raise moral issues we haven't talked about and possibly are not well equipped to talk about. But in the crassest sense these costs have political consequences. That is most obviously the case *within* countries, particularly in powerful, advanced countries that could cause free trade to "stall out." Well, who are the losers within those advanced countries? The standard theory identifies them, and Lant Pritchett spoke eloquently about them in our discussions here: the unskilled workers.

Unskilled workers in today's developed countries are the counterpart of the European landowners and farmers of the nineteenth century, the ones who see themselves as most threatened by more open trade and are likeliest to turn against it. Just consider the aspect that is best documented, namely the growing *inequality* between the skilled and unskilled in the developed countries. The premium to a college education in lifetime earnings, which was below 40 percent as recently as the 1960s, is now hovering right around 70 percent. We have absolutely declining real wages; or, where wages are kept above market-clearing levels by restrictions on labor supply, as in much of Europe, high levels of unemployment. And we have growing insecurity, maybe affecting everybody, but surely most strongly affecting unskilled workers.

Now to be sure, some of this loss, maybe a lot of it, is due to technological change; but if our standard theories mean anything, globalization cannot be helping. Indeed, it should be harming unskilled workers in at least four ways:

- through classic Stolper-Samuelson effects, given that unskilled labor is the scarce factor within each of the advanced countries;

- by migration, which we know historically from Jeff Williamson's work has even more powerful effects (an important addendum is the finding from Hatton and Chiswick's paper here that, among the *illegal* immigrants, we find overwhelmingly unskilled people. The reason for that is clear once stated, namely that the unskilled aren't as easy to detect; but it also suggests that any attempt to crack down is going to fail most significantly among the unskilled);
- the possibility of capital flight, raised most notoriously in the Ross Perot line about the "giant sucking sound" from Mexico (this of course is the link to the between-countries story, the possibility that capital will move from the advanced to the less developed countries, entailing a further decline in advanced-country real wages. In fact, we've seen almost no capital flight; the big question remains the one Lucas asked a decade ago: why doesn't capital flow from rich to poor countries?); and
- greater exposure to exogenous shocks.

The political effects of growing inequality, some of it caused by globalization, some by technological change, seem to me already apparent. The most alarming is the xenophobic and protectionist movements that are now spreading like a rash around Europe. LePen, Haider, and the resurgent German Right draw heavily and I think predictably on unskilled, usually male, usually young, workers. The Austrian Socialist Party, notoriously, is simply losing its young people, its young unskilled workers, to the Haider movement.

Unions in the United States, of course, are also becoming more protectionist, and the more general story is to be found in the works, separately and collaboratively, of Ken Scheve and Matt Slaughter. Starting with the U.S. survey evidence, and extending now to France and the United Kingdom, they find consistently that the single best predictor of general support for free trade is *education.* The more educated the person is, the more human capital she possesses, the likelier she is to express generalized support for free trade; conversely, of course, it is the less educated who express generalized support for protection and isolation.

I don't think this is because of the great command of international economics that is being imparted by high schools and colleges. I think it's a shrewd assessment of self-interest. The more educated you are, the more likely you are to benefit from globalization and trade and the likelier you are to withstand relatively well the kinds of exogenous shocks that come from a more open economy. Now the good news is that in most of the advanced societies the median voter is skilled, which means—barring some sort of disaster—majority support for continued openness. The bad news is that the really unskilled, in particular the ineducable, may become increasingly desperate and alienated losers; and the question then arises, what policy remedies if any can one adopt?

Redistribution is widely practiced in the advanced countries, and it's worth recalling that redistribution was quite explicitly advocated by Stolper and Samuelson in their landmark 1941 article. Since the aggregate gains from trade will always outweigh the losses, they said, one can always compensate the losers and come out ahead. But of course if you think on another level, redistribution simply impedes readjustment. It discourages people, for example, from acquiring the human capital that a more globalized market demands.

The second possibility, and particularly an answer to the volatility of a globalized economy, is some kind of social insurance. Not generalized redistribution, but something like the active labor market policies in Scandinavia that are supposed to help you through the transition. And we see of course in the empirical evidence of David Cameron and Dani Rodrik's work that this seems to happen: The more trade-exposed a country is, the more it relies on social insurance mechanisms. But Soskice and Iversen have begun to point out, in some more recent work, that extensive social insurance encourages a maladapted form of human capital, namely *highly specific* human capital. The more social insurance mechanisms a society has, the more rational it is for people to invest, not in generalized and transferable human capital, but in highly sector- or firm-specific kinds of human capital that turn out to be worthless if that sector or firm goes sour. So social insurance, too, doesn't look like a particularly good adaptation to the global market.

So the third and presumably best answer is more, and more suitable, human capital, and subsidies to its acquisition that to some extent internalize education's positive externalities. But that still leaves us with the moral and political issue of what to do with the "tail" of the distribution that is just not very educable, with the people whom nature has cut out to be pretty unskilled. I think we all see the dilemma, but the policy answer is by no means clear.

With that unresolved, let's turn to the question of gains and losses *between* countries. Lindert and Williamson rightly suggest that a lot more of the action is going on there than within countries. So why are some countries left behind, and why does investment not flow to poor countries? I shall of course resolve all of these very large issues in my remaining thirty seconds.

As I understand it—and the economists present will rush to correct me—four large classes of answers are proffered:

- *locational economies of scale,* represented at this meeting by the Venables and Crafts paper;
- *externalities to human capital,* the explanation associated with Romer and Lucas;
- *total factor productivity,* the explanation (or perhaps only description)

that goes back to Solow and was represented here by Greg Clark; and, finally,

- the neoclassical answer, namely *bad institutions and bad policies.*

I confess that I am drawn much more to the "bad institutions, bad policies" story, for much the same reason that Lant Prichett suggested yesterday, namely that these are the one thing that can explain the very rapid reversals that we observe, wherein a country suddenly moves from stagnation or decline to very rapid growth. (Anne O. Krueger mentioned the case of Korea as one of the most dramatic.) None of the other supposed explanations—local agglomerations of production, accumulation of human capital, learning by doing, or cultural shift—it seems to me, can change quickly enough to account for these sudden spurts.

But if this is right, why don't we just get universal convergence to good policies? It's frequently argued that we will, but so far there's little evidence in that direction. As I've tried to show in a recent paper, if you work through a pretty standard political economy model, assuming voters maximize a convex combination of policy per se and wages, what you come out with under completely mobile capital in a two-country Cournot equilibrium is *divergence:* As capital becomes more mobile, the countries that are already more capital-friendly become more so, the ones that were less capital-friendly become even less so, and therefore, surprisingly enough, more impoverished.

I think this is roughly what we see in the real world, most markedly in a place like sub-Saharan Africa, where real GDP per capita has steadily declined over twenty years in most countries. But that said, only a few countries, especially if they happen to be really big countries, need to get it right or even halfway right to have a major effect. If China becomes, as it has, a hospitable place for investment, then that can have a major effect on the developed world, leading to even greater pressure on the unskilled in the first world.

That brings us full circle back to the question, assuming that some of these countries are going to get it right and grow and export, and that this contributes both to future world welfare *and* to lower first world wages, then what do we do in terms of policy for the unskilled workers here? It's very much in our interest to figure that out, because if we don't the outcome could be very bad indeed.