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## But What About. . . ? Complaints, Doubts, and Criticisms

The conclusions from the first two decades of microdata research are sometimes surprising, and they certainly fly in the face of much of the criticism heard about globalization today. We are, nonetheless, persuaded that these results represent important information for Americans and others in the debate over globalization.

But not everyone is so persuaded. In this chapter, therefore, we consider some of the reasonable doubts and criticisms that our analysis might generate, including some actually voiced by readers of earlier drafts of this study.

### **Objection 1:** “Your implicit Social Darwinism is pretty scary.”

A lot of people, taking their first look at this research and its conclusions, may find them too Darwinian. The fittest—those who are globally engaged—survive and even prosper, while their unengaged twins become extinct—figuratively in the case of individuals, literally in the case of some firms and ghost towns—just because their focus is closer to home. That doesn’t seem right, especially if it turns out that the fittest are few in number—a handful of elite firms, workers, and regions—that thrive while the vast, less fit majority suffer. “I don’t care how much fitter the fittest

are,” many people may say. “I don’t care even if they gain a whole lot more than their twins lose. If the gains aren’t widely shared, something is very wrong. It’s certainly not democratic.”

We think the evolution analogy is wrong. The main thing global engagement offers, and offers widely, is equal opportunity, not the fatal karma of Darwinian extinction. Global engagement is a *choice*, not a destiny. Unlike the success or failure of species in the natural world, success or failure in the global economy is not programmed in our genes. That choice may not be open to every individual, but it is open to many, indeed most, much as high school was a choice open to many American farmers at the turn of the 20th century.<sup>1</sup> It is not a privilege conceded only to an elite minority. In fact, deeper global integration and further educational advancement are *both* choices, *both* widely available to all Americans, and they raise surprisingly similar issues, as we will see in considering the next objection.

And if global engagement causes good things, as much of this new research suggests, then it may even be a good thing when chosen by the most unlikely Americans. Consider the apocryphal Bubba in sidebar 4.1.

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1. See Goldin and Katz (1999).



## Sidebar 4.1 Living la vida Bubba

Bubba is a regular guy.<sup>1</sup> Although he made it through high school and trade school, he and formal education never got along very well, and even now he is a skeptic about his own union's training opportunities. About managers he is downright cynical. Bubba has never bought a new car, and not one of his succession of used trucks has ever spent the night in a garage. Bubba has traveled only once beyond his native Texas (to Las Vegas), never to Mexico or abroad. The local bars, softball and bowling leagues, and hunting trips provide quite enough pleasure to fill his leisure time.

In the prejudiced view of many Americans, Bubba is a predestined loser from globalization. He is not highly educated, he does not hold a white-collar job, and he is not climbing the corporate ladder. He lives in a rural Texas county, not in the city, and he works as a truck driver, not in a high-tech industry.

But Bubba is no loser. And he is no dummy either. He has figured out that he does not have to stop being Bubba to gain from global commitment. His story confirms what we have already seen from the new microdata research—that our prejudices are often wrong.

The Mexican-owned food products firm for which Bubba works both exports and imports. It competes with American firms and has engaged

in joint ventures with some. Bubba's company has grown rapidly as the Hispanic population of his county has expanded. Bubba has never been laid off from this job, and each year he receives a welcome December bonus. Last year, Bubba could have been promoted to dispatcher, but he decided he could do without the aggravation, and in any case he would have had to resign from his Teamsters union local. The money (and the limited benefits) he earns from driving is good enough, he says—and much better than what he used to earn as a driver for a moving company.<sup>2</sup>

This might seem an improbable story, but it is not just an isolated anecdote. Indeed, the new research says that *this*, not the stereotypical lumpen redneck, is the typical contemporary Bubba. The Bubba of the 21st century can choose to be globally engaged.

This is not to say that the other insular Bubba does not exist. Bubba's own brother, for example, still scrapes by working odd jobs for the trailer park where he lives, way out among the stripper wells and cattle tanks. Bubba has tried to get his brother to take a job with his own Mexican employer, but his brother always says no.

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1. Bubba is an apocryphal, if frequent visitor to Texas journalism, and was featured in the Molly Ivins column quoted in Richardson and Rindal (1996, 4)

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2. The idea that Bubba might be driving a truck for a US company owned by a Mexican company sound far-fetched? Maybe not. Mexico's largest bakery, Gruppo Industrial Bimbo, in the late 1990s purchased Mrs. Baird's Bakeries, something of a Texas institution since 1918, which employs 3,000 people in 9 plants in Texas.

**Objection 2.** “More globalization may mean faster growth overall, as you claim, but it also causes more inequality, which is poison for our democratic society.”

Other skeptics might concede that the happy global warriors depicted in our analyses and anecdotes are not just the lucky few and indeed may even be a majority. But aren't they prospering at the expense of everyone else? Millions of regular Americans are just muddling along—and their share of the pie is shrinking. Doesn't this mean that global engagement is just deepening our society's already obscene inequality? Can we long endure such a gaping disparity between the haves and the have-nots? Don't we need a *break* from globalization, or at least to slow it down, if we are to hold our society together?

For these skeptics we have two answers, or rather two questions. First, why aren't you worried about educational reform for the same reasons? As sidebar 4.2 argues, more education creates more inequities, too, as those who have made the wise choice to further their education surge ahead of those who chose not to. Why don't you want to go slow there, too?

Second, are you sure you skeptics have your facts straight? A lot of the criticism of globalization as it affects the United States focuses on the inequality in income growth observed since the early 1970s. This is an enormous topic with many pitfalls for the unwary, from failing to measure inflation properly to overlooking the fact that paychecks today reflect a lot more than simply wages (they include medical benefits, paid leave, and pensions, to name a few). We cannot hope to explore this subject fully here, but we do think three directly relevant points need to be made.

First, much of the discussion about wage inequality in the United States seems to ignore what went on during much of the 1990s. In contrast to the 1970s and 1980s, income growth in the 1990s was dispersed much more evenly. As figure 4.1 shows, all income groups saw rapid earnings growth in the 1990s—indeed, those with the lowest incomes recorded some of the fastest



#### **Sidebar 4.2 Why not limit education? It creates inequity, too**

Most people, including most economists, have no problem with the assertion that educated people stand taller in apples-to-apples comparisons, just as our microdata research claims for globally engaged people (and firms and communities). Most people believe that education is good, and that more is better. Few worry about striving for too much education, or about educating our population too fast or too intensely. The underlying reasoning is that education adds skills, speed, imagination, and practical know-how to our natural capabilities; it is an investment in human capital—in workplace capabilities that improve productivity. Education thus “causes” improved performance for workers, for firms that hire them, and (most believe) for the communities in which they live.

But there is a skeptical minority who believe otherwise.<sup>1</sup> True, education and performance are correlated, they say, but education does not cause performance. The real cause of both is energy, motivation, ambition, single-mindedness, and raw intelligence—all of which are hard to measure, of course, just as it is hard to measure what makes a firm “good.” People who have lots of these virtues are the ones who get more education and the ones who do well—but they do well because of those virtues, not because of their education.

Education is still somewhat useful, even for these skeptics. It helps to screen out people who lack the right virtues. Those who perform poorly in school are likely to perform poorly in the workplace. But their workplace performance is not the *result* of their lack of education, in this view. It is the result of their lack of character. These skeptics say that education causes nothing, but only gives the moral elites a chance to identify

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1. Weiss (1995) summarizes the debate and the evidence.

#### Sidebar 4.2 Why not limit education? It creates inequity, too (continued)

themselves and signal their superior virtues to potential employers.

In this skeptical view, differences in educational attainment increase social stratification and economic inequality; if everyone received the same education, the virtuous would find it harder to distinguish themselves, and harder to command the higher incomes commensurate with their talents. And by increasing inequality, education destabilizes the cohesion of a community, but for a good cause. The sheep need to be separated from the goats, for the sake of better overall economic performance.

The typical reader finds these arguments unpersuasive, maybe even repulsive and dangerous. But why is it different for global integration? Why is it somehow more persuasive that education causes performance gains than that global engagement does? Why is it somehow more persuasive that globalization and performance are just correlated accidentally, because both are the natural outcomes of business and workplace virtue, than that education and performance are just correlated accidentally, because both are the natural outcomes of personal character and virtue? And why is it somehow wise to put roadblocks in front of globalization for the sake of social equality and stability, but not to deter people from getting more education for the same reason?

An extensive discussion of these weighty issues is beyond the scope of this report. But we suggest that one reason for this disconnect, this inconsistency of views about education and global engage-

ment, is *innocent ignorance*. Average Americans are innocently ignorant about global opportunities. They have simply not yet come to understand the promise of a global market orientation—although they understand the risks perhaps only too well.<sup>2</sup>

Average Americans at the turn of the 20th century were also innocently ignorant. They had not yet come to understand the promise of universal basic education—in those days fewer than 10 percent completed high school.<sup>3</sup> “Jobs are available close at hand on the farm,” they said. “Why orient your effort toward school, the factory, the city?” It is our conviction that we are innocently ignorant in the same way today. Jobs and markets are available close at hand in the United States, we say. Why orient our effort toward alien technology, toward mind-boggling information industries, toward the global economy?

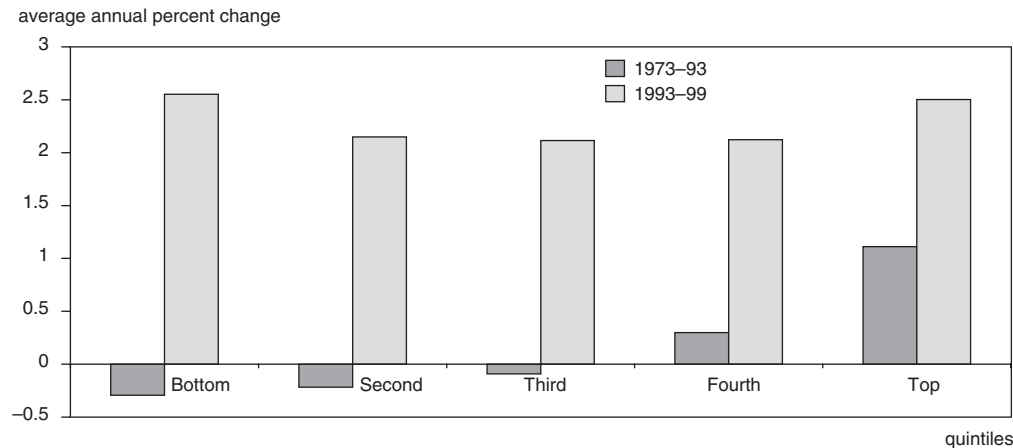
We have written this report because we believe the comparison to education is apt. We want to convince the reader of the evidence that exports, imports, foreign investment, and global market orientation hold great promise for the average American, just as education did 100 years ago and does today. They really matter, in more ways than we yet imagine, and in better ways, too.

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2. Scheve and Slaughter (2001) document these tendencies in their survey of American opinion surveys.

3. See Goldin and Katz (1999) for a description of the American secondary school movement and its economic effects.

**Figure 4.1** Growth in US household income by quintile has been more equal since 1993 than in the 20 years before that year



Source: Economic Report of the President (2000, chart 1-1, 20).

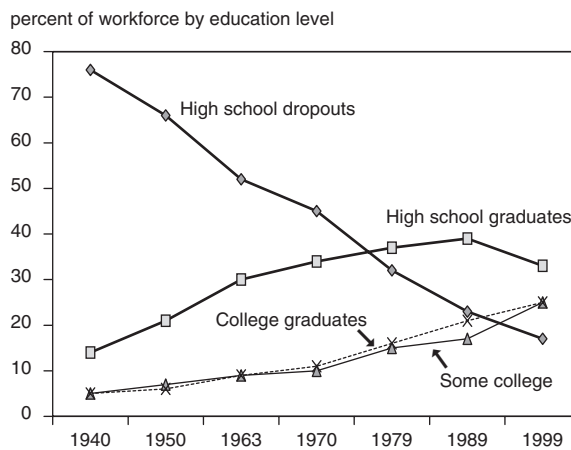
growth. Yet this was a decade when the pace of American global engagement picked up compared with the two previous decades. If globalization were a driver of increased inequality, one would have expected just the opposite results in terms of income growth.

This leads to a second and more fundamental point. Technological change over time, not trade, seems to be by far the greater enemy of less-skilled workers in this country. The ratio of unskilled workers to skilled workers, whether in import-sensitive industries or export-oriented ones, dropped from 4 to 1 in the late 1960s to 2 to 1 in the late 1980s.<sup>2</sup> Nor is this fall in demand for less-skilled workers a new trend. Figure 4.2 shows that the share of high school dropouts in the US labor force has fallen from roughly 75 percent in 1940 to 17 percent today. At the same time, the share of workers with either some college education or a college degree has grown from about 10 percent of the workforce to about 50 percent today. Most researchers believe this trend is attributable to technology change, not to trade.<sup>3</sup>

2. Richardson and Rindal (1996, 30-32).

3. Scheve and Slaughter (2001).

**Figure 4.2** Skill mix by education level of US labor force



Source: Scheve and Slaughter (2001, table 4.1, 83).

Trade may actually help counter the effects of technology, as we alleged implicitly for Bubba above.

We would suggest a third way of looking at the issue of inequality and globalization, namely, from the standpoint of what happens to people who lose their jobs. Is there any difference between what happens to workers who lose their

jobs because of trade and what happens to workers who lose their jobs because of shifts in technology, changes in consumer demand, corporate restructuring, or a host of other reasons?

The short answer to this question, according to recent microdata research, is no. About 30 percent of workers who lose their jobs because of trade or for other reasons wind up in jobs that pay as well or better than their previous one.<sup>4</sup> On the other hand, about 25 percent of displaced workers take a tremendous hit, earning more than 30 percent less in their new jobs, when they find them. But this is happening to all displaced workers, not just those affected by trade; in fact, the latter are a very small subset of the total.<sup>5</sup>

To summarize, what most research shows is that, yes, there has been an increase in inequality of income over the last 30 years in the United States, but this trend may have started to reverse itself about 10 years ago, and globalization probably contributed little to the trend in the first place.

**Objection 3:** “But what’s the bottom line? How does it all add up for American society? Are the total gains big enough to compensate for all the uncertainties and uneven burdens?”

Only a few researchers have tried to answer this question. They find that the gains are somewhere between modest and large, in the neighborhood of 1 to 3 percent higher standards of living that grow 0.5 to 2 percentage points faster per year.<sup>6</sup>

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4. Kletzer (2001).

5. Ironically, the inequality that may exist here probably centers on the fact that government programs treat workers displaced by trade more favorably than other displaced workers. It strikes us that we really should be helping all displaced workers in this bottom group get the job training that gets them back on their feet and helps put their lives back together again. For one proposal on how to deal with this issue, see Kletzer and Litan (2001).

6. Bernard and Jensen (1999b), for one example, estimate that 42 percent of the 1.4 percent annual boost in overall American productivity growth from 1986 to 1992 was due to the industrial rejuvenation effects of plants that began or continued exporting.

Those numbers might not seem large, but a 1 to 3 percent higher standard of living is the same boost that the US economy got when the “natural” rate of unemployment fell from 6 percent to 3 or 4 percent in the 1990s. That fall in the natural rate was viewed by many economists as little short of miraculous. And 0.5 to 2 percentage points faster growth happens to be exactly the range breathlessly ascribed by some to the “new,” high-tech, knowledge economy. Looking at it another way, an immediate 2 percent higher standard of living in the United States, followed by 20 years of 1 percentage point faster growth, would leave the next generation of Americans almost 25 percent richer at the end of those 20 years than they would have been otherwise. That’s no small boost!

If that is what deeper global integration promises for the next generation of Americans—a 25 percent bonus—to us it sounds like a pretty good deal. In our judgment at least, it would be worth quite a lot of turmoil to attain—and worth quite a lot of experimentation with creative new policies to minimize and ease the turmoil (see chapter 5).

Not to be forgotten is that there is a one-time “ramping up” cost of becoming linked to the global economy, and this cost must be subtracted from the calculation of the gains. Estimates from other countries of the one-time cost of getting fit to export show that the cost is not trivial: on the order of one or two years’ average export profits.<sup>7</sup> But this cost is easily amortized against the gains from successfully making the transition. Of course, some will not succeed. Limited research on US firms that have withdrawn from exporting shows that their performance measures are in some regards worse than those of firms that never exported in the first place.<sup>8</sup>

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7. Roberts and Tybout (1997, 12–13).

8. See figures 3.1 and 3.2. On average, from 1984 through 1992, 17 percent of exporting plants ceased to export every year, but 10 percent of nonexporting plants (a larger absolute number) began to export (Bernard and Jensen, 1999a, 17).

**Objection 4:** “These calculations and most of the underlying microdata research are based on manufacturing only. But services are far more important in today’s economy. What gives you confidence that the gains from global integration are large in services, too?”

Services *are* an important part of some of the results that we summarize; for example, the gains to workers, among others, from inward foreign investment in the United States are proportionately larger in services than in manufacturing. Furthermore, in our earlier studies of why exports matter, the evidence we marshaled on services looked the same as that in manufacturing, although it was more anecdotal. Finally, it is simply untrue that our argument relies on an unrepresentatively small sectoral base. Manufacturing *is* where globalization has been taking place most acutely and most deeply: two-thirds to three-quarters of American exports and imports are manufactures, and more than half of the output and income generated by inward and outward American foreign investment is in manufactures.<sup>9</sup> Manufacturing is where we see the real-life effects of global engagement because it is the most representative sector in which globalization *has* taken place. It is the rule, not the exception.

**Objection 5:** “You make deep global integration sound like a miracle drug.”

This objection misses an important point—maybe the most important point—of this report. The research results presented here do not prove or even claim that global engagement will solve all the social, political, and economic problems that workers, companies, and communities face

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9. Zeile (2000, table 3) calculates that 54 percent of US value added by foreign investors in 1998 was in manufacturing. Mataloni (1999, table 7) finds that 55 percent of US value added by American multinational parents in that year was in manufacturing.

today. But global engagement *is* part of the solution; it is not part of the problem, much less the whole problem. The rest of the solution includes such things as educational reform, renewed support for social values, and other policies that go far beyond the scope of this report. But all of the remedies in this therapeutic mix are supported, not hampered, by global engagement.

The emphasis here, moreover, is on *deep* global integration. One of the advantages of the microdata research on globalization is that it reminds us that the different parts of globalization—exports, imports, investment—tend to hang together. You cannot talk about exports without talking about imports. You cannot talk about exports or imports without talking about cross-border investment, inward and outward. As the figures and table in chapter 3 demonstrated, there is a very real and surprising connection between these different elements of globalization. Industries with lots of exports also tend to have lots of imports. The same pattern holds for inward and outward investment. And the connection pays off for American workers. Again, globalization is a family of commitments that helps to rejuvenate.

**Objection 6.** “I hear and understand your argument, but I believe what I see. I just came back from Brownsville, Texas, and Matamoros, Mexico. And if NAFTA is what global engagement is about, I don’t see how global engagement has made those workers and those communities better off. Globalization looks more like a race to the bottom, and those border towns look like rock bottom.”

Nothing in the research summarized in this report is meant to deny the wretched conditions you saw. All we ask is that when you visit such places, make the same comparisons in your own, direct observations that we have made here using statistics. Look at a workplace where goods and services are being produced for local consumption, and look at a workplace where goods are being produced for export. The differences may be sub-

tle, but we think you will likely be more outraged at conditions in the locally focused workplace than at those in its globally engaged twin.<sup>10</sup>

That is all that this report is saying, nothing more. But we maintain that is saying a lot, and most people have yet to appreciate these differences.

Global engagement will not and cannot right every wrong. But it does seem to make a difference. It is almost always better than its polar opposite, which is global nonchalance and a too-narrow focus on domestic concerns.

**Objection 7:** “But you global enthusiasts are missing the main point. *How* globalization occurs matters more than how *much* occurs. We want *balanced* globalization, with people and their social and environmental concerns protected by global rules and standards that balance social and commercial concerns. All advanced democratic market economies enforce such rules within their own borders. We need such rules at the global level, and we should limit our engagement with countries that fail to abide by the ones that exist, or that fail to set and enforce high enough standards.”

Rules do matter. And they need to be negotiated globally, by more than just corporate advisory committees and the other “usual suspects.” But the breadth and density of global integration matter, too. And this new research shows that deeper global integration matters a great deal more than most people think. The stakes are surprisingly high, even for the United States. It may not matter *more* than global rules, but it matters enough that we should embrace global integration warmly, even when progress on global rules is uncertain.

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10. See, for example, “Mexicans Reap NAFTA’s Benefits,” <http://www.washingtonpost.com/wp-dyn/articles/A14195-2000Sep15.html>.

**Objection 8.** “We’re still not convinced that we need the rest of the world. Our country is vast and rich. What can other countries—especially poor ones—offer us that we can’t find here at home, without any of the hassle of global engagement?”

Many who are skeptical of globalization argue that ultimately American standards of living are what matter, not global linkages. Prosperity is welcome, but we can have it without global engagement. Although global integration contributes to US living standards in important ways, the fundamental determinants are technology, resources, incentives, education, and the institutions that allow markets to function and that regulate them. Americans need to work on these things first and foremost.

But even viewed in that light, global nonchalance may be costly. It may inhibit technology, divert resources, blunt incentives, and stifle education. Many of the newfound reasons why global integration is important suggest that precisely this kind of slippage, diversion, and stagnation may lie ahead unless there is greater public appreciation of why global integration matters, and greater public support for American economic engagement with the rest of the world.

A variation on this theme is that the United States does not need the rest of the *developing* world. Poor countries cannot afford to buy our products anyway, so let’s just stay at home and do business among ourselves and with a few other wealthy countries. In fact, this is pretty much what happens already. Approximately 60 percent of US exports go to, and about the same share of US imports come from, other developed countries.

However, those who believe that poor countries will never have the wherewithal to buy American products should take a look at Korea over the last 40 years. In the early 1960s, Korea had a standard of living roughly equal to Great Britain’s in 1800. Only about 30 years later, Korea had closed the initial gap: it enjoyed a standard

of living equal to Britain's in the early 1960s.<sup>11</sup> In the wake of the Asian financial crisis of 1997, Korea may have slipped back a few years, but hardly two centuries. It still ranks among the top 10 US trading partners. Over the long haul, developing countries that are globally engaged become important customers and suppliers. We should not shun them or write them off because they have little purchasing power today.

**Objection 9.** "I'm not persuaded. All of these objections seem like straw men. They're oblique, opaque, and off the point."

More than half of the objections in this chapter were articulated by real-life skeptics in a series of study group meetings to discuss earlier drafts of this report. We believe we have presented these objections accurately and fairly, and we are aware of no major ones that we have omitted.

**Objection 10.** "I'm *still* not fully persuaded."

We are not *fully* persuaded either. Like the researchers whose findings we have reported, we try to keep an open, inquisitive mind, because few issues of this importance and complexity are ever completely and definitively resolved. But we are persuaded enough about global engagement to draw some conclusions and call for action—just as many were persuaded about the need to act on global warming before every bit of evidence was in. And, of course, there is a lot more to learn. Sidebar 4.3 lists some important questions still waiting to be answered.

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11. Krugman (1999).



### Sidebar 4.3 What's more to know?

To a researcher, a good answer to a question is one that raises at least two more questions. We think the microdata research described in this report has already contributed some solid answers to some important questions about global engagement, but other questions remain, and still others have arisen that we did not even know to ask before. Here are some examples:

- If indeed causation between global engagement and performance runs both ways, can we quantify this effect? How much more performance do we get from each "unit" of added global engagement? In other words, what is the *size* of the social reward from engineering, through policy ("exogenously generating," in technical jargon), an increase in global linkages among firms, workers, and communities by, say, 1 percent, however one measures it?
- What is the size of the "transition cost" of going global in the United States? What are the threshold outlays of effort and cash that can never be recovered if the gambit fails? And what, for comparison, is the size of the losses for those who remain unconnected globally?
- Are the performance premiums from global engagement as large for service firms and workers as for manufacturing? What are the rewards for communities with heavy service-industry employment? Research on inward investment suggests that the premiums for American states in services are even greater than for American states in manufacturing.<sup>1</sup> Are these high returns typical, and do they accrue to both firms and workers in services, and for other forms of global integration than inward investment?
- Do the rejuvenating effects of global integration really work in the same way across sec-

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1. Feliciano and Lipsey (1999).

### Sidebar 4.3 What's more to know? (continued)

tors or regions as they seem to within a sector? That is, do globally integrated *sectors* grow faster and steadier than otherwise identical sectors that are not globally integrated?<sup>2</sup> Do globally integrated *regions* grow faster and steadier than otherwise identical regions that are not globally integrated? And what might “otherwise identical” mean for sectors and regions?

- What is the bottom line of this new microdata research, and how does it compare with traditional calculations of how global integration affects national economic welfare? Are the overall gains really rather small, and therefore not worth the extra effort of sifting through the microdata? How much of this activity is micro churning, with little macro-economic or growth payoff? And how much is creative destruction?

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2. Baily and Gersbach (1995) conclude from their small-sample microdata study of firms that globally integrated sectors do have better productivity performance than others. That growth and stability in such sectors would be higher would be an unsurprising implication but is not the focus of Baily and Gersbach's research.

- We have seen that the fact of commitment to global engagement, not the level of engagement, is what counts most. But are there *any* gains from global integration that happen incrementally, such that the gains rise as the intensity of global integration rises? Or do they all happen by cold-turkey commitment—by taking the plunge? In other words, when are firms, workers, and communities that are *more* globally engaged significantly better off than otherwise identical twins that are *less* globally engaged with another type? Maybe when they export to a brand-new trading partner, or make an outward investment there? Maybe when they take on a new equity stake from a second or third global investor? Maybe when they supplement one type of integration (exports, imports, investment, technology trade) in which the firm is already engaged with another type?
- Do the members in the family of global integration commitments each make independent performance contributions? Or do their contributions multiply each other? In more technical language, are contributions merely additive, or do they involve positive (or perhaps negative) interactions?