Globalization: too Much or is it too Little?

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1. Introduction

From academic sources and even more from the popular media it is easy to get the impression of globalization as an uncontrollable process gone wild. Complaints and laments relate to fields directly touched by the integration of the global economy and the intensification of transnational ties but also to any facet of modern life that the writer or observer is upset about – a common fallacy of confusing association with causality. Among the most prominent complaints we find: inequality, poverty, terrorism, contagion of crises, de-industrialization, too rapid industrialization leading to environmental decay, inadequate governance, homogenization of tastes and loss of local cultures, language imperialism, orientalism, and the list goes on.

The complaint could refer to the process of globalization having gone too far¹ or to its proceeding at an excessive pace [see below section 6]. It could also refer, in a less normative approach, to the process having achieved the main economic goal, namely, an integrated global economy. The impression of a fast approaching integrated world is not limited to disgruntled non-economists resenting the spread of markets at the beginning of the 21st century. A century ago,
during the first wave of globalization, important economists regarded the world economy as a closed, integrated system. In 1918 Wicksell regarded “differences of prices in two countries ... practically confined between very narrow limits” and in 1932, at the height of the big depression, Hawtrey asserted that “the revolutionary changes in the means of communication ... have unified markets to such a degree that ... [t]here is practically, a single world market and a single world price.”

Perhaps the most vivid description of a globalized world circa 1914 is Keynes’ [1920, pp. 11-12].

"What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914, the inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure, forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could dispatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider

himself greatly aggrieved and much surprised at the least interference.”

2. Some magnitudes

There are now a large number of long-term overviews of the process of globalization and comparative reviews of long-term performance. I draw from them liberally in this paper. I will limit myself to some brief remarks on the dimensions of globalization, especially with regard to trade in goods and factor services. These are some of the most salient economic features of globalization and underlie, in part, the perception of a process run wild and with a great potential for harm. I do not consider in this paper other features that have attracted much attention but are not directly an outcome of the economic mechanisms. I refer to such issues as the ubiquity of MacDonalds or the dominance of the English language, developments seen by many as deeply threatening the national heritage or, worse, as designs of an hegemonic center bent on destroying local diversity [see some further remarks in the last section].

During most of the post-war period trade in goods expanded faster than total output (including services) and much faster than the output of commodities. The trade shares have regained and surpassed the levels attained during the first wave of globalization after several decades when international commerce was severely disrupted during the great depression and world wars.

A relatively unnoticed trend, not quite absorbed in the literature, is the equally rapid increase in the trade of services.

It already amounts to about 19 percent of total exports on the average for the world and only a bit lower figure for low income economies. Since the mid1980s it has grown faster than trade in goods and the developing countries share in the total has increased [World Bank, 2002].

Capital flows, rather modest until the 1970s, went up at a very fast pace especially in the closing decade of last century. They have become the most visible manifestation of the acceleration of the globalization process.

Migration is still well below the very high levels attained during the late 19th century. Nevertheless, in some areas it has been a considerable source of population increase and a source of friction and internal discord in many others. As important as a source of friction is now becoming outsourcing. It can be expected to remain in the headlines at least through the coming presidential elections in the United States next fall.

Diffusion of technology has been also very significant for most regions in the world but not so its effective utilization where the complementary inputs and social capabilities have been absent.

The vastly enhanced speed in the transmission of information and shocks and the increased degree of worldwide competition seem to have resulted in an increased perception of uncertainty. At the same time, and partly as a result of the preceding, the willingness to take risks has declined. This may prove to be highly significant for less developed countries still at the verge of the industrial system.

Much of the dissatisfaction with globalization is related to the wide or even widening disparities in income among and within countries. One of the main findings of this contentious and not always consistent literature is that the relation between openness, integration and inequality has not remained unchanged over the last two centuries and across all continents. According to DeLong and Dowrick (2003) all the
observed rise in income inequality over the last two centuries was driven by gaps between nations and almost none by widening gaps within nations. Lindert and Williamson (2003) make a strong argument that globalization has probably mitigated the raising inequality since 1950, or even since 1820, among participating nations, while non-participants fell further behind.

The number of countries participating in all or most of the trends above is now much larger than it was during the first wave of globalization and reaches down into much lower relative incomes than was the case then. But, it is far from being universal. With China and India joining the group of globalizers the majority of the people in LDCs are now, through their nations, participants in the process. However, for a large number of nations particularly in Sub-Saharan Africa and the Middle East, globalization remains an alien force feared or mistrusted rather than the best and often only vehicle for escaping underdevelopment.

To address the issue of whether globalization has gone too far we need a definition and a yardstick of how much is enough.4

The principal economic manifestations of the process of globalization are the growth and integration of world markets. How should we measure this process? Here we find two main approaches in the literature and both raise important issues, particularly when applied to LDCs. Simplifying somewhat we can say that one relies on prices and the other on quantities, and both attempt to identify the integration for the

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4 The IMF’s World Economic Outlook (1997) gives a good working definition that considers both aspects of globalization, namely, integration and the increase in volume of transactions:
“Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.” [IMF, 1997, p. 45].


whole world, for regions, or for the most important countries in the case at hand\(^5\). The first approach looks at the extent of market segmentation for homogenous goods and factors, while the second focuses on volumes of international transactions -- trade shares, capital flows, migration rates and so on. Complete market integration where all price differentials are arbitrated away is compatible with a very small volume of transactions. But the interest in the process of globalization certainly extends beyond the determination of whether the law of one price holds or not. A large and increasing volume of transactions and interactions beyond the national borders have implications for interdependence among nations, for opportunities and potential vulnerability of nations. We will consider therefore both, price integration and the volume of trade.

3. Market integration -- price differentials

A useful starting point for analyzing the extent of market integration is to ask why markets are not perfectly integrated. Why does it matter whether goods are home made or foreign? The immediate cause, as Samuelson (1952) noted more than 50 years ago,

“… is rooted in non-zero transport costs – in the most general sense of the term inclusive of all impediments to trade and imperfections of competition.” [p.292].

This wide definition corresponds to what today we would label transaction costs. Without such transaction costs

“... the place of origin of a good would be completely a matter of indifference to the consumer. Patterns of

\(^5\) See Laffer (1975) for a similar classification for measuring macroeconomic integration.
consumption might differ over the globe, but there would be no reason for these differences to be correlated with the geographical pattern of production” [ibid, italics in original].

Complete global integration then makes the share of trade in GDP indeterminate, a point not always appreciated by leading economists. With high enough transport and other costs of transacting every location must supply its own demand – consumption and production become perfectly correlated across geographic units.

The secular fall in transaction costs has been the principal determinant of the growth and integration of the world economy. Probing a bit into this quasi-tautological black box we can classify all transaction costs into five, more identifiable, main types:

a) transport costs,
b) policy restrictions on the operation of markets – primarily protection [tariffs and non-tariff barriers (NTBs) to trade],
c) policy or customary prohibition of trade,
d) costs that arise because of uncertainty and asymmetric information such as exchange rate volatility, and costs of policing opportunistic behavior by economic agents, and,
e) costs of trade related to discontinuities in, among other aspects, language, culture, legal systems, religion, and ethnic composition. These add to freight charges other costs related to “distance” and explain the persistence and strength of border effects beyond that of distance.

Most of the literature on globalization focuses only on transport and protection costs. Studies in economic history

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6 Thus Frankel (1999, p.52) in his comment on Bordo, Eichengreen, and Irwin (1999), argues that with complete global integration “...The share of trade in U.S. GDP would be the same as the share of non-U.S. output in gross world output.”

7 Lal (2000). See also Greif (1994) on culture and institutional structure as related to such costs.

8 See Breier and Bergstrand (2001), Lindert and Williamson (2003), and references there.
and development in discussing the emergence and the spread of markets consider also some of the costs related to premodern restrictions on markets and to the discontinuities of distance and borders.⁹

To infer about market integration we can now look at the evolution of transaction costs or directly at the narrowing (if any) of intercountry price differentials or at both simultaneously. Extensive research in economic history has focused on the emergence and spread of commodity and factor markets and the uniformity of prices across geographic units (within and between countries). These studies [as summarized in Persson, 2002] show that throughout most of history, markets were segmented as evidenced by large price differentials and a large sensitivity to supply shocks. From the end of the 15th century we observe a dramatic decline in the volatility of prices as a result of the spatial integration of markets. Market efficiency, defined as spatial price differentials which do not exceed transport and transaction costs seems to be a recent exception rather than the rule in history. The main factors behind the spectacular increase in speed of adjustment are developments in information and transport technology.

For more recent periods some studies have tried to account for changes in globalization in terms of some proximate sources. Baier and Bergstrand (2001) studied the growth of trade among OECD countries during the period late 1950s – late 1980s, and concluded that tariff reduction was three times more important than reductions in transport costs during this period. Lindert and Williamson (2003) focused on price gaps between the European and American continents for three distinct epochs between 1820 and 2000. For the last half

century they document an enormous decline in price gaps (-76%) accounted for by tariff reduction (74%) and cheaper transport (26%) in almost identical proportions as in the rather different study of Baier and Bergstrand (2001). The first wave of globalization during the 19th century also witnessed a very substantial degree of market integration. The relative importance of the sources in that case, however, was very different than during the more recent wave: cheaper transport was the main mover with the drive to “free trade” a distant second.

Transaction costs have gone down and with them price gaps have also narrowed considerably. But, if by integrated markets we mean that the Law of One Price holds then clearly segmentation still predominates and this in spite of the very large decline in transport costs over the last 150 years. This is the case even in the European Union where wide differences in prices persist even after the introduction of the common currency as shown in Bradford and Lawrence (2004). In their study of market integration in nine OECD countries Bradford and Lawrence conclude that market fragmentation among industrial countries remains considerable -- the differences in prices charged far exceed transport costs. The study analyzed differentials in producer prices thus avoiding the common problem of data that refer to consumer prices including distribution margins which reflect nontraded inputs. The following table reports their measure of fragmentation for four countries in 1990 and 1999. The measure gives the expenditure-weighted ratio of producer prices to landed cost of goods from the country with the lowest producer price in the nine countries. Of the four the United States is the more integrated to the world economy and Japan the least. Changes in the measure of fragmentation during the “roaring nineties” are negligible. If similar data were available for LDCs it would
probably show much higher measures of fragmentation there except for the most globalized economies.

**Measures of “fragmentation”**

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1.39</td>
<td>1.29</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.41</td>
<td>1.50</td>
</tr>
<tr>
<td>Japan</td>
<td>1.67</td>
<td>1.61</td>
</tr>
<tr>
<td>United States</td>
<td>1.16</td>
<td>1.15</td>
</tr>
</tbody>
</table>

*Expenditure-weighted ratio of producer prices to landed cost of goods from the country with the lowest producer price in the nine countries.


4. Volume of trade

The classical view of international trade as an engine of growth is consistent with a variety of secular trends in the ratio of trade to production. This section presents various pieces of evidence with bearing on the subject. Collectively they document the vast increase in intercountry interdependence but strongly suggest that the process has not reached its high point.

4.1. The volume of trade in trade theory

Surprisingly, there is not much in the economic literature which is mostly concerned with the commodity specialization of trade rather than with the volume of trade. Differences in endowments and other characteristics are
conducive to trade while similarities diminish the basis for mutually beneficial exchange. In the last decades, spurred by efforts to account for inter-industry trade, new approaches have emerged that consider trade in similar but differentiated commodities, primarily manufactured and mostly among higher income countries. These approaches have some implications for the volume of trade derived from highly stylized models. These implications have not been confronted much with data. The results from these simple models offer some suggestions about the volume of trade primarily for cases where the North specializes in differentiated manufactures and the South on resource intensive commodities. As a guide to globalization and as an answer to questions about how fast has been the increase in the trade ratio and what should we expect for the future this literature is of little help. An important paper bearing on the issue is Treffler’s (1995) “case of the missing trade”. In it Treffler shows convincingly that the implied level of trade in factor services derived from a standard Heckscher-Ohlin model is much smaller than its factor-endowments prediction.

4.2. The volume of trade in development

Variations in the trade ratio over time will depend, among other factors, on the nature of technological change, on factor accumulation, on the pattern of demand and on commercial policy. Research on patterns of development has shown that the trade share in income i.e., the volume of trade, is highly correlated with the size of the economy and the availability of resources [Kuznets, 1967; Syrquin and Chenery, 1989]. Small countries have larger trade shares than large

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10 For an exception see Helpman, 1987. See also Deardorff (1998) and Hummels (1999) for references.
countries and resource rich countries tend to have relatively large trade shares but mostly dominated by primary exports. Resource poor economies, at low levels of development, usually report low trade shares. However, in the last 30-40 years, a number of these resource poor countries managed to significantly raise their trade shares by pursuing outward oriented policies and successfully developing manufactures for exports. Failing to explicitly consider the variation in size, availability of resources, and trade policies pursued, and focusing solely on aggregate trade ratios can result in the absurd inferences such as Sub-Saharan Africa being the most globalized region of the world given its high average trade share.

Perkins and Syrquin (1989) mention among the reasons for the negative association between foreign trade ratios and size: a) location considerations closely linked to transport costs, b) advantages of economies of scale enjoyed by large nations, c) deliberate policy choices favoring import substitution in large countries, and d) reasons affecting trade in primary products, which I now elaborate. Looking first at trade in minerals and fuels we find that large countries (in terms of geographic size) are likely to have a wider range of mineral deposits than small countries. This reduces the likelihood that they will have to import minerals. If these economies are also large in terms of production the minerals are likely to be demanded internally and are not likely to be exported in huge amounts. Low levels of primary exports therefore, do not necessarily indicate limited availability of resources. Among the 15 largest countries in 1980 (in terms of population), primary exports as a share of GDP were sizable only in two: Indonesia and Nigeria. Petroleum surpluses in these countries reflect more the limited domestic market given their very low level of development, than vast oil reserves. At low income
levels the abundance of natural resources overwhelms the effects of large size leading to a high primary export share.

The primary export share tends to decline with the level of development. In large countries the decline takes place at relatively low income levels, reflecting probably a shift in comparative advantage from natural-resource based products to those based on increasingly abundant human and physical capital, namely manufactured goods. In small, resource-rich countries, the share of primary exports does decline eventually, but only after the country has achieved a relatively high income level. This presumably rests on some kind of “vent for surplus” explanation. Small nations have highly skewed endowments of natural resources and therefore find it difficult, even at fairly high per capita incomes, to make use of more than a fraction of their total output of primary commodities.

The share of manufactured exports varies much less with size. The composition of trade also reflects the availability of resources. One simple measure that combines the sizes of the geographic area (or arable land) and population, and obviously reflects factor propositions (land to labor) is the nation’s density as measured by the ratio of population to total or arable land area. As shown in Perkins and Syrquin (1989) density has high explanatory power with respect to the export of both primary and manufactured exports, but particularly the latter. Greater density is associated with a higher share of manufactured exports in GDP and a lower share of primary exports. On the import side it leads to a rise in the shares in GDP of both primary and manufactured goods. These results reflect the workings of comparative advantage. A nation with high density has lots of labor relative to the few natural resources. At higher per capita incomes, manufactured exports, which are labor and capital intensive, make up a larger share of GDP than in countries with a lower
density of population. Whatever natural resources a country possesses are increasingly required at home and hence are unavailable for export. Instead, the more densely populated a country is, the greater are its imports of primary products. These effects can be observed even at high income levels. Japan, for example, is a nation with one of the highest densities in the world. Its exports in 1980 were almost exclusively manufactures while its imports were made up mostly of primary products. The United States, in contrast, despite its high per capita income, earned a third of its export income from the sale of primary products. As a region, Latin America has one of the lowest densities of population in the world; in Asia the population is ten times as dense as in the large countries of Latin America. Density by itself can account for most of the difference in export composition between Asia and Latin America.

I return to the share of trade after discussing some related approaches of relevance to the volume of trade.

4.3. Borders

Globalization, as measured by quantities or prices, has increased rapidly exceeding the high levels achieved before World War I. However, in most dimensions it falls short of theoretical expectations. This appears in a number of “puzzles” about an observed “home bias”\(^\text{11}\). One such puzzle is the “border effect”. Helliwell (2000) summarizes his own studies and that of others on the subject. The main result is that even after controlling for distance and other relevant variables, Canadian provinces trade much more intensively with each

\(^{11}\) Six such puzzles were recently discussed by Obstfeld and Rogoff (2000).
other than with US states of comparable size. Borders matter a lot and the Nation is not a vanishing construct. The results for the US-Canada comparison have been replicated for various other regions and groups of countries. For developing countries the estimated effects are much higher still and show a strong inverse relation with GDP per capita, that is, the lower the income the more significant the border effects are (Helliwell, 2000, p. 50). Distance refers to geographic distance among countries. It has long been recognized that there are other dimensions to the distance between nations and peoples: income, language, culture, legal system, currency, etc. Most of these have been shown to combine with geographic distance resulting in a more pronounced border effect.

4.4. Distance

The gravity equation has been used as a framework for explaining bilateral trade flows, where distance appears as a proxy for transport costs and any other friction and resistance for goods to move in space. A very robust finding of the large number of estimated gravity equations is a significant negative impact of distance on the level of bilateral trade. With the decline in transaction costs the importance of distance should have declined over time. This, however, has not been the case. Reviewing the literature in 1995, Leamer and Levinsohn (1995, pp.1387-88) noted that “... the effect of distance on trade patterns is not diminishing over time. Contrary to popular impression, the world is not getting dramatically smaller.” This finding has been replicated by various authors and confirmed recently in a broad meta-analysis of 51 gravity models by Disdier and Head (2003).

The refusal of distance to go out quietly or even shrink was recently examined by Carrere and Schiff (2003). In that study the authors computed for a very large sample of
countries in 1962-2000 their average 'distance of trade' [or DOT] defined as the trade weighted average distance between a country and all its trade partners. Their principal finding was that “... the DOT falls over time for the average country in the world, with the number of countries with declining DOT close to double those with increasing DOT”.

5. The declining share of trade hypothesis

In this section I concentrate on what is probably the most widely used measure of globalization, namely, the share of trade in total output.

Several economists, beginning probably with Torrens\textsuperscript{12} in 1821, predicted that the benefits of international specialization in production would gradually disappear with the spread of industrialization to agricultural countries. In addition, the remaining exchange would be conducted at progressively unfavorable terms of trade to the industrial countries because of diminishing returns in the production of primary goods. At the beginning of last century, Sombart\textsuperscript{13} elevated this argument into an historical law of the "declining importance of international trade". During the Great Depression years, when international trade suffered its greatest reversal in modern times, the declining-share-of-trade thesis found support among the most prestigious (British) economists of the time: Robertson (1938) expected the gap of comparative advantage to narrow leading to

"... a state of affairs in which there is a relatively large volume of foreign trade trembling, as it were, on the margin of advantageousness, and liable to he blown to one side or the

\textsuperscript{12} Quoted in Lipsey (1963).
\textsuperscript{13} Cited in Deutsch and Eckstein (1961).
other of that margin by small changes in the wind of circumstance" (p. 505).

Earlier, Keynes (1933) noted that from the demand side, trade could also be expected to decline in importance as highly income-elastic nontradables (services) increased their share in output. As for commercial policy, he went further than Robertson and advocated a greater measure of self-sufficiency which "... may tend to serve the cause of peace" (p.758).

The implied trends that would lead to a declining share of trade did not always agree with the facts. Sombart's generalization was based on the premise that the main source of trade was the division of labor between agricultural and industrial countries. Back In 1945, Hirschman presented convincing evidence to dispel the belief that most of the flows of trade were in the form of exchange of manufactures against primary products. Around the same time Viner (1946) claimed that the narrowing gap thesis was not borne out by the evidence. "If the differences of 'efficiency' between countries in manufactures are small, why is it that it tends to be the high-wage countries who command the export markets?" (p. 517).

Regarding the large income elasticity of nontradables, he added that "Greater wealth tends also to develop the demand for greater variety" (p.521) and that transport costs are smaller in proportion to value for quality goods than for the staples consumed at lower income levels.14

Writing in the early 1960s Deutsch and Eckstein (1961) analyzed the data for several developed countries between the end of the nineteenth century and 1959 and con-

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14 The reorientation of development strategy towards “inward looking growth" advocated by Prebisch and the Economic Commission for Latin America, (1950) was similarly based on long term trends which were not always borne out by subsequent events. In this case the reason was the secular deterioration in the terms of trade of the developing countries
cluded that the ratio of foreign trade to national income had indeed declined for most of the North Atlantic countries. As for the future they added that "... it seems plausible that the ratio of foreign trade to national income will continue to decline in many countries, and for the world as a whole, for some time to come" (p. 295). Shortly thereafter, Kindleberger (1962) suggested that the trade ratio tended to rise in the early stages of industrialization but concluded, quoting Deutsch and Eckstein, that "... while the existence of a law of declining foreign trade has been established for developed countries only very weakly, it nevertheless exists." (p.183).

The generalizations and predictions of Deutsch and Eckstein were based on common held perceptions of the process of development and of the evolution of the political economy of development. They reflected the experience of the depression years, the war and the immediate post-war and reconstruction period as well as a view which can be described as “structuralist”, that is, one that presupposes low income and price elasticities and limited possibilities of substitution in production and consumption, plus export pessimism. It was a combination of observation and assumptions that lead towards a preference for inward oriented development with a heavy dose of central direction and planning. Deutsch and Eckstein’s main hypotheses on the basis of observed trends were that in the early stages of industrialization, the trade ratio is apt to rise as the economy becomes more commercialized, and essential capital goods and materials need to be imported. At this stage domestic expenditures on social overhead capital, education, housing, etc. tend to lag. After a point, as industrialization accelerates, the domestic sector would be expected to catch up, slowing the rise of the trade ratio and eventually leading to a decline as the service component of national product tends to rise. The technology of advanced industrialization was seen by Deutsch and Eckstein to be one of substitutes (import
substitution). They further assumed that advanced technology increases the importance of refining and finishing stages in the processing of raw materials leading to a fall in the trade ratio. Finally, assuming advanced countries to be increasingly vulnerable to economic instability, they inferred that this would generate political pressure for control of the economy. “Governments thus find themselves impelled to extricate as much as possible of the national economy from a world market that they cannot control” [p.298].

The analysis of Deutsch and Eckstein was not atypical for the times (late 1950s). However, even as the article was being published the conditions had altered significantly. Their forecast did not materialize because they were assuming excessive rigidity and, in general, a lack of substitutability in the economic system. Growth accelerated but import substitution was replaced in most areas by export promotion in a more benign international environment. Advanced technology did not increase the importance of the finishing stages; the ratio of intermediate inputs to output (as measured by input-output tables) increased in fast growing countries. Services did rise faster than commodities but the tradability of commodities was even larger [see below] and in addition the dividing line between tradables and nontradables kept shifting and enlarging the set of tradable items. Services has been the fastest growing item of trade. Governments did not attempt to extricate the national economy from world markets but, on the contrary, eagerly saw the increased participation on those markets. Finally and most important, Deutsch and Eckstein missed completely the vast expansion of trade in differentiated commodities (intra-industry) which has come to account for the largest share in the expansion of world markets.
6. Threats to the global economic system

6.1. Excessive speed?

It would be difficult to argue that globalization has proceeded to far. Has it been too fast? At times, yes. The mechanisms for accommodating disruptive change are not always in place or do not operate smoothly. Global public goods (global warming, terrorism, etc.) seem to have become more prevalent but less amenable to deal with given the absence of effective global governance and the apparent abrogation on the part of the US of its role as leader and guarantor of the liberal order. Not much help from Europe on this issue, but then Europe does not pretend to hegemony status. The unresolved conflicts could evolve into a wide opposition to globalization irrespective of whether the available and untapped absolute gains from trade are still large. Institutions tend to lag behind rapid economic and social change that requires their intermediation. The first wave of globalization came to an end with the outbreak of the first world war. A strong backlash movement arose in response to inequality, mass migration, and instability. The disruption to global integration which continued during the interwar period lead to institutional innovations after 1945 to deal with the institutional and informational impediments at the root of those problems, as argued by Bordo, Eichengreen, and Irwin (1999). The authors also highlight the importance of escape clauses, such as Article XIX in the original GATT 1947, which appear irrational except that they may be the glue holding together the fragile process.
6.2. Global public goods - stability

Kindleberger, in his study of the World in Depression (1986, p. 289) argued that the severity of the 1929 depression was the result of an unstable international economic system itself the result of “British inability and U.S. unwillingness to assume responsibility for stabilizing it..” by maintaining an open market for distressed goods, providing stable long term lending, policing a stable system of exchange rates, ensuring coordination of macroeconomic policies, and acting as a lender of last resort. The international economy seems to need a hegemonic power willing to undertake the institutional innovations which are global public goods benefiting not just other countries but ensuring the continuation of the process with positive outcomes for the hegemon itself and for its ability to continue as such. As mentioned, during the first wave, UK played the role, in the interwar period UK couldn’t anymore and US wouldn’t yet; after 1945-50 the US reluctantly has been playing it with many hiccups along the way. Until the late 1980s the cold war gave coherence to a western alliance underwritten and lead by the US. Locally Japan started to emerge in a similar role and, within Europe, France for the rhetoric and Germany for the required stability and finance without which the EU would have stalled. After 1989 the US continued engagement as an economic leader was, spurred maybe by economic competition/challenge to its otherwise unchallenged military position [Japan and now China which may prove to be the more serious one]. A turn inwards would be as or more damaging than the street protests.

6.3. Costs of closure or of insufficient integration

The underlying sources of globalization are those that propelled the growth of productivity and structural change:
rapid technological changes in production and transportation, and other processes that combined to expand the size of markets and to reduce the cost of transacting in them. The costs of closure [opportunity costs] will only go up with time and reentering the global economy after a period of de-linking will prove to be much harder as time goes by. The greater the price divergence between autarky and free trade the greater the gains from trade [Krueger and Sonnenschein, 1967; Corden, 1984]. As a corollary we can suggest that failure to open up to trade in a fast globalizing world may increase the wedge between domestic and world prices and thus the (opportunity) costs of remaining closed. The decrease in the costs and increase in the rewards of international exchange has made it more costly for autarchic economies to continue refraining from joining the process (see also Frieden and Rogowski, 1966).

6.4. Retreat from the rationalistic outlook

There is a close relation between Modern Economic Growth MEG and globalization (see Kuznets, 1966, and Syrquin 2002). We can not conceive of globalization, not even the earlier wave during the 19th century, without industrialization and urbanization, the hallmarks of MEG. But MEG is not a yes/no decision. It requires, as a minimum, institutions and an ideology suitable for the enlightenment or modernity project. The same one that also brought us two world wars before reforming itself into the lofty experiment of creating a united Europe.

Embarking on the process of MEG poses a not trivial dilemma. It requires domestic market integration, integration into the world economy, transformation of predatory regimes into development oriented ones, true universal education encompassing also girls (even today a tragically wasted
resource in many parts of the globe). It also presupposes a secular outlook that emphasizes the possibility of reaping the fruits of the development effort here, in this world; but at the same time also recognizes man and woman as created in God’s image and therefore the sanctity of life. Still, big challenges for vast continents.

Respect for local cultures and practices is important, however, we need to recognize openly that on occasion they may be incompatible with the attitudes suitable for MEG. A (random) recent example from the press. Nigeria is today one of the hotspots of polio but, unfortunately, also a challenge to eradication. Immunizations were stopped in (Muslim) Kano when religious leaders and others charged that the immunization could spread AIDS and lead to infertility. True, the US (among other developed nations) has its share of UFO believers and so on but they would seem to be more fringe occurrences and, at its stage of development, the economy can afford them with greater ease.

A final (collective) mea culpa. The protests against globalization reflect in part the failure of economists in disseminating the logic of Ricardian comparative advantage and the benefits of markets. Economic textbooks spend more time with market failure than with the benefits of specialization and exchange. In part this may be due to lack of conviction.

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