

## **EconoFact Chats: The Plateauing of Globalization**

**Jeffrey Frieden, Harvard University**

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a nonpartisan 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](http://www.econofact.org).

Michael Klein:

At the beginning of this century, it seemed as if the world was inexorably moving towards greater connectivity in trade and financial flows, what people called globalization. There were anti-globalization protests like the 1999 demonstration against the World Trade Organization in Seattle, but many people saw these as a fringe movement of the left. In the last decade however, the movement against globalization has gathered steam, especially on the right, with nationalist and even xenophobic political rhetoric.

Michael Klein:

Concerns about globalization have risen in the last two years with supply chain disruptions from the COVID pandemic, and concerns about national supplies of vaccines and personal protective gear for healthcare workers. The war Ukraine and rising tensions with China have also upended globalization. Or have they? Has globalization actually reversed? If so, what does that mean for the United States and other countries? And how have the economic effects of globalization, or at least the economic effects blamed on globalization affected politics in the United States and elsewhere? To discuss these points, I'm very pleased to welcome back to EconoFact Chats, professor Jeff Frieden of Harvard University. Jeff is a political scientist whose pathbreaking research demonstrates the linkages between politics and economics. Jeff, welcome once again to EconoFact Chats.

Jeff Frieden:

Thank you, Michael. It's a pleasure to talk to you.

Michael Klein:

Jeff, globalization is a vague and inexact term. Can you offer a more rigorous definition?

Jeff Frieden:

I can try. There really are two component parts that most people think of. The first is economic. On the economic front, I think it's relatively straightforward that when we talk about globalization, we're talking about the greater integration of markets; whether those are markets for goods, markets for capital. To a lesser extent, markets for people, if we want to think about immigration as a market for labor. So on the economic front, it's about integrated markets that allow goods, capital to move freely across borders.

Jeff Frieden:

But a lot of people think about globalization in non-economic terms. One would be cultural. That is the expansion of culture from one community to another, the 'Americanization' as some might call it, of other cultures. Or the penetration of other cultures with the United States. Then there's what we might think of

as a purely political, especially an international political component of globalization. There I would focus on what's sometimes called multilateralism. That is institutionalized cooperation among countries. So if you think about this in historic terms, we take for granted things like the United Nations, the world court, the IMF, the World Bank, all of these international organizations, NATO, the EU. But they're relatively new, and I think that an international political part of globalization that's very important is the expansion of multilateral, that is many-country cooperation within international institutions. So I would say that all three of those, the economic, the cultural and the political are component parts of globalization.

Michael Klein:

So using those definitions, Jeff, have we in fact seen a reduction in globalization over the past decade, across those three dimensions?

Jeff Frieden:

I'll leave the cultural side, being a man of no culture, to someone else. Let me focus on the economic and the political. I don't think that we've seen a turning back of globalization, that is that there hasn't been a massive reduction in international trade, payments, finance. But there has been a slowing or even stopping of the movement that had been going on for 30 years before, which was a gradual increase in the integration of markets. It really started more than 10 years ago. It started with the great financial crisis of 2008-2009, where some of the negative effects of financial integration were seen and people, and governments began pulling back a little bit, from allowing their markets to be so tightly integrated with international financial markets.

Jeff Frieden:

That then was heightened by what we sometimes think of as the backlash against globalization. The two most striking components or striking events in that were Brexit in June of 2016, then the election of Donald Trump in November of 2016. In both cases, these were seen, I think correctly, as movements that were hostile to international trade, international investment, international finance, and also the international political integration that I was talking about.

Jeff Frieden:

So, that was a blow to globalization in a sense. Then the pandemic led people to really question how dependent we wanted to be on other countries for supplies of essential goods, including things like surgical masks or personal protective equipment or medicine. So all of those contributed to the sense that globalization was perhaps not as desirable as people had thought it was. But I don't think that we've seen a turning back or a back slipping against or away from globalization, more a plateauing. That is, there had been this longstanding increase in all these globalization measures and they stopped increasing. Some of them have turned back a little bit, but the world is still very tightly integrated economically. Those multilateral institutions I've talked about still exist and still are important, but the increase in their importance and the increase in integration has come to a halt.

Michael Klein:

Jeff, do you think that the increase has come to a halt because we reached a point where we were at pretty high levels of integration? Or do you think that there was a lot of room to move further and just it was halted for the reasons you're suggesting?

Jeff Frieden:

Little bit of both. We've come a very long way, and some would argue that we can't really go that much farther in terms of things like financial integration. The world's financial markets are very tightly tied together and it's not really clear how much more tightly tied together they could be. In fact, many people, including people who are very sympathetic to globalization, would argue that maybe these markets shouldn't be as tightly tied together. So, there's a little bit of that. But world trade certainly could increase and world investment could increase and immigration could certainly increase. Immigration is actually not at particularly high levels right now. Just in terms of the capability of the world economy to become more integrated is still there.

Jeff Frieden:

Let me also point out that there are important parts of the world that didn't fully participate in this globalization, and I'm not just talking about countries like North Korea. Many parts of Sub-Saharan Africa, South Asia, Latin America, some of the poorest countries of the world are not as integrated into the world economy. And I think they would probably benefit from being more integrated. They'd like to be more integrated.

Jeff Frieden:

So yes, we are at very high levels, but that's not the principal reason for the slowdown or stopping of globalization. I really think the principal reason is political. That governments are under lots of pressure from their citizens to either directly or indirectly start to remedy, if you want to call it that, or do something about the impact of globalization. Around the world, there are political movements, political parties, political leaders, almost everywhere who have raised really fundamental questions about whether too much control, economically or politically, has been given away to the European Union or to the UN or to the IMF or to international markets. So that's a global movement really. That is the principal source of some of the reticence to move forward with globalization.

Michael Klein:

So you mentioned political, and political economy is all about who wins and who loses from different policies and changes in the economic environment -- a topic that economists to their discredit probably don't pay enough attention to, but is really at the center of the research that you've been doing, Jeff, and your colleagues as well. In terms of trade and in terms of immigration, who wins and who loses? And are the perceptions of who wins and who loses, backed up by facts?

Jeff Frieden:

Well, there's theory and there's evidence. So in theory, we have, for over 80 years, the best established theory in international trade having to do with this called the Stolper-Samuelson theorem, which essentially says that if your country is very rich in capital, then capitalists will gain from trade. If your country is very rich in labor, that if you have a lot of labor, then labor will gain from trade. There are other component parts of this. A codicil, or a corollary might be, if we think of labor as being divided between skilled labor and unskilled labor, if you're in a country like the US with lots of skilled labor, then skilled laborers will benefit from trade. A second corollary, or if the flip side of this theorem, is if you're in a country like the US with lots of skilled labor, not so much unskilled labor, the skilled laborers will benefit, but the unskilled laborers will lose.

Jeff Frieden:

This is where I think, as you point out quite correctly, economists don't spend enough time thinking about the losers from trade. Economists point out, I think correctly, that the country as a whole benefits from trade, but that doesn't mean everybody in the country benefits. In fact, we know that some win and some lose.

Michael Klein:

So, that's the theory. You said, in fact, we know some win and some lose. What is the evidence?

Jeff Frieden:

Well, it's mixed. The first thing we know is whatever the theory may say, contemporary globalization, both in rich countries and in poor countries, seems especially to help people with higher education and skills, what we might think of as a skill premium. So highly skilled workers, people with a college education, whether they're in Colombia, or Nigeria, or Germany, or the US, they seem to have benefited from globalization. So that's I would say the big story about globalization, the evidence that we have. There are other stories as well about some industries that gain, the high tech industries gain, the low tech industries tend to lose. And which firms gain -- very big multinational firms tend to gain. But the skill premium, I think is a really important story because it has to do with, and contributes to, the increasing inequality in a lot of our societies, as people with high skills and a college education get better and better off.

Michael Klein:

So the fact that skilled workers in Colombia, say, benefit is actually against the Stolper–Samuelson theory, because the idea is that initially before trade, they were scarce, but now they're part of the whole world market of skilled workers. Yet, as you're suggesting, the evidence says that in fact, they're gaining. What are some possible reasons for that?

Jeff Frieden:

Yeah, that's exactly the point that people have been wrestling with to try to explain. One possible explanation is what's sometimes called skill biased technological change. That is technical change that benefits people with a lot of skills. So if we forget about trade for a moment and just say, what else is happening in the world economy -- there's been a lot of massive technological advance. It used to be the case that you could make a good living if you were literate, now you have to be computer literate. That's the technological change that may have disproportionately benefited people with a higher education and with higher skills. So technical change would be the principal competitor, if you will, to globalization.

Michael Klein:

In fact, a lot of people are saying that globalization is a scapegoat, that there are all these other things that are happening, but it's easier to say it's us versus them, as opposed to saying it's us versus the computers. So then people use globalization as a scapegoat. Do you think that's a political thing that's going on that people find it easier to blame the other?

Jeff Frieden:

Well, people find it easier, but politicians also are always looking for an angle. So if you know that the electorate is angry about income distribution, about inequality, you look for someone that you can point out as a blame. Foreigners are always easy to blame, and foreigners are what people associate with globalization and trade. I would point out though that it's hard to argue against technological change. For people to say, the reason I'm doing poorly is because there's been technical progress, politicians, that's not going to sell very well on the political market to say let's turn back the clock of technical progress. But blaming foreigners for your ills, that sells well.

Michael Klein:

So given this, do people tend to vote or otherwise make their political choices clear, maybe through lobbying in ways that are consistent with their economic interests when it comes to trade integration or

immigration? Or are they being misled or just finding these scapegoats or being presented with these scapegoats by politicians?

Jeff Frieden:

Well, listen, we've spent hundreds of years as economists and political economists arguing about what the effects of trade are. We couldn't possibly expect the average voter to understand those effects and they don't. I again, point out, especially in the US, the average American doesn't really have much reason to pay attention to trade. Only about 10% of the workforce is in industries that engage in trade at all. Yes, we're all consumers and we benefit from having access, but it doesn't really affect the average Americans.

Jeff Frieden:

So I think the people who are directly affected, so if you're in an industry that's heavily engaged in world trade as an exporter, like farmers, or that's hurt by world trade, like in the garment industry, for example, or steel, then you'll know, then you'll care. But most Americans have only the vaguest of notions. I think frankly, they can be easily swayed by political leaders. We actually saw an interesting example of this, where Republicans have traditionally, for the last 40 years at least, been the most favorable to trade and trade agreements of all Americans. But when Donald Trump started turning the Republican party away from trade and away from globalization, Republican voters followed. By 2018, Democrats were much more favorable to trade and Republicans were much more negative. Nothing changed in their interests, they were just taking cues, as we might say, from their political leaders.

Michael Klein:

So to demonstrate that, not all economists are completely ignorant of political theory, this is the Mancur-Olson concentrated costs and diffuse benefits. So maybe it would be really useful for trade, if when you turn on your clock radio, the first thing it says is, "I'm made in Vietnam." Or when you pour coffee into your cup, it says, "I'm from Colombia." Or something like that, because people might not recognize as much how integrated the world is for their purchases of goods and services and what the cost would be if in fact those were shut back or shut down in any way.

Jeff Frieden:

That's probably true. Then we'd also want to say here's how much it would cost if we were to make your clock radio in the US, which probably three or four times as much.

Michael Klein:

Right. I saw evidence once that for every job saved, for example, I think it was textile or shoes, each job costs the American consumer, \$50,000 or \$60,000, whereas the job only paid two thirds or half of that.

Jeff Frieden:

I think there's been evidence more recently that we have very steep protection of the steel industry, which only employs about 150,000 workers in the US today. It's a very small industry. But each job saved, I believe, costs American consumers about a quarter of a million dollars. I'm willing to bet that most of the workers would take even a portion of that quarter of a million dollars we bought out of the industry. Of course, then the industry wouldn't exist and there are firm interests, corporate interests, that want to keep it going.

Michael Klein:

Do you think there's any evidence about buying out professors? And we could just get that and retire? I'm fine to turn over my job to an immigrant or foreign worker or something like that.

Jeff Frieden:

Isn't that what tenure does?

Michael Klein:

Maybe, but we're not going to go there on this podcast.

Jeff Frieden:

No.

Michael Klein:

Jeff, speaking of foreign workers taking over my job immigration is, of course, a very hot button issue for a variety of reasons. If we focus on the economic consequences of immigration, who wins and who loses and how big are those? Or has immigration been blown out of proportion because of political and cultural reasons as you were alluding to earlier?

Jeff Frieden:

Well, again, there's the simple model that you would expect to have some impact, and then there's the reality. The simple model is if you increase the supply of unskilled workers in the economy, then the wages of unskilled workers should go down. There's a little bit of evidence of that, but there are a number of objections or a number of things we can point out. The first is that in many instances, immigrant workers are what we would call compliments rather than substitutes to domestic workers. In other words, and this is the kind of line that you hear often saying, they're doing jobs that no American is willing to do. So you have immigrants who are taking jobs that really are not competing with American workers because American workers either won't do them or would only do them for a wage that no one's willing to pay.

Jeff Frieden:

Another example of that is most of our immigrants actually are very highly skilled. They're going into the high tech area, they're going into academia, and healthcare, health services, things like that. It doesn't seem to have had any negative impact on wages and salaries in the high tech or high skill area. So it's a mixed bag. The direct economic effects of immigration are probably very small, and there are going to be some positive effects and some negative effects. I should point out, just as with trade, that increasing the size of labor force has to be good for the economy as a whole. Can't be bad for the economy as a whole. But it might hurt some workers, it might put some workers in a competitive position.

Jeff Frieden:

There's another aspect of immigration that gets a lot of attention, that's the fiscal aspect. That is do immigrants represent a [inaudible] on government spending, especially on the schools and things like that. Here the evidences that immigrants typically contribute more than they use. They pay into social security. In many instances, especially if the immigrants in question are not documented, they're paying into social security, but they're not receiving it. Even if they are documented, many immigrants will be contributing because they tend to be younger than Americans, will be contributing more than they're using. So the economic effects are on net positive, I think, but they are distributional effects. I do think that the principal cause of the controversies are more political and perhaps cultural.

Michael Klein:

One of our most popular EconoFact memos is by Fran Blau and Gretchen [Donehower], distilled from a report they did for the National Academy of Sciences, where they looked at the fiscal cost of immigration. And what they did was to say, don't just look at the time an immigrant comes, and don't just look at the immigrants, but look at their children as well. They found that the fiscal contribution on net for immigrants was a little bit less for the native born, but the fiscal contribution of their children, and I'm one of those, is actually much bigger than the native born.

Jeff Frieden:

I'm not surprised. Remember that societies that don't have a lot of immigrants are in big trouble. A lot of the European societies, where the growth rate of the population of Japan, where the population is actually declining, are facing really serious demographic issues. The American elderly should be the strongest supporters of immigration because it is immigrants and their children that are going to fund social security and Medicare into the future. One of the reasons we don't face a serious problems as the Europeans is that we do have lots of immigrants.

Michael Klein:

So from your mouth to AARP's ear. So Jeff, we've been talking about the role of globalization, but there are lots of other things going on in the economy. How important is globalization as compared to the rise of automation, greater internet connectivity, that allows people to work from remote places like India, the weakening of unions, and many other factors? And from a political perspective is globalization, as you're suggesting earlier, just a convenient scapegoat, it's us versus them and politicians play on this?

Jeff Frieden:

Well, it depends what aspect of this you're talking about. If we're talking about globalization from the standpoint of the world and of world history, I am absolutely convinced that 200 years from now, when people look back on the last 50 years of history, which is an era of globalization, what they're going to focus on is not our current complaints about globalization. They're going to focus on the fact that over the last 50 years, 2 billion people in Asia were drawn into the world economy for the first time, and as a result, lifted out of abject poverty into the world's middle class. That's an amazing economic feat and one that I'm absolutely convinced could not have happened without globalization, without giving those folks in China, India, Vietnam, and elsewhere, access to the world's markets, the world's capital, the world's technologies. So, that's the real story of globalization.

Jeff Frieden:

Now you're right, there is a lot of conflict over economic and political integration -- globalization today. It's an understandable conflict because a lot of people in society are concerned about what's happened to them over the last 20 or 30 years when incomes really have stagnated, especially for people in the middle classes. I don't think globalization is principally to blame for that. I think, as you say, it is a convenient politically available scapegoat. It's not entirely blameless, I think that there are factories that have closed because of international competition. So I think we do have to worry about and do something to address the legitimate concerns of those people who have been harmed by globalization. But there are ways to deal with that other than reversing globalization, and there are other issues in the economy that have also been leading to some of the problems that we face.

Michael Klein:

So they should probably be helped, not just because of globalization, but automation and lots of other things that provide a safety net.

Jeff Frieden:

Yeah. 60% of the population was in agriculture 150 years ago, and that transition from agriculture and a rural America to an urban America was very wrenching. We didn't have a welfare state at that point. Probably would've saved a lot of pain and suffering and a lot of political conflict if we had provided some support for those who were undergoing that transition. We're now transitioning from an industrial society, really into a post-industrial society and it's wrenching. A lot of people haven't developed the skills and aren't positioned to do well. I think society owes them something to smooth that path, because that is a path that's good for society as a whole. The political conflicts that have erupted over the past 15 or 20 years are really...threaten prosperity more broadly.

Michael Klein:

So Jeff, thanks very much for this really interesting conversation. It's important to consider, not just the economic consequences of policies, but their political implications in terms of who gains and who loses because ultimately this is an important determinant of the durability and the viability of these policies. So it's great to have a political scientist on to tell economists how we should really think about the world.

Jeff Frieden:

Thank you, Michael. It's always a pleasure talking to you. I have lots of respect for economists who tell us how the world could be.

Michael Klein:

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