Globalization with a Human Face

By

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With the noise made by vast numbers of anti-globalizers, most politicians can be forgiven for thinking that globalization is a phenomenon that imperils our economic well-being and, what is far more troubling, the social agendas that we value. Thus, Prime Minister Tony Blair, former President Bill Clinton and Chancellor Gerhard Schroeder, the social-democratic proponents of the “Third Way”, lament economic globalization, even as they pursue it, as a phenomenon that “needs a human face”. Of course, if it needs one, it lacks one. And the former Prime Minister of Ireland, Mrs. Mary Robinson, having finished her term as UN Commissioner for Human Rights, seeks an “ethical globalization”, implying that it is not so.

Indeed, in the anti-globalization circles, there is a general tendency to blame economic globalization for all shortfalls in social agendas. Typically, many reports in international agencies observe that globalization has increased, that social ills such as poverty exist or have increased, and therefore the former is the cause of the latter. But, like Tina Turner’s famous song “What’s love got to do with it?”, we must ask: what has globalization to do with it?

The contrary view, which I develop and defend in my just-published book, In Defense of Globalization (Oxford), is that economic globalization has a human face. It advances, instead of inhibiting, the achievement of social agendas as wide-ranging as the promotion of gender equality worldwide, increased prosperity in the poor countries and not just the rich countries, reduction of poverty in and shifting of children from work to schools in the poor countries. Besides, the fears of economic globalization in the rich countries, especially that globalization reduces real wages of workers and reduces labour
standards because of a “race to the bottom” are seriously exaggerated, if they are valid at all.

The choice between these two assessments of economic globalization --- broadly defined as increasing integration of nation states into the international economy via trade, direct foreign investment by chiefly multinational firms, short-term capital flows, cross-border flows of humanity and diffusion and sale of technology --- is a matter of the utmost importance. It has immediate implications also for the issue of what I call “appropriate governance”.

For, if you believe that globalization lacks a human face, then appropriate governance will encourage policy interventions to restrain globalization. Witness the recent Presidential campaign in the United States where the fears over the alleged adverse effects on American workers (which is clearly a “social” issue, one can say) from outsourcing of services has led the Democratic Presidential aspirants to embrace protectionist policies to tax or prohibit the outsourcing (i.e. import on line) of services by firms whom Senator Kerry of Massachusetts has characterized as traitors, never mind that he doubtless joined the company of these traitors when, a man of excellent Yale education and considerable wealth, he probably supped that night on imported French red wine and brie instead of Kraft cheese and Milwaukee beer and watched a BBC Masterpiece Theater play instead of watching an American sitcom!

But if you believe, as I now do, that globalization has a human face, then you will want very different policy interventions --- ones that preserve and celebrate the good effects that globalization generally brings but supplement the good outcomes and address the phenomenon’s occasional downsides.
This contrast is best seen in relation to child labour in the poor countries. If globalization brings increased incomes to parents, will parents then send more children to work now that their incomes have improved or less because they do not need children to work and can send them to school instead? If the former, then clearly globalization creates a tradeoff between increased prosperity and the reduction of child labour; and policies that inhibit globalization become sensible. But if the latter, then we are likely to ask: what can we do to accelerate the pace at which child labour will be reduced by globalization?

Globalization’s Human Face: Examples

There are many areas of concern that I could deal with, and in fact address fully in my just-cited book, In Defense of Globalization. Here, let me draw on just three issues that are in the public eye.

Gender Issues

Feminist groups have often argued that economic globalization harms women’s interests. But the reality is far more complex, and often benign. Consider just a few examples.

(i) Taking gender pay equality, the economists Sandra Black and Elizabeth Brainerd have used Gary Becker’s argument that prejudice exacts a price, to hypothesize that, if men are being rewarded with higher pay than equally qualified and productive women, their employers will be crowded out by competition. Hence, in internationally trading industries, where competition has become particularly fierce, you would expect pay inequality to shrink faster than in other industries. They find that the

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¹ For more details and coverage of a wider set of feminist concerns, see my book, ibid., Chapter 7.
US experience over two recent decades supports this. So, globalization in the form of trade advances women’s cause, instead of hurting it.

(ii) Japanese women have traditionally faced a very low glass ceiling. So, when the Japanese multinationals spread out over the globe in the 1980s and early 1990s, they took men in executive positions to New York, London, Paris etc. But the wives went with their husbands. They saw then how women were treated by husbands in the West. So, they became forces for change on their return. So did their children.

(iii) The argument advanced by some feminists that IMF conditionality is prejudicial to women is false because it puts up the wrong counterfactual. Economies come when in distress, to the IMF. Without IMF assistance, these countries would have to make yet more draconian adjustments which the feminist groups say are harmful to women. IMF assistance softens these adjustments.

Poverty in the Poor Countries

Does economic globalization, in the form of trade and inflow of multinational investment, harm the cause of ameliorating poverty in the poor countries? The answer, reflecting postwar experience, has to be a firm No. The argument that trade, in particular, helps the cause proceeds in two steps: first, that trade leads to growth; second, that growth reduces poverty. The evidence in favour of both steps is overwhelming.

(i) Does trade always lead to growth? Evidently, it need not always since the response to an opportunity may be limited because of domestic constraints, so that the elasticity of response and the possibility of gains from the opening up of the opportunity may be small. Sometimes, and nothing can be necessarily ruled out, it may even reduce growth and (theoretically in cases I analyzed in the 1960s) one’s own accumulation may
be paradoxically immiserizing. Thus, we know that if we admit modern air transport, it will augment transportation and thereby promote growth. So, if a plane goes from Boston to New York, it will take us there, increasing our commerce and our prosperity. But then if the 9/11 terrorists crash the plane into the World Trade Center towers, we will not get to New York, at least alive and well, and all hell can break lose.

So, trade cannot be described as always leading to better outcomes. But it can certainly be judged as being, generally speaking, a source of an opportunity that, when seized, will likely lead to greater growth. Critics who think that they have controverted the argument that trade leads to increased prosperity by citing some exceptions, are wrong. Stressing this obvious point, Arvind Panagariya has shown rather dramatically that the postwar experience shows that high growth rates of per capita income --- he calls these countries economic “miracles” --- have been strongly associated with high growth rates of trade, and in many cases with trade liberalization as well, whereas the countries that experienced stagnation or even falls in per capita income growth --- he calls these countries economic “debacles” --- have also experienced similarly disappointing trade performances. If you go into important country cases, such as India, China and the Far East, which you must instead of relying on treacherous cross-country regressions as critics like Dani Rodrik often do, it is possible to go further and argue compellingly that trade has driven growth, not the other way around.\(^2\)

The historical evidence is also supposed to controvert the notion that freer trade promotes prosperity. But this “conventional wisdom” or, I should say “conventional

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\(^2\) The Panagariya paper is available from him by e-mail, at panagari@wam.umd.edu. For further discussion, see my book, ibid. Chapter 5. There is also work by David Dollar and associates at the World Bank which reaches conclusions consonant with the position taken by me, Panagariya, T.N.Srinivasan and many others.
fallacy” for the 19th century has been challenged successfully by Douglas Irwin in recent work of importance, cited by me in my book3.

(ii) Does growth in turn lead to reduction of poverty? For India and China, the commonsense proposition that only a growing economy will “pull up” the poor into sustained employment, and hence out of poverty, has held true. This hypothesis, which I advanced in 1962/63 when working in the Indian Planning Commission on how to bring the bottom 30% of the population out of poverty into a “minimum” standard of living, has been borne out by the experience in the postwar period. Again, different types of growth will have differential impacts on the “pull up” process. And additional policy instruments can improve the impact on the poor. But the prime engine remains substantial growth which directly pulls people out of poverty and indirectly provides the resources to improve health and education of the poor which is good in itself but also helps improve their ability to earn incomes. 4

Child Labour in the Poor Countries

Then again, while many activists working to reduce child labour will write as if globalization accentuates child labour, the growing numbers of econometric studies show otherwise. The reasons are simple. Given the high returns to education, which are surely sensed by even poor peasants, their ability to send children to school rather than to work are clearly a reflection of what economists call “credit market imperfections”. I.e. poor parents cannot borrow against future income prospects. When prosperity increases, and the poor peasants get more income, their “budge constraint:” eases and the effect should

3 See pp. 60-64 in Bhagwati, ibid.
4 Again, see the far more substantial discussion of the growth strategy to reduce poverty, in my book, ibid.
be to switch some children from work to schools.\footnote{See the many studies cited in Chapter 6 of my book, \textit{ibid}, by Priya Ranjan, Rajeev Dehejia and on Vietnam by the Dartmouth husband-wife team of Eric Edmonds and Nina Pavcnik.} What we see in many studies is precisely this benign effect working out.

I would add another “macro” effect as well. If an economy is growing faster, creating more jobs, then even if there were no credit constraints, one would see that the margin would shift in favour of parents sending one more child to school rather than work. Why? Because the prospect of finding a job would be greater in a growing economy than in a stagnant one: the return to education would improve, ceteris paribus.

\textbf{“Appropriate” Governance}

Indeed, as one goes down the litany of complaints and fears of the anti-globalizers, the conclusion is inescapable that the effects of economic globalization on several social dimensions are benign, on balance, rather than malign. But then we must ask: what institutional and policy framework is necessary to improve on the benign outcomes that globalization fetches?

Evidently, three types of issues matter. First, even if the effect is benign, it is not always so. Therefore, we must devise institutions to deal with downsides, as and when they arise. I have argued that the developing countries often lack adjustment assistance programs of the kind that the developed countries, which have liberalized trade far more (contrary to Oxfam’s ill-informed talk about “double standards” in trade), have evolved over time. This necessity has long been recognized by the rich countries. In fact, the adjustment assistance programs in the United States go back to the time of the Kennedy Round in the early 1960s, when George Meany, the President of the AFL-CIO, the
federation of US unions, persuaded Kennedy of the importance of such assistance if the multilateral trade negotiations was to be politically acceptable. Virtually every trade legislation since then, with few exceptions, has tinkered with the adjustment assistance programs; the latest legislation that renewed the fast-track authority for President Bush introduced even a “wage insurance” experimental plan under which half of the reduction in salary of a worker who finds a new job after being fired from his job due to trade would be covered by the government for a period of two years. And now that the country is in a furor over the “outsourcing” of jobs in the service sector to countries like India, there are proposals to extend the assistance programs from their earlier focus on manufacturing jobs to service jobs.

But the poor countries have neither the moneys nor the expertise to develop and finance such adjustment programs, even as these countries are beginning to liberalize their trade regimes. We need therefore to fill this void. I have been arguing for this for some years now, asking that the World Bank do this, but to no avail. Finally, the Bank, which has been characterized according to many critics as lacking a clear focus and a sense of priorities, announced --- in the form of a joint Financial Times op.ed. article by Messrs Kohler and Wolfensohn in February 2004 --- that the World Bank would be doing just this. Better late than never!

Second, we need to ensure that we do not repeat the mistake made by the reformers in Russia, where shock therapy was tried and failed. Maximal speed is not the optimal speed; both economic s and politics require cautious adjustment. When the economist Jeffrey Sachs, now my distinguished colleague at Columbia University, insisted on shock therapy in Russia, he used the analogy: “You cannot cross a chasm in
two leaps”. The Soviet expert Padma Desai --- who happens to be my wife, as I must admit in the interest of transparency --- replied: “You cannot cross it in one leap either unless you are Indiana Jones; it is better to drop a bridge.” Events proved her right.

Finally, we need to use supplementary policies to accelerate the pace at which the social agendas are advanced. For instance, child labour will be reduced by the prosperity enhanced by globalization. But then what more can we do to reduce it faster? Here, the unions in the rich countries have taken the view that only trade sanctions have “teeth”. This is a myopic and counterproductive view. It is far better, as many intellectuals from the developing countries argue, to use moral suasion today. After all, God gave us a tongue as well; and in today’s age, with democratic regimes worldwide, with CNN and with NGOs, a good tongue-lashing is far more powerful than sanctions imposed by governments whose own credentials often are not unblemished.

And so, while globalization has a human face, that face can be made to glow yet better with appropriate governance along these lines. Globalization works; but we can make it work better. That is the chief task before all of us today.

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6 I have argued extensively in favour of the “tongue lashing” approach and have never seen any serious refutation of my arguments. I must say that Senator Kerry, as the late Senator Daniel Patrick Moynihan (the “thinking man’s Senator”), had signed on to the notion that labour standards be pursued at the ILO rather than in trade treaties and institutions: I heard him to that effect in Davos at the World Economic Forum three years ago. But he has now switched because he has been captured by the unions whose support is critical to his election. I have also noticed that the AFL-CIO has now decided that intellectual arguments are not to its advantage and has decided to bypass them and go simply to the political process, capturing US politics and then hoping to ram its flawed and de facto protectionist agenda down the throats of the poor countries in an exercise of the kind of “soft power” that it claims to abhor when practiced by the Republicans!