

EconoFact Chats: Globalization: An Ambiguous Good

Paul Krugman, City University of New York

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

In the 1990s, the columnist, Thomas Friedman said, that when asked what he thought about further globalization, he responded that he thought about it the same way that he thought about the sun rising. It was inevitable.

Michael Klein:

He based this on the idea that the inexorable rise of globalization was a function of technological advances, like better and faster information technology and advances in transportation and shipping. Globalization is not just a function of technology. It's also determined by politics. In the last few years, we've seen a political retreat from globalization, not just in the United States, but in other countries as well.

Michael Klein: Economists tend to favor free trade. In fact, in a poll of top research economists, there was more unanimity about the advantages of free trade in goods and services than on any other subject. This seems at odd with much popular opinion that sees free trade as one of the elements that has contributed to the hollowing out of the middle-class. To discuss these issues today, I'm very happy to be speaking with Paul Krugman. Paul is somebody that, as the saying goes, needs no introduction, but I'll provide a short one anyway.

Michael Klein:

Most people know him through his regular columns in the New York Times and his many books, the latest of which is *Arguing with Zombies*. Economic students may know Paul as a co-author with Maury Obstfeld and Marc Melitz of the leading textbook in international economics, or with Robin Wells, the co-author of one of the leading principles of economics books. Economists know that Paul has been a seminal thinker, one who launched a number of research areas in economics and was recognized for this with the Nobel Prize in 2008. Paul, welcome to EconoFact Chats.

Paul Krugman:

Hi there.

Michael Klein:

Paul, you once said that the great era of globalization was the 90s, but you meant the 1890s, not the 1990s. What does this long perspective tell us about the advances and retreats of globalization?

Paul Krugman:

I mean, I think the long perspective is really helpful here. It tells you a bunch of things. One of the things it tells you is that there is nothing inevitable about globalization ever rising. It's actually not a straight line over the long-term. You see, there was a huge increase in the integration of the world economy. To use Tom Friedman's phrase, the world got a lot flatter between the 1850s, let's say, and the beginning of World War I.

Paul Krugman:

It got a lot less flat between the wars. It really had in many ways only recovered to eve of World War I globalization by 1980. We had a surge of globalization from the 80s up until the global financial crisis, and really not much changed since then. It's not by any means a one-way street here. If you start to ask why we've had these ups and downs, actually, it's a mixture of economics and politics.

Paul Krugman:

I mean, I had actually never heard the quote that you gave from Tom Friedman at the beginning, which is interesting because actually, with all due respect to my New York Times colleague, he's actually wrong even about the straight economics, even leaving the politics aside. It's not the case that advances in technology necessarily mean that world trade has to rise as a share of the world economy.

Michael Klein:

What economic forces would force greater fragmentation rather than integration?

Paul Krugman:

Well, the way I think about it, the way I think about most things in economics, is to first try to make a little model to clarify my thoughts and then go back and forth between that and the facts. If you start to think about it, you realize that it's an old line that international trade is actually kind of a different form of production. You can produce something for yourself or you can trade to get it from overseas and trade other things to other people in return.

Paul Krugman:

The relative attractiveness of those two options depends, not just on the technology of transportation, but also on the technology of producing things domestically. At some level, globalization is always a race between the technology of transportation and the technology of production. If technology of transportation advances more rapidly than productivity and the economy at large, then yeah, you're going to see an increase in world trade. But that doesn't have to be the case.

Paul Krugman:

In fact, there's some evidence that between the wars, it wasn't just protectionism that caused global trade to shrink, but it was also the fact that actually the technology of transportation was fairly stagnant. If you think about the way that stuff got shipped internationally in 1950, it wasn't that different from the way it was shipped internationally in 1910. In the meantime, assembly line production and all that had come along, so then in some ways it became more attractive to produce stuff locally, close to markets and less attractive to ship it long distances.

Paul Krugman:

Since then, we've had another bout of technological progress, containerization, all of that. But it's by no means necessarily the case that the technology of transportation is going to lead to a greater share of what

the world produces being shipped across borders. It can go either way. If we ask why was there so much globalization? We certainly had a hyper-globalization. We had an unprecedented increase in world trade between about 1988 and 2008.

Paul Krugman:

That was the result of applying some very specific technologies. It was freight containerization, first faxes, and then the internet making it possible to coordinate stuff at long distances. Maybe a few other things going on as well. Airfreight got a lot cheaper, but those are one-time events. There's no reason to think that you're going to see at least that pace of globalization always. In fact, globalization kind of leveled off after about 2008.

Paul Krugman:

We're not a noticeably more integrated world now than we were a dozen years ago. Then of course on top of that there's politics. The international trading system that we have now is the product of a long period of rule-based trade policy, global trade negotiations. The United States is kind of the benevolent hegemon of that system, and that era may be over.

Michael Klein:

Well, the globalization that we did see, that you mentioned, came with a lot of promises of greater prosperity, or at least for some countries or some groups of people. Do you feel that globalization delivered on these promises?

Paul Krugman:

Oh yeah. From a ruthless cosmopolitan point of view, from the point of view of somebody asking, what happened to the world as a whole? Globalization really did deliver big time. I mean, look, I was a grad student in the 1970s and I asked myself, "What should I specialize in?" I said, "Well, what is the most important thing?" The answer was clearly development economics. Nothing was more important than making poor countries less poor. I didn't do it because it was too depressing. In the 1970s, development economics was a very depressing field.

Paul Krugman:

It was basically a non-development economics. It was all about the reasons why poor countries didn't seem to be able to get rich. Then all of that changed. Since then, we've seen, I mean, in terms of numbers of people, the rise of China, but then a little bit later, the rise of India. You see an enormous expansion of the quality of life for literally billions of people. All of that is clearly closely linked to globalization. All of these are export-oriented success stories.

Paul Krugman:

Globalization really has delivered, but not without costs and not without hurting some innocent bystanders. There has in fact been significant pressure on at least some workers in advanced countries who have found themselves one way or another in the way of this juggernaut. So it's not an unambiguous good. It's an ambiguous good. From the point of view of the average or the random human being on the planet, globalization has been a wonderful thing, but tell that to the furniture workers of North Carolina. It just has not been true for everybody.

Michael Klein:

Trade theorists have recognized this for a long time. Even David Ricardo in the early 19th century, talked about the winners and losers from trade. Do you think what you were citing just now, for maybe not the

furniture worker in North Carolina, but workers who are saying that they're hurt by trade, is it in fact mostly trade with say lower-income countries or are there other reasons that are just as important, or even more important, like job-replacing technology or the decline of unionization?

Paul Krugman:

Oh, I would say if you had to give a rank ordering, I mean, clearly, this has been a rough time, the past 30 years ... No, 40 years now. For 40 years now, we've really been seeing pressure on ordinary workers. If you ask, what are the sources of that pressure? I would actually, in order, say politics with the weakening of unions, is probably the biggest, most important thing. Technology is probably second and globalization is probably a somewhat distant third.

Paul Krugman:

It's not the case that this is all a story about globalization, not by a long shot, but you can say that and at the same time admit that globalization has had its downsides. Particularly there were some things, I've written a couple of mea culpas. There are a few things that, even those of us who were from the beginning willing to admit that there were going to be some negatives, we missed some important sources of strain.

Michael Klein:

As I mentioned in the introduction, you pioneered research in a number of areas of economics. One of these was the reexamination of trade policy. Some of your research at that point talked about the way in which well-constructed strategic trade policy could be beneficial and that challenged the orthodoxy at the time. Then you also published an article entitled *Is Free Trade Passé?* In that article, the answer you gave was no.

Michael Klein:

The previous administration certainly made tariffs the centerpiece of its policies. Did this give tariffs an undeserved bad rep or is a bad rep deserved?

Paul Krugman:

Well, okay. I think that the case for tariffs is really pretty weak, and the reason it's weak is not that markets are perfect and that free trade is always ideal, but that is really ... And this is a point we've argued for a long time in economics, really going back to the 60s. That if you try to make arguments about why a tariff might be a good thing, those arguments may be valid, but they're almost always better arguments for something else.

Paul Krugman:

If you're saying that an industry generates technological spillovers, and clearly some industries do, it would be foolish to say that that isn't the case. But if an industry generates favorable technological spillovers to the rest of the economy, that's a case for subsidizing the industry or maybe for subsidizing the technology development within the industry. A tariff is a crude blunt instrument for achieving that.

Paul Krugman:

If you want to say, "Well, I want a tariff because I think that it's important for us to produce. Choose your technology, electric vehicles." Then you should say, "Well, okay, why not just subsidize electric vehicles?" If you say, "Well, but that's too expensive." Then you're actually doing bad economics because the tariff is actually more expensive. It's just that the costs are hidden because most of them are passed on to consumers.

Paul Krugman:

The case for tariffs is not particularly strong, but the case for industrial policy, I have to say is looking ... We're a much more technology-driven economy, at least in some obvious ways than we used to be. I think the case for caring about what we produce is stronger than it seemed to be 20-30 years ago.

Michael Klein:

Well, this is sort of a centerpiece of the Biden administration's Build Back Better industrial policy. Would you favor the kinds of things that the new administration is pushing for?

Paul Krugman:

Well, it depends on ... I mean, it needs to be done ... I mean, first of all, it is important for this stuff to be smart and in a way, the Trump administration did intervention in this policy, no favor, because what it pursued was dumb interventionist policy. They just had no organizing principle that anyone could recognize that decided what they were going to favor. They had this vision probably of just trying to restore a sort of economy that made lots of heavy stuff with brawny blue collar workers producing it and-

Michael Klein:

Wearing red hats, right?

Paul Krugman:

Wearing red hats, definitely. Maybe hard hats over their red hats, or maybe the other way around. That's not going to happen. That's not the way the world is going, but you can make the case that government promotion of green energy has been a really good thing. That's a case I would definitely make. I would say that there were, as it turns out, huge spillovers from the investments in renewable energy that took place 10 years ago. You can't make that case without admitting that there could be other things as well.

Paul Krugman:

If you can judiciously identify places where you think that having industry invest in R&D and maybe learning through production is favorable to the economy, then you have to say that that's an acceptable thing. Now, in a way, the fact that this is all embedded in a global economy, makes it even more important to be really careful in doing this because there need to be some rules of the game.

Paul Krugman:

If we want to complain about China targeting technological industries, we can't then say, "And our policy is to completely, without restraint, target industries that we think have valuable technologies." Otherwise, it's just a war that fragments the world economy. The idea that there are industries, certainly technologies that deserve some public promotion, sure.

Michael Klein:

Part of the hit against tariffs, and maybe industrial policies more broadly, is that it's inherently political and in an environment with a lot of lobbying, it's not clear that technocrats will get to decide what gets promoted. The great international economist, Rudi Dornbusch, told the story that when he was advocating for NAFTA explaining its benefits, he would have a representative from Congress say, "Well, that all might be true professor, but there are 20 jobs in my district that are going to be lost as a consequence of that."

Michael Klein:

Of course there's a lot of money in lobbying, and with trade there's the standard problem of concentrated costs and diffused benefits.

Paul Krugman:

Yeah.

Michael Klein:

Given these things, given the political reality, how would you then talk about the advantages in the face of these kinds of headwinds? Do you think that it's possible to have rational good industrial and trade policy when we have the reality of lobbying and concentrated costs and diffused benefits?

Paul Krugman:

Well, these are real questions of institutional design. We don't want to give up on international trade agreements. We created this whole system, I say we, meaning basically the United States created it. Although now it's got other sustaining players. We created the system of rules governing, not just tariffs and import quotas and all of that, but also industrial policies that can be seen as de facto protectionism. The reason we set up these rules is not actually so much to protect us from foreigners as to protect us from ourselves.

Paul Krugman:

We set up a quasi-judicial procedure. If we're going to do more intervention, it has got to be set up in a constrained way with institutions that have some independence. I think we're not quite at this point, but if we're going to do something like a green new deal, or I guess we're going to call it something different now. If we're going to do a build back better, and it's going to include money for promotion of technologies, that money has to be at least somewhat protected from detailed political influence.

Paul Krugman:

It has to be something like empowering a quasi-independent panel to make decisions because otherwise, yeah, you're going to find that Congressman Bomfong is going to decide that the sausage factory in his district is somehow a high technology sector that deserves a billion dollars of funds. It's tricky. This is why a wholesale embrace of industrial policy is probably not something we want to do. We want to do it much more cautiously. It's also the reason why in the end it's never going to be a fundamental transforming thing.

Paul Krugman:

But you look at ... I have to say, the experience of the energy miracle of the past 15 years, the way that renewable energy went from being hippy-dippy stuff that nobody took seriously to actually clearly outcompeting fossil fuels and in many ways, with thanks largely to early government promotion, that has certainly shifted my views towards saying, "Okay. It's worth incurring some risk of political malfeasance in order to not pass up on the opportunities here."

Michael Klein:

Another area that you launched, Paul, was the economics of geography.

Paul Krugman:

Yeah.

Michael Klein:

An important part of that was agglomeration, the way that industries would cluster. I guess the opposite of that would be the fact that we see these areas in the country that are just being decimated. Do you have ideas about what we can do for places that are left behind, policies not just linked to industries, but to places as well?

Paul Krugman:

Yeah. That is a really hard problem. I mean, it's one of those funny things. When I started writing about geography, which was circa 1990, a lot of it had a retro, even a steam punk feel, because a lot of the golden age of industrial localization seemed to be well in the past, was something that you associated with the 19th and early 20th century economy. If you drive into New York on the approach to the Lincoln Tunnel, there's actually a sign that says, "Welcome to North New Jersey. Embroidery capital of the world since 1872."

Michael Klein:

Does that still hold?

Paul Krugman:

I doubt it. I doubt that there's any embroidery at all going on in New Jersey at this point. It was all we'd like to talk about the 1910 census and its memorandum on localized industries. We seem to be leveling out. Then just about at the time we said, "Okay. Let's look at the past." It turned out to be the future. We're seeing this divergence again with big, highly educated metropolitan areas pulling away and leaving a lot of places stranded.

Paul Krugman:

That is a problem because no particular risk to feel nostalgic about acreage, but the fact of the matter is that there are communities, there are people and not everybody can move, or there's something lost if they do move. What do you do? History is not favorable here. Even countries that spend a lot of money trying to bolster lagging regions have generally not been very successful. Nobody really knows how much money Italy has spent on trying to develop the Mezzogiorno and it still remains very backwards.

Paul Krugman:

Germany has spent an enormous amount of money trying to lift the former East Germany and basically it's not working. People are leaving and the people who are left behind are bitter and have become a real threat to democratic values. In fact, the United States de facto provides an awful lot of aid to lagging regions. If you look at the de facto net transfers to Kentucky, they're about 20% of the state's GDP through the federal tax and transfer system. Yet, people are not relocating offices from Manhattan to Owsley County.

Paul Krugman:

This is really hard. There are some things you can do. There are certainly some governmental functions that don't have to be major metropolitan centers. There are certainly some kinds of money that can be used to promote technology, but I have to say, even though the problem is real, the solution is not obvious. What can I say? I think businesses and people want to be in metropolitan areas with at least half a million people, probably more.

Paul Krugman:

It's very hard to do much to sustain places that are small town rural. There are deep reasons why they're not the cutting edge of the economy and I don't know that we can do more than mitigate the effects.

Michael Klein:

I'd like to close Paul with a discussion of your role as an influential columnist and author in the public square. Back in the 1990s, when you began writing in the popular press, I used your articles to show my students how to make sophisticated economic arguments in an accessible way. Of course, at EconoFact, this is one of our goals. I also use one of your quotes when I conclude my classes, that when the world presents us with a genuinely new problem, guesswork is all we have to go on. And those who discipline their guesses with models are more reliable than those who fly by the seat of their pants, no matter how well tailored.

How do you present, in an accessible way, to such a broad audience, the importance of disciplining guesses with models, that is the role of economic frameworks in public policy?

Paul Krugman:

Well, in an 800-word column, you are not going to be able to explain a model. I think the main point is, first of all, to be sure that you yourself have one. That when I'm writing, I may not use jargon. Certainly, if I were to include a single equation in my regular Times column, I think I would be fired on the spot, but I always have. When I'm writing about something economic, I always have, in fact, a model hidden in the backroom.

Paul Krugman:

The process of modeling that I've done all my professional career, is largely one about observing the world, trying to tell a story, formalizing that story, altering it as it interacts in your mind with what you see about the facts. Then in the end, translating that story back into something that's pretty much plain language. When you're writing for the public, you want to do all of that, but then just give the plain language at the end.

Paul Krugman:

If you do it right, then you are actually conveying something that's a much clearer insight than someone who's just bloviating. I'm perfectly well aware that if you read what Marshall had to say about the role of mathematics in economics, he actually said to do exactly that, except he said, burn the mathematics after you're done, which is not a good idea. Your colleagues, your students should see how it's done.

Paul Krugman:

But most things in economics, if you can't find a way to express the insight in plain language at the end, then it's probably not a very clear insight, and so I don't think there's a problem. Of course, the special issue is that you have to realize that your audience is smart people, but busy people, who are not eager to spend a lot of time going back to school. A lot of it, it really is a question of translation, but I think it works.

Paul Krugman:

I mean, I do think that ... Now, there are a lot of people doing what I do, which is to try and convey good, serious economic analysis, but without making it feel like they're in a classroom. I think it works. I think people do appreciate it.

Michael Klein:

Yeah. Well, that's what we try to do at EconoFact of course, as well.

Paul Krugman:

Yeah.

Michael Klein:

The elegance of the models that you've developed, just on a personal level, a lot of my research was following you, picking up the crumbs and extending it a little bit, and it got me tenure and full professorship, so thanks very much for that. Paul, thank you very much for speaking with me today. It was really a pleasure to talk with you.

Paul Krugman:

Good to be bonding. Let's look forward.

Michael Klein:

Ever forward.

Paul Krugman:

Yeah.

Michael Klein:

Thanks a lot. This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site, you can log into www.econofact.org. You can subscribe on our site to our newsletter that will let you know when we publish new memos and new podcast episodes. Please feel free to share this podcast and our memos with friends, colleagues, and on social media. EconoFact is a publication of the Fletcher School at Tufts University. Thanks for listening.