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The Race to the Center and Other Lessons of Globalization

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An Interview with Kenta Tsuda
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Jagdish Bhagwati is a professor of economics and law at Columbia University and senior fellow in international economics at the Council on Foreign Relations. His publications include The Economics of Underdeveloped Countries *and* In Defense of Globalization. *He is the founder of the* Journal of International Economics *and* Economics & Politics.

***Brown Journal of World Affairs*:** Your 2004 book *In Defense of Globalization* is critical of conventional, abstract approaches to international economics and politics. What are the problems with these conventional attitudes?

Jadgish Bhagwati: I have nothing against abstract argumentation; after all, much of my scientific work in economics is theoretical and therefore abstract much of the time. In my book, however, I was trying to examine the many claims made by concerned students, non-governmental organizations, several faculty in literature and sociology but only a handful in economics, against economic globalization on the dimension of its social implications. This required drawing on abstract reasoning, historical experience, empirical argumentation, and indeed arguments and evidence from a variety of disciplines other than just economics. It also meant writing in a manner that would be accessible and attractive to many—an art that I am afraid economists do not possess or practice today.

Thus, regarding concerns that globalization harmed the admirable objective of reducing child labor, I had to examine the precise claims so made; the historical experience on the reduction of child labor in the industrialized nations and its abominations during the early industrial revolution in England as documented by Chadwick and

Engels; the growing econometric evidence that shows how trade liberalization reduces the use of child labor by increasing parents' incomes who then act virtuously by sending some children (including girl children) to school rather than to work; economic arguments that explain such virtuous behavior by invoking the evidence on returns from education and on credit constraints facing poor peasants, et cetera. I concluded that globalization was generally good, not bad, if you wished to reduce the incidence of child labor. By repeating such detailed analysis for virtually every social concern (e.g., the effect of globalization on women's wages and other gender issues) I came to the conclusion that globalization had a human face; it did not lack one or need one, as many critics feared.

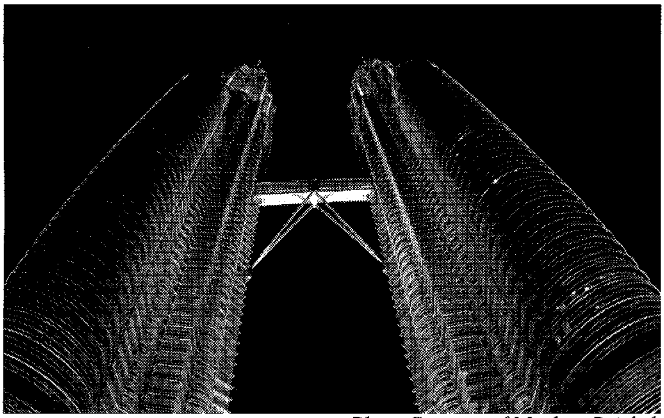

Photo Courtesy of Matthew Reichel

The Petronas Towers symbolize the promise of globalization.

Journal: Are the concerns voiced by the 1999 World Trade Organization protestors still valid?

Bhagwati: The issues relating to the social implications of globalization will not go away. True, they are currently at a low key in terms of public demonstrations, but this is partly because they are already being discussed, and the time has come not to flag these issues, but to flog them (i.e. to see what the truth of the matter is and what policy action may be necessary to advance social agendas, once you have sorted out the truth of the matter). I would stress that the policy agenda must reflect a comprehensive, coherent view of the globalization process and cannot be attempted on a scattershot basis as many do.

But today, the emphasis has shifted from the anti-globalization critics who were interested in altruism, based on empathy, to the critics who proceed from self-interest, based on fear. Ironically, the U.S. scene, and also the German, and even more the French, is now marred by the growing sentiment that the United States cannot compete with India and China, and also that the pressure on our wages and on the middle class is explained by globalization that includes trade with the poor countries and unskilled immigration from them, and that we must therefore raise the labor and (domestic) environmental standards in the poor countries closer to ours. These demands are obviously inspired by the desire to raise their costs of production to moderate competition—what we economists call "export protectionism," as distinct from conventional import protectionism which moderates foreign competition for our firms by the imposition of trade barriers. This trend is dangerous because it is both non-transparent (as few understand that it is protectionism) and it is also insidious and more devastating in its impact because it is across the board whereas import protectionism is confined to specific sectors, like textiles and steel. It also disfigures public debate, and is invidious to boot because the self-interest and fear that underlie it are masked in the language of altruism and empathy. Just google and see what the new Democrats in the latest U.S. election have been arguing on these issues both during the election and after.

The sad thing is that the fear of competition from low-wage poor countries, especially India and China, is mistaken. But the analysis must now receive far greater attention, and the new edition of my book will carry an extended afterword which draws attention to this fear-driven set of anti-globalization criticisms and the lack of credibility (in terms of analysis and evidence) of the assertions that globalization is the source of the cap on our workers' wages.

***Journal*:** How do you account for changes over recent decades in the ways in which developing states make economic policies?

Bhagwati: Fifty years ago, many of us were returning from Cambridge, Oxford, and London School of Economics, schooled into thinking that the state had to play a comprehensive role. The only question was whether the state should do that gradually (i.e., Fabian socialism) or quickly (i.e., radical revolution).

For example, should the state gradually increase the share of public enterprises by biasing new investments into the public sector; or should the State nationalize the existing private sector enterprises?

Aside from the fact that many of us were simply practicing what we had learned, there was also the fact, noted by the great economic historian Alexander Gerschenkron, that when you come in from behind, you always wind up thinking of state action as being necessary to "catch up" with nations that are ahead. In addition, when there are many scarcities, it seems counterintuitive to think that several things should be left to the market. To ask for thoughtful and selective action instead of knee-jerk interventionism in such circumstances seems about as counterintuitive as the advice I got when I started driving under snow in the United States: when you are skidding, steer in the direction of the skid!

After almost half a century of actual experience, we have now come to understand that we have to approach the role of the state pragmatically. Yes, the state has an important role; but it should not get into everything. So, we have moved pragmatically, in light of our undoing, from a near-ideological and indiscriminate expansion of the public sector and state intervention to the center. Although my colleague Joe Stiglitz talks of the rise of "market fundamentalism," I find that we are coming from "interventionist fundamentalism" to the center, *not* going from the center to market fundamentalism.

The other respect in which developing countries' policy makers have moved away from earlier policies is in regard to their fear of trade and inward investment. In an ironic reversal, the poor countries, which were afraid of integration into the world economy in the 1950s through 1970s now want to reap the benefits of globalization; the rich countries, which were busy lowering trade and investment barriers then, are fearful now, as I have remarked. There are indeed some, as always, who are stuck in the poor countries in the follies of the earlier anti-globalization attitudes, but I dare say their influence is exaggerated.

Journal: Did external pressures lead to these changes or internal developments?

Bhagwati: A lot had to depend on reforming countries on internal dynamics and what I call "learning by undoing." Just as Gorbachev started down the path of Russian reforms because he had decided that things could not go on as before and that the Soviet Union was steadily going downhill despite high investment rates, India and China, whose policies reflected autarky and excessive intervention (communism required it in China whereas India chose it because of bad economics), moved away from these policies that had produced low growth rates and therefore minimal impact on poverty: after all, stagnant economies cannot pull up the poor into gainful employment!

Was *gaiatsu* [foreign pressure, in Japanese] helpful? Not really. These dramatic changes took place without any real pressure from outside: both China and India are too big for anyone to push them around. Foreign examples, in the shape of the enormous success of the Far Eastern economies who took advantage of globalization (among other good policies), also played a role in India.

South America also changed because of internal dynamics as many of the states turned to democracy and globalization, turning their backs on a dismal past. But their growth has been stymied by excessive borrowing, so they have gone through cycles of rapid growth and steep declines. Many have this lingering sense of having been pressured by the IMF and the United States into making reforms that have not worked. But this is pathetic scapegoating for the most part. For example, the Currency Board that collapsed was not exactly imposed on Argentina, and the IMF had long cautioned Argentina on its perils. So Argentina jumped off the balcony; the IMF did not push it off. Besides, it must be noted that the frequent assertion that the shift to "neoliberal reforms" has not worked in South America is not persuasive. Chile, whose trade and investment policies have been pro-globalization, and whose external borrowing has been prudent, has had an almost steady growth rate of over 5 percent for nearly 15 years; they are the exception that proves the rule.

And, as for Africa, the continent has regressed for a variety of reasons having to do with political governance, including civil wars and attendant corruption. But many of its leaders also want to benefit from globalization, and not just because they are being advised to do so by some foreign governments or aid agencies; their complaint is that globalization is passing them by, not that globalization is happening to them and they are being harmed.

Journal: A few years ago Fareed Zakaria argued that illiberal democracy worldwide poses a threat. As an economist, do you agree? Is "over-democratization" possible from the liberal perspective?

Bhagwati: At the outset, let me say that in the 1950s, we thought that democracy was a handicap for development because both Marxists and mainstream economists concentrated on the accumulation of capital as the engine of growth. So, authoritarian China was considered to be more promising for growth than democratic India because raising the rate of saving and investment would be easier in China than in India. But, as the postwar period unfolded, it became obvious that the productivity of investment was at least equally important. Here, the authoritarian regimes were handicapped and the democratic regimes would work better. So, the thinking on democracy and development has changed; and I wrote about this for the Rajiv Gandhi Memorial Lecture I gave in 1993 in India.

So, today, the consensus among development economists is that development is a powerful cocktail made of three strong liqours: first, a willingness to take advantage of the world economy in terms of trade and equity inflows, instead of rejecting globalization through fear; second, a judicious use of markets; and third, a full embrace of democracy which also reaches out to minorities and women. China has the first two but lacks the third. India had the third but lacked the first two. Whether China will be able to shift to democracy is the question on everyone's minds. That India, after its economic reforms starting intensively in 1991, is well on its way to having all three ingredients now gives it the long-term edge.

Should my thinking be modified by Zakaria's thoughts on illiberal democracy? I do not think so. I think he poses the wrong contrast. A participatory, liberal democracy is surely better than one that is not. But the latter is still better than an authoritarian regime. When an election is virtually an illiberal sham, everyone knows it! It carries little credibility and Zakaria's concerns are not persuasive. Moreover, the very fact that elections must be held will often leave open the possibility of shifting the regime, ever so slowly, in the direction of liberal democracy and its institutions such as a civil society and elements of a free press. So, give me democracy any day.

***Journal*:** Noticeably absent from your 2004 book on globalization was any mention of the Iraq War. Can globalization be discussed without reference to the defining political events of the age?

Bhagwati: Obviously, political cataclysms can overturn economic analysis. But frankly, what can even political scientists and international relations specialists tell us about where the Iraq War will lead or about other political upheavals? We economists therefore abstract from such possibilities unless they are manifest and predictable.

Take an example. As economists, we are able to say that opening up an air route between Boston and New York will augment trade and transport possibilities and therefore should add to our prosperity. But then it also led to 9/11 with the planes from Boston crashing into the twin towers. Does 9/11 then mean that the opening of more air routes is not good or that economic analysis cannot proceed on the assumption that economic processes are not sometimes harnessed or exploited to produce wicked outcomes?

Where the wicked outcomes are within the scope of our economic analysis, we certainly ought to consider them. Thus, in my globalization book, I do discuss how Mexicans were decimated by the arrival of the Europeans bearing both trade and germs. I also discuss trade in "bads" like heroin and hazardous materials. And indeed much else of that nature. But I keep away from including in my analysis the "great political events of the age" in the broad sense you are asking me about. That is far too problematic and not susceptible to anything but the scenario-playing which goes on in some think-tanks and within governments. And even that play often escapes the realm of reality as it develops. I recall war games that were played at MIT, years ago when I taught there, to create scenarios of how a war between India and Pakistan would break out and be fought. Over 200 such scenarios were developed. In the end, the war broke out over the atrocities in East Pakistan and Bangladesh was liberated and created at the end of the war; but this was not one of the scenarios that had been played! And few, if any, anticipated how badly the second Iraq War would wind up because the success of the first Iraq War deeply influenced their thinking.