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Sense and Nonsense in the Globalization Debate

by Dani Rodrik

Globalization, Thomas Friedman of the *New York Times* has observed, is "the next great foreign policy debate." Yet as the debate expands, it gets more confusing. Is globalization a source of economic growth and prosperity, as most economists and many in the policy community believe? Or is it a threat to social stability and the natural environment, as a curious mix of interests ranging from labor advocates to environmentalists—and including the unlikely trio of Ross Perot, George Soros, and Sir James Goldsmith—argue? Has globalization advanced so far that national governments are virtually powerless to regulate their economies and use their policy tools to further social ends? Is the shift of manufacturing activities to low-wage countries undermining global purchasing power, thus creating a glut in goods ranging from autos to aircraft? Or is globalization no more than a

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buzzword and its impact greatly exaggerated?

There are good reasons to be concerned about the quality of the globalization debate. What we are witnessing is more a dialogue of the deaf than a rational discussion. Those who favor international integration dismiss globalization's opponents as knee-jerk protectionists who do not understand the principle of comparative advantage and the complexities of trade laws and institutions. Globalization's critics, on the other hand, fault economists and trade specialists for their narrow, technocratic perspective. They argue that economists are too enamored with their fancy models and do not have a good handle on how the real world works. The result is that there is too much opponent bashing—and too little learning—on each side.

The ideological onslaught against the welfare state has made many governments unable to respond to the domestic needs of a more integrated economy.

Both sides have valid complaints. Much of the popular discussion about globalization's effect on American wages, to pick one important example, ignores the considerable research that economists have undertaken. A reasonably informed reader of the nation's leading op-ed pages could be excused for not realizing that a substantial volume of literature on the relationship between trade and inequality exists, much of which contradicts the simplistic view that Americans or Europeans owe their deteriorating fortunes to low-wage competition from abroad. The mainstream academic view actually is that increased trade with developing countries may account for at most 20 per cent of the reduction in the earnings of low-skilled American workers (relative to highly skilled workers) but not much more. One has to look elsewhere—to technological changes and deunionization, for example—to explain most of the increase in the wage gap between skilled and unskilled workers.

It is also true, however, that economists and proponents of trade have either neglected or pooh-poohed some of the broader complica-

tions associated with international economic integration. Consider the following questions: To what extent have capital mobility and the outsourcing of production increased the *substitutability* of domestic labor across national boundaries, thereby aggravating the economic insecurity confronting workers (in addition to exerting downward pressure on their wages)? Are the distributional implications of globalization—and certainly there are some—reconcilable with domestic concepts of distributive justice? Does trade with countries that have different norms and social institutions clash with and undermine long-standing domestic social bargains? To what extent does globalization undermine the ability of national governments to provide the public goods that their citizenries have come to expect, including social insurance against economic risks?

These are serious questions that underscore the potential of globally expanding markets to come into conflict with social stability, even as these markets provide benefits to exporters, investors, and consumers. Some of these questions have not yet been seriously scrutinized by economists. Others cannot be answered with economic and statistical analysis alone. But the full story of globalization cannot be told unless these broader issues are addressed as well.

The Limits of Globalization

Even with the revolution in transportation and communication and the substantial progress made in trade liberalization over the last three decades, national economies remain remarkably isolated from each other. This isolation has a critical implication, which has been repeatedly emphasized by economist Paul Krugman: Most governments in the advanced industrial world are not nearly as shackled by economic globalization as is commonly believed. They retain substantial autonomy in regulating their economies, in designing their social policies, and in maintaining institutions that differ from those of their trading partners.

The supposition that domestic economies are now submerged in a seamless, unified world market is belied by various pieces of evidence. Take the case of North America. Trade between Canada and the United States is among the freest in the world and is only minimally hampered by transport and communications costs. Yet a study by Canadian economist John McCallum has documented that trade between a Canadian province and a U.S. state (that is, *international* trade) is on

average 20 times smaller than trade between two Canadian provinces (that is, *intranational* trade). Clearly, the U.S. and Canadian markets remain substantially delinked from each other. And if this is true of U.S.–Canadian trade, it must be all the more true of other bilateral trade relationships.

The evidence on the mobility of physical capital also contradicts current thought. Popular discussions take it for granted that capital is now entirely free to cross national borders in its search for the highest returns. As economists Martin Feldstein and Charles Horioka have pointed out, if this were true, the level of investment that is undertaken in France would depend only on the profitability of investment in France, and it would have no relationship to the available savings in France. Actually, however, this turns out to be false. Increased savings in one country translate into increased investments in that country almost one for one. Despite substantial crossborder money flows, different rates of return among countries persist and are not equalized by capital moving to higher-return economies.

One can easily multiply the examples. U.S. portfolios tend to be remarkably concentrated in U.S. stocks. The prices of apparently identical goods differ widely from one country to another despite the fact that the goods can be traded. In reality, national economies retain a considerable degree of isolation from each other, and national policymakers enjoy more autonomy than is assumed by most recent writings on the erosion of national sovereignty.

The limited nature of globalization can perhaps be better appreciated by placing it into historical context. By many measures, the world economy was more integrated at the height of the gold standard in the late 19th century than it is now. In the United States and Europe, trade volumes peaked before World War I and then collapsed during the interwar years. Trade surged again after 1950, but neither Europe nor the United States is significantly more open today (gauging by ratios of trade to national income) than it was under the gold standard. Japan actually exports less of its total production today than it did during the interwar period.

Globalization Matters

It would be a mistake to conclude from this evidence that globalization is irrelevant. Due to the increased importance of trade, the options

available to national policymakers have narrowed appreciably over the last three decades. The oft-mentioned imperative of maintaining "international competitiveness" now looms much larger and imparts a definite bias to policymaking.

Consider labor market practices. As France, Germany, and other countries have shown, it is still possible to maintain labor market policies that increase the cost of labor. But globalization is raising the overall social cost of exercising this option. European nations can afford to have generous minimum wages and benefit levels if they choose to pay the costs. But the stakes—the resulting unemployment levels—have been raised by the increased international mobility of firms.

The consequences are apparent everywhere. In Japan, large corporations have started to dismantle the postwar practice of providing lifetime employment, one of Japan's most distinctive social institutions. In France and Germany, unions have been fighting government attempts to cut pension benefits. In South Korea, labor unions have taken to the streets to protest the government's relaxation of firing restrictions. Developing countries in Latin America are competing with each other in liberalizing trade, deregulating their economies, and privatizing public enterprises.

Ask business executives or government officials why these changes are necessary, and you will hear the same mantra repeated over and over again: "We need to remain (or become) competitive in a global economy." As some of these changes appear to violate long-standing social bargains in many countries, the widespread populist reaction to globalization is perhaps understandable.

The anxieties generated by globalization must be seen in the context of the demands placed on national governments, which have expanded radically since the late 19th century. At the height of the gold standard, governments were not yet expected to perform social-welfare functions on a large scale. Ensuring adequate levels of employment, establishing social safety nets, providing medical and social insurance, and caring for the poor were not parts of the government agenda. Such demands multiplied during the period following the Second World War. Indeed, a key component of the implicit postwar social bargain in the advanced industrial countries has been the provision of social insurance and safety nets at home (unemployment compensation, severance payments, and adjustment assistance, for example) in exchange for the adoption of freer trade policies.

Forms of Social Insurance

All societies maintain provisions for social insurance to counter large drops in workers' and families' living standards, but that insurance takes different forms. In Europe and North America, income transfers paid out by the government are the predominant form of social insurance. Old-age pensions, unemployment compensation, disability insurance, and family support constitute the bulk of such transfers. The effect of these programs is twofold: They establish an income minimum for the citizenry regardless of employment status, and they reduce uncertainty regarding lifetime earnings for workers. In the United States, the Trade Adjustment Assistance (TAA) program targets workers who lose their jobs due to import competition. The TAA provides additional unemployment benefits, training subsidies, and relocation assistance. Comparatively few workers have benefited from TAA.

In Japan and other East Asian countries, income transfers are small compared with those in European nations. Many of the social insurance functions provided by the state in Western nations are in fact supplied by large enterprises in East Asia. These come in the form of lifetime-employment guarantees and employer-provided social services, ranging from housing and medical care to family support.

Many developing countries lack the administrative capacity to run income-transfer programs, and only a small share of the labor force is employed in the formal sector. In such countries, social insurance often takes yet another form: public-works programs and employment in the public sector, where jobs are typically more secure than in the private sector.

Government programs are not the only mechanism for reducing income risk. Private insurance, community support, and household transfers are also important. As markets spread and mobility increases, however, some of the informal mechanisms for alleviating income insecurity—such as community-based social services—will become harder to sustain.

This bargain is clearly eroding. Employers are less willing to provide the benefits of job security and stability, partly because of increased competition but also because their enhanced global mobility makes them less dependent on the goodwill of their local work force. Governments are less able to sustain social safety nets, because an important part of their tax base has become footloose because of the increased mobility of capital. Moreover, the ideological onslaught against the welfare state has paralyzed many governments and made them unable to respond to the domestic needs of a more integrated economy.

More Trade, More Government

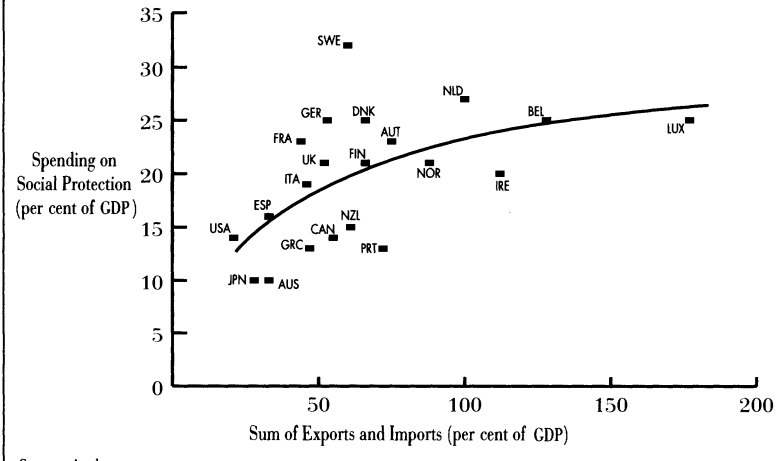
The postwar period has witnessed two apparently contradictory trends: the growth of trade and the growth of government. Prior to the Second World War, government expenditures averaged around 20 per cent of the gross domestic products (GDPs) of today's advanced industrialized countries. By the mid-1990s, that figure had more than doubled to 47 per cent. The increased role of government is particularly striking in countries like the United States (from 9 to 34 per cent), Sweden (from 10 to 69 per cent), and the Netherlands (from 19 to 54 per cent). The driving force behind the expansion of government during this period was the increase in social spending—and income transfers in particular.

It is not a coincidence that social spending increased alongside international trade. For example, the small, highly open European economies like Austria, the Netherlands, and Sweden have large governments in part as a result of their attempts to minimize the social impact of openness to the international economy. It is in the most open countries like Denmark, the Netherlands, and Sweden that spending on income transfers has expanded the most.

Indeed, there is a surprisingly strong association across countries between the degree of exposure to international trade and the importance of the government in the economy. The chart on page 26 shows the relationship between trade and spending on social protection (including unemployment insurance, pensions, and family benefits) in 21 countries for which the Organization for Economic Cooperation and Development (OECD) publishes crossnationally comparable data. The chart reveals an unmistakably positive correlation between a nation's openness to trade and the amount of its spending on social programs. At one end of the distribution we have the United States and Japan, which

have the lowest trade shares in GDP and some of the lowest shares of spending on social protection. At the other end, Luxembourg, Belgium, and the Netherlands have economies with high degrees of openness and large income transfers. This relationship is not confined to OECD economies: Developing nations also exhibit this pattern. Furthermore, the extent to which imports and exports were important in a country's economy in the early 1960s provided a good predictor of how big its government would become in the ensuing three decades, regardless of how developed it was. All the available evidence points to the same, unavoidable conclusion: The social welfare state has been the flip side of the open economy.

RELATIONSHIP BETWEEN TRADE AND SPENDING ON SOCIAL PROTECTION (1980)



Source: Author

International economic integration thus poses a serious dilemma: Globalization increases the demand for social insurance while simultaneously constraining the ability of governments to respond effectively to that demand. Consequently, as globalization deepens, the social consensus required to keep domestic markets open to international trade erodes.

Since the early 1980s, tax rates on capital have tended to decrease in the leading industrial nations, while tax rates on labor have continued generally to increase. At the same time, social spending has stabilized in relation to national incomes. These outcomes reflect the

tradeoffs facing governments in increasingly open economies: The demands for social programs are being balanced against the need to reduce the tax burden on capital, which has become more globally mobile.

By any standard, the postwar social bargain has served the world economy extremely well. Spurred by widespread trade liberalization, world trade has soared since the 1950s. This expansion did not cause major social dislocations and did not engender much opposition in the advanced industrial countries. Today, however, the process of international economic integration is taking place against a backdrop of retreating governments and diminished social obligations. Yet the need for social insurance for the vast majority of the population that lacks international mobility has not diminished. If anything, this need has grown.

The question, therefore, is how the tension between globalization and the pressure to mitigate risks can be eased. If the vital role that social insurance played in enabling the postwar expansion of trade is neglected and social safety nets are allowed to dwindle, the domestic consensus in favor of open markets will be eroded seriously, and protectionist pressures will soar.

The Global Trade in Social Values

In the markets for goods, services, labor, and capital, international trade creates arbitrage—the possibility of buying (or producing) in one place at one price and selling at a higher price elsewhere. Prices thus tend to converge in the long run, this convergence being the source of the gains from trade. But trade exerts pressure toward another kind of arbitrage as well: arbitrage in national norms and social institutions. This form of arbitrage results, indirectly, as the costs of maintaining divergent social arrangements go up. As a consequence, open trade can conflict with long-standing social contracts that protect certain activities from the relentlessness of the free market. This is a key tension generated by globalization.

As the technology for manufactured goods becomes standardized and diffused internationally, nations with different sets of values, norms, institutions, and collective preferences begin to compete head on in markets for similar goods. In the traditional approach to trade policy, this trend is of no consequence: Differences in national practices and

social institutions are, in effect, treated just like any other differences that determine a country's comparative advantage (such as endowments of physical capital or skilled labor).

In practice, however, trade becomes contentious when it unleashes forces that undermine the social norms implicit in domestic practices. For example, not all residents of advanced industrial countries are comfortable with the weakening of domestic institutions through the forces of trade, such as when child labor in Honduras replaces workers in South Carolina or when cuts in pension benefits in France are called for in response to the requirements of the Treaty on European Union. This sense of unease is one way of interpreting the demands for "fair trade." Much of the discussion surrounding the new issues in trade policy—e.g., labor standards, the environment, competition policy, and corruption—can be cast in this light of procedural fairness.

Open trade can conflict with social contracts that protect certain activities from the relentlessness of the free market. This is a key tension of globalization.

Trade usually redistributes income among industries, regions, and individuals. Therefore, a principled defense of free trade cannot be constructed without addressing the question of the fairness and legitimacy of the practices that generate these distributional "costs." How comparative advantage is created matters. Low-wage foreign competition arising from an abundance of workers is different from competition that is created by foreign labor practices that violate norms at home. Low wages that result from demography or history are very different from low wages that result from government repression of unions.

From this perspective it is easier to understand why many people are often ill at ease with the consequences of international economic integration. Automatically branding all concerned groups as self-interested protectionists does not help much. This perspective also prepares us not to expect broad popular support for trade when trade involves exchanges that clash with (and erode) prevailing domestic social

arrangements.

Consider labor rules, for example. Since the 1930s, U.S. laws have recognized that restrictions on "free contract" are legitimate to counteract the effects of unequal bargaining power. Consequently, the employment relationship in the United States (and elsewhere) is subject to a multitude of restrictions, such as those that regulate working hours, workplace safety, labor/management negotiations, and so forth. Many of these restrictions have been put in place to redress the asymmetry in bargaining power that would otherwise disadvantage workers vis-à-vis employers.

Globalization upsets this balance by creating a different sort of asymmetry: Employers can move abroad, but employees cannot. There is no substantive difference between American workers being driven from their jobs by their fellow *domestic* workers who agree to work 12-hour days, earn less than the minimum wage, or be fired if they join a union—all of which are illegal under U.S. law—and their being similarly disadvantaged by *foreign* workers doing the same. If society is unwilling to accept the former, why should it countenance the latter? Globalization generates an inequality in bargaining power that 60 years of labor legislation in the United States has tried to prevent. It is in effect eroding a social understanding that has long been settled.

Whether they derive from labor standards, environmental policy, or corruption, differences in domestic practices and institutions have become matters of international controversy. That is indeed the common theme that runs the gamut of the new issues on the agenda of the World Trade Organization (WTO). Conflicts arise both when these differences create trade—as in the cases of child labor or lax environmental policies—and when they reduce it—as industrial practices in Japan are alleged to do. As the *New York Times* editorialized on July 11, 1996, in connection with the Kodak-Fuji dispute on access to the photographic film market in Japan, "the Kodak case asks the WTO, in effect, to pass judgment on the way Japan does business."

The notions of "fair trade" and "leveling the playing field" that lie behind the pressures for putting these new issues on the trade agenda have been ridiculed by economists. But once it is recognized that trade has implications for domestic norms and social arrangements and that its legitimacy rests in part on its compatibility with these, such notions are not so outlandish. These sentiments are ways of addressing the concerns to which trade gives rise. Free trade among countries with differ-

ent domestic practices requires an acceptance of either an erosion of domestic structures or the need for some degree of harmonization or convergence.

If this is the appropriate context in which demands for "fair trade" or "leveling the playing field" must be understood, it should also be clear that policymakers often take too many liberties in justifying their actions along such lines. Most of the pricing policies that pass as "unfair trade" in U.S. antidumping proceedings, for example, are standard business practice in the United States and other countries. While there may not be a sharp dividing line between what is fair and unfair in international trade, one clear sign that pure protectionism is at the root of a trade dispute is the prevalence of practices within the domestic economy that are identical or similar to those being protested in the international arena. Fairness cannot be eliminated from thinking about trade policy; but neither can it be invoked to justify trade restrictions when the practice in question does not conflict with domestic norms as revealed by actual practice.

Misunderstanding Trade

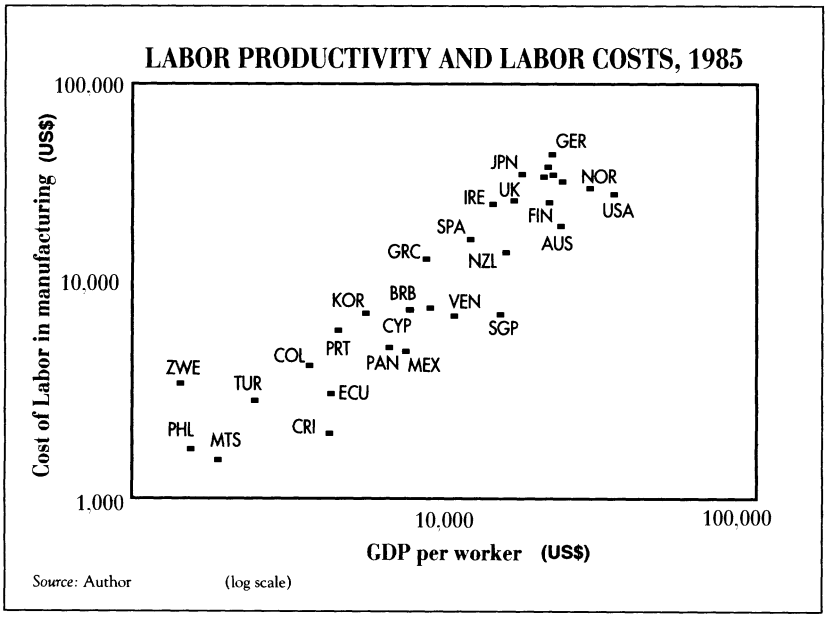
The tensions created by globalization are real. They are, however, considerably more subtle than the terminology that has come to dominate the debate. "Low-wage competition," "leveling the playing field," and "race to the bottom" are catchy phrases that often muddle the public's understanding of the real issues. A more nuanced debate and more imaginative solutions are badly needed.

A broader approach to this debate, one that takes into account some of the aspects discussed here, provides more credibility to the defenders of free trade in their attempts to clear up the misunderstandings that the opponents of trade often propagate. Journalist William Greider's recent book, *One World, Ready or Not—The Manic Logic of Global Capitalism*, illustrates the appeal that many of these misunderstandings retain in the minds of popular commentators on trade.

One of the main themes of this book—that the global expansion of markets is undermining social cohesion and is inexorably leading toward a major economic and political crisis—could be viewed as a more boldly expressed version of the potential danger that is highlighted above. Many of Greider's concerns—the consequences for low-skilled workers in the advanced industrial countries, the weakening of

social safety nets, and the repression of political rights in some leading exporters like China and Indonesia—are indeed valid. However, the disregard for sound economic analysis and systematic empirical evidence that characterizes Greider's book makes it both a very unreliable guide to understanding what is taking place and a faulty manual for setting things right.

A popular fallacy perpetuated in works like Greider's is that low wages are the driving force behind today's global trade. If that were so, the world's most formidable exporters would be Bangladesh and a smattering of African countries. Some Mexican or Malaysian exporting plants may approach U.S. levels in labor productivity, while local wages fall far short. Yet what is true for a small number of plants does not extend to economies as a whole and therefore does not have much bearing on the bulk of world trade.



Source: Author

The above chart shows the relationship between economy-wide labor productivity (GDP per worker) and labor costs in manufacturing in a wide range of countries. There is almost a one-to-one relationship between these two, indicating that wages are closely related to productivity. Low-wage economies are those in which levels of labor productivity are commensurately low. This tendency is of course no surprise to anyone with common sense. Yet much of the discourse on trade pre-

sumes a huge gap between wages and productivity in the developing country exporters.

Similarly, it is a mistake to attribute the U.S. trade deficit to the restrictive commercial policies of other countries—policies that Greider calls the "unbalanced behavior" of U.S. trading partners. How then can we explain the large U.S. deficit with Canada? If trade imbalances were determined by commercial policies, then India, as one of the world's most protectionist countries until recently, would have been running large trade surpluses.

Another misconception is that export-oriented industrialization has somehow failed to improve the livelihood of workers in East and Southeast Asia. Contrary to the impression one gets from listening to the opponents of globalization, life is significantly better for the vast majority of the former peasants who now toil in Malaysian or Chinese factories. Moreover, it is generally not the case that foreign-owned companies in developing countries provide working conditions that are inferior to those available elsewhere in the particular country; in fact, the reverse is more often true.

Perhaps the most baffling of the antiglobalization arguments is that trade and foreign investment are inexorably leading to excess capacity on a global scale. This is Greider's key argument and ultimately the main reason why he believes the system will self-destruct. Consider his discussion of Boeing's outsourcing of some of its components to the Xian Aircraft Company in China:

> **When new production work was moved to Xian from places like the United States, the global system was, in effect, swapping highly paid industrial workers for very cheap ones. To put the point more crudely, Boeing was exchanging a $50,000 American machinist for a Chinese machinist who earned $600 or $700 a year. Which one could buy the world's goods? Thus, even though incomes and purchasing power were expanding robustly among the new consumers of China, the overall effect was an erosion of the world's potential purchasing power. If one multiplied the Xian example across many factories and industrial sectors, as well as other aspiring countries, one could begin to visualize why global consumption was unable to keep up with global production.**

An economist would rightly point out that the argument makes little sense. The Chinese worker who earns only a tiny fraction of his American counterpart is likely to be commensurately less productive. Even if the Chinese worker's wages are repressed below actual produc-

tivity, the result is a transfer in purchasing power—to Boeing's shareholders and the Chinese employers—and not a diminution of global purchasing power. Perhaps Greider is thinking that Boeing's shareholders and the Chinese employers have a lower propensity to consume than the Chinese workers. If so, where is the evidence? Where is the global surplus in savings and the secular decline in real interest rates that we would surely have observed if income is going from low savers to high savers?

It may be unfair to pick on Greider, especially since some of his other conclusions are worth taking seriously. But the misunderstandings that his book displays are commonplace in the globalization debate and do not help to advance it.

Safety Nets, Not Trade Barriers

One need not be alarmed by globalization, but neither should one take a Panglossian view of it. Globalization greatly enhances the opportunities available to those who have the skills and mobility to flourish in world markets. It can help poor countries to escape poverty. It does not constrain national autonomy nearly as much as popular discussions assume. At the same time, globalization does exert downward pressure on the wages of underskilled workers in industrialized countries, exacerbate economic insecurity, call into question accepted social arrangements, and weaken social safety nets.

There are two dangers from complacency toward the social consequences of globalization. The first and more obvious one is the potential for a political backlash against trade. The candidacy of Patrick Buchanan in the 1996 Republican presidential primaries revealed that protectionism can be a rather easy sell at a time when broad segments of American society are experiencing anxieties related to globalization. The same can be said about the political influence of Vladimir Zhirinovsky in Russia or Jean-Marie Le Pen in France—influence that was achieved, at least in part, in response to the perceived effects of globalization. Economists may complain that protectionism is mere snake oil and argue that the ailments require altogether different medicine, but intellectual arguments will not win hearts and minds unless concrete solutions are offered. Trade protection, for all of its faults, has the benefit of concreteness.

Perhaps future Buchanans will ultimately be defeated, as Buchanan

Sons of Globalization?

Patrick Buchanan, Agence France-Presse/Corbis-Bettmann

Vladimir Zhirinovsky, Reuters/Jacky Naegelen/Archive Photos

Jean-Marie Le Pen, Corbis-Bettmann

himself was, by the public's common sense. Even so, a second and perhaps more serious danger remains: The accumulation of globalization's side effects could lead to a new set of class divisions—between those who prosper in the globalized economy and those who do not; between those who share its values and those who would rather not; and between those who can diversify away its risks and those who cannot. This is not a pleasing prospect even for individuals on the winning side of the globalization divide: The deepening of social fissures harms us all.

National policymakers must not retreat behind protectionist walls. Protectionism would be of limited help, and it would create its own social tensions. Policymakers ought instead to complement the external strategy of liberalization with an internal strategy of compensation, training, and social insurance for those groups who are most at risk.

In the United States, President Bill Clinton's education initiatives represent a move in the right direction. However, the August 1996 welfare reform act could weaken social safety nets precisely at a time when globalization calls for the opposite. In Europe, as well, the pruning of the welfare state may exacerbate the strains of globalization.

Contrary to widespread belief, maintaining adequate safety nets for those at the bottom of the income distribution would not break the bank. Currently, old-age insurance is the most expensive income-transfer item for the advanced industrial countries. A reorientation of public resources away from pensions and toward labor-market and antipoverty programs would be a more appropriate way to address the challenges of globalization. This shift could be achieved while reducing overall public spending. Broad segments of the population in the industrial countries are understandably nervous about changing basic social-welfare arrangements. Therefore, political leadership will be required to render such changes palatable to these groups.

At the global level, the challenge is twofold. On the one hand, a set of rules that encourages greater harmonization of social and industrial policies on a voluntary basis is needed. Such harmonization could reduce tensions that arise from differing national practices. At the same time, flexibility sufficient to allow selective disengagement from multilateral disciplines needs to be built into the rules that govern international trade.

Currently, the WTO Agreement on Safeguards allows member states to impose temporary trade restrictions following an increase in imports —but only under a stringent set of conditions. One could imagine

expanding the scope of the agreement to include a broader range of circumstances, reflecting concerns over labor standards, the environment, and even ethical norms in the importing country. The purpose of such an expanded "escape clause" mechanism would be to allow countries—under well-specified contingencies and subject to multilaterally approved procedures—greater breathing room to fulfill domestic requirements that conflict with free trade. If this flexibility could be achieved in exchange for a tightening of rules on antidumping, which have a highly corrosive effect on the world trading system, the benefits could be substantial.

Globalization is not occurring in a vacuum: It is part of a broader trend we may call marketization. Receding government, deregulation, and the shrinking of social obligations are the domestic counterparts of the intertwining of national economies. Globalization could not have advanced this far without these complementary forces at work. The broader challenge for the 21st century is to engineer a new balance between the market and society—one that will continue to unleash the creative energies of private entrepreneurship without eroding the social bases of cooperation.

Want to Know More?

A classic work on the relationship between markets and social stability is Karl Polanyi, *The Great Transformation* (Boston, Massachusetts: Beacon Press, 1944). The argument is restated in the context of the postwar multilateral international economic order in John Ruggie, "At Home Abroad, Abroad at Home: International Liberalization and Domestic Stability in the New World Economy," *Millennium: Journal of International Studies*, no. 3 (1995). The close relationship between exposure to foreign trade and government size in the advanced industrial countries was first pointed out by David Cameron in "The Expansion of the Public Economy," *American Political Science Review* 72 (December 1978). A more recent study that is also more comprehensive in scope is Dani Rodrik, "Why Do More Open Economies Have Bigger Governments?" Working Paper no. 5537 (Cambridge, Massachusetts: National Bureau of Research, 1996).

An excellent historical perspective on the debates surrounding trade policy is provided in Jagdish Bhagwati, *Protectionism* (Cambridge, Massachusetts: MIT Press, 1988). An extended populist critique of globalization can be found in William Greider, *One World, Ready or Not—The Manic Logic of Global Capitalism* (New York: Simon & Schuster, 1997). Paul Krugman and Robert Lawrence, in "Trade, Jobs and Wages," *Scientific American* 270, no. 4 (April 1994), provide a succinct essay arguing that foreign competition is not responsible for the current ills of the U.S. economy. The recent academic debates on trade and wages are reviewed in William Cline, *Trade and Wage Inequality* (Washington, D.C.: Institute for International Economics, 1997, forthcoming) and Susan Collins, ed., *Trade and the American Worker* (Washington, D.C.: Brookings Institution, 1997, forthcoming). For links to Web sites related to globalization, see FOREIGN POLICY's home page at www.foreignpolicy.com.