EXTERNAL APPENDICES TO CHAPTER 5

Appendix X-5.1: U.S. PUBLIC OPINION ABOUT FREE TRADE

In trying to determine trends in American public opinion about free trade and protectionism over the second half of the 20th century, I reviewed almost 300 questions asked by public opinion pollsters over the years, which are catalogued in the archives of the Roper Center for Public Opinion Research. Two difficulties arose in this endeavor.

First, many Americans do not have a clear understanding about these issues. In the early months of 1953, for instance, the Gallup Poll asked Americans about the meaning of certain key terms. Only 49 percent could define tariff (another 14 percent had a vague idea); and only 38 percent had a rough idea about what "free trade policy" means. The level of understanding about other aspects of international trade is also low. For instance, in the 1980s a poll by the Cambridge Report/ Research International showed that one-quarter of the respondents believed that the U.S. should stick to producing and selling within their own borders, somehow believing that nations can and should be completely self-sufficient.

Second, quite different questions were asked at various times. The results for a single year depend considerably on the way in which the question is phrased and the context in which it is asked. Thus, it is necessary to look at answers to the same questions over many years, but, unfortunately, a comparable series for the entire period cannot be constructed. It is necessary, therefore, to combine series using different questions over overlapping periods. Certain trends appear:

* Gallup Poll data of those who had heard of the controversies over tariffs show an increase from 16 percent in 1954 to 32 percent in 1961 of those believing tariffs should be higher. The number believing tariffs should be lower remained constant, at 40 percent (the remainder believed tariffs

should stay the same or didn't have an opinion).

* Roper Poll data from a general sample of the population reveal that those who believe that tariffs should be raised rose from 34 percent in 1957 to 47 percent in 1978 to 51 percent in 1984. Between 1957 and 1978, however, the question was phrased somewhat differently, so the results in the earlier and later years may not be completely comparable.

* Finally, between 1978 and 1998, the Gallup Poll asked respondents to choose one of two positions: if all countries eliminate tariffs and restrictions on imported goods, the cost of goods would go down for everyone; or tariffs are necessary to protect certain manufacturing jobs in certain industries from the competition of less expensive imports. The percentage of those supporting the elimination of tariffs rose from 22 to 32 percent, while those believing tariffs to be necessary fell from 57 to 49 percent. The rise was not, however, steady and a slight reversal of this trend appeared in the late 1980s and early 1990s.

At the end of the millennium, a detailed poll by Kull (2000) devoted solely to globalization and trade issues (the only recent such poll which I could locate) found that a majority expressed support in principle for liberalization and growth of international trade, especially if the government addresses the needs of displaced workers and the environment. Nevertheless, a majority felt that the benefits of trade barely outweighed the costs, and, in general, only 41 percent had positive feelings about international trade. A majority also believed that, by and large, American workers were hurt by free trade, and that the business community has been the chief beneficiary of this trade.

Thus, the respondents were hardly dogmatic free traders and a strong majority favored limiting trade as a means of pressuring nations to change their behavior. Indeed, a majority also felt it was legitimate for foreign countries to put up barriers against U.S.-grown genetically modified foods. A wide majority believed that the domestic U.S. economy was more open to foreign products than foreign markets were to U.S. products. Poll respondents in France, Germany, and Britain also believed their borders were more open to foreign goods than foreign borders were to the goods of their nation.

Given the uncertainties indicated by such polling evidence, no conclusion about trends in U.S. opinion on trade policy can be completely certain. It seems likely, however, that protectionist sentiment waxed from the early 1950s to the early 1980s and then waned slightly from the early 1980s to the end of the century. The detailed polling data, it should be added, also showed - not surprisingly - that in years with rising unemployment, protectionist sentiment appeared somewhat higher than the trend results would predict.

Appendix X-5.2: GENERAL ECONOMIC OBJECTIONS TO GLOBALIZATION

Chapter 5 briefly discusses various objections to globalization from the standpoint of the U.S. In addition, many arguments are raised against globalization either from the perspective of the developing nations or else of world as a whole. These deserve to be reviewed, because they may play an important role in the future of the globalization process and whether it will lead to greater economic integration of just the industrial nations or of the world as a whole.

A. Globalization as an Impediment to Economic Growth

Three basic arguments suggest that increased foreign trade can act as an impediment to economic growth: (1) National economic growth can be hindered by the lack of infant-industry tariffs, which allow new domestic firms to reach internationally competitive levels before they are exposed to world competition. (2) Increased trade can be lower total consumption and investment in cases where rising exports, particularly of primary commodities, turn the terms of trade sharply against the exporting nation (Bhagwati, 1958). (3) Rapid shifts of the terms of trade or of inflows and outflows of foreign capital might destabilize the economy to such an extent that steady economic growth can never start. The last argument is discussed later; the first two deserve brief comment.

The first argument has been a staple in the protectionist literature, at least as far back as Friedrich List. The WTO and other international organizations dealing with trade have tried to take this argument into account by permitting developing nations to adopt less rigorous trade laws and higher tariffs. The special trade preferences offered by industrial nations to developing countries reflect the same concern. At the turn of the millennium, this issue does not seem to be a burning one.

The second argument raises some important issues. Over the 20th century the terms of trade slowly turned against primary commodities and, as a result, most developing countries (Grilli and Yang, 1988). Moreover, some evidence supports the proposition that increased openness has had an adverse impact on the terms of trade in other situations as as well (Lutz and Singer, 1994). Nevertheless, I been only able to find a few cases in economic history which increased trade might have been immiserizing.

Almost all of the many cross-national analyses of the determinants of economic growth suggest exactly the reverse proposition, namely, that economic growth is positively and significantly related to trade openness or to an increase in trade. (Three recent studies showing such results are Frankel and Romer (1999), Lundberg and Squire (1999), and Dollar and Kraay (2000).) These results, not to mention the successful export-driven growth of the "Asian tigers," underlie the decreasing support among economists and economic policy makers during the 1960s and 1970s for import-substitution strategies of growth.

B. Greater Inequality of World Income

It is often claimed that globalization is an important cause of the widening disparity of income levels between nations. Before turning to argument, it is useful to focus briefly on three relevant issues:

* *Convergence and divergence between nations*. A marked convergence of per capita income occurred between relatively high income nations, but this did not take place for a group of nations with relatively low per capita incomes. For instance, according to Pritchett (1997), most nations with per capita GDPs more than 15 percent of the U.S. level began slowly to catch up with the U.S. between 1960 and 1988; in contrast, many nations which had not yet reached this 15 percent level lost further ground. The timing and the exact magnitude of this increasing income inequality between nations are, however, disputed. Nevertheless, all other estimates of income convergence that I have located (for instance, Park, 1999) show an increasing dispersion of per capita incomes among the nations of the world, and particularly between the very poor and very rich nations, at least from 1970 to the end of the century.

* *Income inequality between individuals*. When the distribution of world income is measured on an individual basis, we find that inequality increased as well in the last few decades of the 20th century. Nevertheless, the most important underlying factor was the increasing inequality between, rather than within, nations (Lovell, 1997; Milanovic, 1999). According to the calculations of Branko Milanovic, such a growing world inequality of individual incomes was particularly noticeable between 1988 and 1993.

* *Income extremes*. Certain trends at income extremes exacerbated such inequality. For instance, Rodrik (1997) argues that both owners of capital and more-skilled workers are internationally more mobile and, as a result, are in a stronger bargaining position to obtain higher incomes and to accumulate more wealth than low wage workers. Moreover, as noted in Chapter 5, the relative power of

governments to collect taxes from corporations and from the rich is declining. Finally, the growing profit opportunities offered by world trade provided new possibilities of wealth accumulation for the super rich. For instance, in the 1990s the wealth of the richest 200 people in the world increased at an average annual rate of about 8.4 percent a year, so that by 1999 they had an accumulated net worth of about one trillion U.S. dollars. To provide some perspective, this was considerably more than the total income of the poorest quarter of the world's population.[15]

Turning first to the income differentials between nations, the strong empirical evidence noted above for the positive long-term relation between trade openness and national economic growth suggests that the increased trade accompanying globalization does not seem responsible for the long-term widening disparities of per capita income between nations, other factors remaining equal. To explain why certain nations are falling behind in terms of per capita income, it might be more profitable to focus attention on such factors as civil disorders, venal governments, inappropriate economic policies, or the existence of various types of low-level poverty traps.

Income equality within nations is more difficult to analyze, because a number of possible links between increased trade and inequality can be argued. For instance, if imports destroy a local industry in

[15] The 1999 wealth data come from Dolan, et al. (1999). The total world income in 1999 is roughly estimated, starting with the 1993 estimates of Milanovic (1999) and adjusting upward to take account of the countries not covered in his sample and of the increase in prices, population, and per capita income between 1993 and 1999. Assuming that the share of income accounted for by the poorest quarter of the world did not change between these two years, I calculated the total income of this segment of the world population. The combined wealth of the richest 200 people was also equal to the total GDP of the 40 poorest nations accounting for 16 percent of the world´s population.

For these calculations I used 1998 GDP estimates, calculated according to a purchasing of their currency, by the World Bank (2000). The 40 poorest nations were determined on the basis of their per capita GDP and include only those with a population of more than a million.

certain developing nations, the resources released might be insufficiently mobile, because of domestic economic rigidities, to be transferred to a sector where the nation has a potential comparative advantage, so that poverty will increase. Such a situation was alleged to have occurred in the Indian textile industry in the 18th and 19th centuries as a result of colonial free trade policies and might be considered a rare case of immiserizing trade. Nevertheless, even in such an extreme situation, trade can also be highly beneficial to various groups at different levels of the income distribution in developing nations, especially those engaged in export industries.

It is important, however, to move away from such anecdotal evidence and look at the world as a whole. Unfortunately, the results of such empirical investigations between trade openness and income inequality within nations are mixed. An early generation of studies using single equation models and rather imperfect measures of inequality from a cross-section of nations generally showed an inverse relation between inequality and trade openness, that is, trade leads to greater income equality. A later generation of studies has used more comparable measures of income inequality (the Deininger-Squire database) and more sophisticated econometric models. For instance, Lundberg and Squire (1999) find that, in the short run, trade openness is directly related to income inequality, other factors held constant. In contrast, Higgins and Williamson (1999) and Chakrabarti (2000) show that trade openness in a nation is negatively, not positively, related to income inequality, when other factors are held constant. Similarly, Dollar and Kraay (2000) also obtain results showing that, other factors remaining constant, greater openness to foreign trade leads to higher average income growth nationwide, and that this, in turn, leads to higher income for the poor (defined as the average income of the lowest quintile of the income distribution) within the nation.

Statistical investigations of the underlying causes of national differences in income equality face an enormous number of pitfalls, which arise both from the nature of the available data and from the econometric problems of modeling the causal relationships between economic growth, trade openness, and inequality, all three of which have mutual impacts on each other. Given the mixed empirical results, at the present time we can draw no certain conclusions from this line of research, other than to emphasize that dogmatism about such issues is unwarranted.

C. Greater Potential for Economic Instability

According to its critics, globalization can introduce instabilities through rapid shifts in the terms of trade, and this, in turn, can have an adverse impact on income and economic growth. As noted in Chapter 5, greater openness can also reduce trade shocks by increasing the marginal propensity to import. Although the relationship between volatility of exports or the terms of trade and economic growth has received considerable attention, I have found little empirical research on whether increased openness resulted in greater volatility. The question remains open.

Cross-border flows of speculative capital have increased along with other international flows of capital. In particular, cross-border transactions in various financial derivatives have risen dramatically since the mid 1980s. The declining share of the banking industry in such international transactions and the rising importance of other financial institutions that are less closely regulated adds to the potential instability as well (Mishkin, 1994). The various attempts to merge the major stock markets of the world around the turn of the millennium can only lead to increased speculative financial flows in the future.

Depending on circumstances, these speculative flows can be stabilizing or destabilizing. In a situation without speculation, expansionary monetary policy leads to a lower interest rate, a net outflow of capital, and a depreciation of the exchange rate. If speculators believe, however, that such monetary policies would lead to greater long-term investment opportunities in the U.S. or if they believe that the dollar depreciation is only temporary, then such an expansionary monetary policy might lead to a net inflow of foreign funds and an appreciation of the currency, which would counteract the intended impact of such monetary policies.

International speculative flows of capital certainly contributed to currency instabilities in a number of developing economies in the 1990s, such as Mexico, Thailand, and Korea. Moreover, as Bordo, et al. (1999) have documented, the economic downturns induced by financial crises were more severe in the last few decades of the 20th century than in several decades preceding 1914.

Economists have focused considerable attention on the potential of these rising international flows of capital to increase international financial instability; and a variety of specialists with quite different perspectives have made strong arguments for imposing some types of restrictions on international capital flows in order to reduce world economic instabilities. At the end of the millennium, some nations, such as Chile and Malaysia, also began a significant retreat from a regime of unrestricted capital flows, even while the major industrialized nations maintained capital liberalization. Prediction of the future financial architecture of the world is hazardous, especially given the increasing difficulties in enforcing limitations on the accelerating international money flows via the internet and the inability of central banks, at least at the turn of the millennium, to work together on the problem.

In brief, greater globalization can introduce greater economic instabilities. Up to the end of the 20th century, however, such instability was not general, but was confined primarily to certain developing nations.

D. Greater Environmental Destruction

Using several quite different arguments, many ecologists argue that globalization increases environmental degradation. One set of issues concerns those situations in which the costs of pollution are borne by the local population. These include cases where globalization tempts certain nations to maintain lax ecological standards, either to keep certain industries from leaving the country or to aid certain segments of the population, a phenomenon discussed briefly in Chapter 5. Globalization also provides additional markets for raw materials and these added exports place enterprises in those industries in a better position to use some of their economic rents to bribe the government for lax enforcement of existing regulations. These are primarily internal political problems that cannot be solved by outsiders, namely the effectiveness of governments in enforcing environmental rules to promote the national interest, and not just that of special interest groupa. Two other impacts of globalization on the environment are more relevant to this discussion.

* In many cases, globalization encourages a change in production technique in order to increase export production. In agriculture, for instance, this includes the change from diversified farming to monoculture, which, without proper counter-measures, has certain adverse effects in the long run. In fishing, such a shift in production methods includes the use of more effective techniques which, without proper regulation, can result in over-fishing of lakes and streams. In mining, these changes in technology can include greater use of strip mining or more dangerous underground excavation. All of these examples point toward the necessity of active governmental regulations and better education of producers about environmental concerns, neither of which may be within the ability of certain nations to provide.

* Other difficulties arise when the benefits of better environmental conditions would be felt worldwide, but one nation bears the cost of pollution abatement. In such cases, abatement measures may not be taken. Examples include global warming or the overfishing of international waters. One possible solution is through international cooperation - worldwide standards or international conventions, such as

that limiting whale fishing or production of CFCs to reduce ozone depletion. To be effective, however, such international agreements require rigorous enforcement procedures.

Numerous specific examples can be mentioned of serious harm to the environment that can be tied to globalization, but these do not permit a general evaluation. It is difficult to find sophisticated empirical studies that examine the links between overall environmental conditions and globalization. A number of single equation models using cross-country data (cited by Judith M. Dean, 2000), however, show that increased trade usually results in a cleaner environment. Comparative evidence from a number of countries also suggests that in contrast to relatively closed economies, the toxic intensity of manufacturing output is lower in rapidly growing open economies (which may be due to more use of the latest technologies, which are less polluting). Since trade has an impact on the level of per capita GDP and the latter has an impact on the level of pollution that the population is willing to tolerate, it is necessary to investigate the interrelations between trade and the environment in a multi-equation model. In her study of China between 1987 and 1995, Dean presents evidence suggesting that trade reform in China had a net beneficial impact on emission control.

All in all, it’s clear that we need more careful research on the relation between globalization and environmental change throughout the world before we can confidently make any broad generalizations on this difficult issue.

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