

Perceptions and Realities of Globalization

By Jacob F. Kirkegaard*

The reality of “globalization” is a continuous economic process driven both by fundamental economic policy changes by individual governments and by technological innovation. New countries and sources of supply of and demand for an ever increasing number of goods and services are being integrated at an accelerating tempo into a hitherto OECD-centric global economy. As such, it is an inclusive process through which emerging countries like China and India join the developed industrialized nations as increasingly integrated “equal partners” in a now truly global economy. The fact that in the global IT services industry, for instance, Indian multinational companies such as TCS or Infosys are now—less than ten years after they first ventured outside India on any scale—competing head-on globally against established U.S. and European multinational companies like IBM or SAP for high value-added service contracts is testament to the novelty, speed, and broad scope of today’s globalization.

However, the perception of “globalization” among both European publics and certainly as expressed by many voters in America’s current election cycle is very different. Among large groups of the traditional middle classes on both sides of the Atlantic, “globalization” is rather perceived as a transfer of existing jobs, know-how, and wealth from developed countries to the new and rapidly growing economies in especially China and India. In other words, not an integrative process which new participants join, but rather a zero-sum type process of transferring “opportunities for an economically secure life” from one part of the world to another.

In recent years numerous public polls have documented how public support for free trade has plummeted, in especially the United States. While such polling is invariably heavily affected by the precise wording of the questionnaire—the words “globalization” and “free trade,” for instance, elicit a very negative response among the American public while conceptually largely synonymous notions such as “world integration” and “free markets” score far better—the political headwinds faced by supporters of globalization have become tangibly stronger. Whether it is expressed by *Die Linke* in Germany or blatantly protectionist (usually Democratic) members of Congress, increasingly elections are won on outright “anti-globalization” platforms. This is a big change from the 1990s.

Few voters probably truly like the kind of economic change that entails increased competition for their own jobs, even if they at the same time save a few percent annually on goods and services purchased and enjoy interest rates fifty basis points lower. Exponents of free trade and globalization therefore face a perennial political challenge of having to “sell a case” for a process of economic change that unambiguously enhances wealth and welfare in the aggregate, but one in which individual voter gains are small and very widely distributed, while potential losses are large and heavily concentrated.

Nowhere is this more pertinent than when the pros and cons of globalization are evaluated exclusively through the lenses of “jobs”; globalization is great if it creates jobs, and utterly unacceptable if it destroys them. While certainly recurrent in Europe, too, this view is expressed most strongly during elections in the United States. And that is no coincidence. The relatively less comprehensive and largely employment-based social safety net in America—where employees’ pensions and especially healthcare coverage are dependent on having a job—

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makes this inevitable. The loss of a job in the United States can often have both quick and catastrophic consequences for individuals. Americans out of a job might suddenly find themselves without access to required medical treatments. Given Europe's universal and overwhelmingly government administered healthcare systems, this type of destructive individual outcome potentially directly linked to globalization simply does not occur. Europe's universal healthcare systems thus provide a crucial protection for individuals against some of the worst fallout from globalization—a very personal safety net that remains missing in the United States.

And this is what has started to increasingly matter in the U.S. political debate surrounding globalization in recent years. The globalization process itself is hardly a new phenomenon—international economic integration and gradually freer trade has created both economic winners and losers for centuries. The laws of economics and comparative advantage remain very much valid today. But the version of globalization described at the beginning—one in which literally billions of new workers and consumers, as a result of dramatic policy U-turns in the world's most populous countries and technological innovation, are now able to compete—does up the ante and cause far more Americans and Europeans in new economic sectors and occupations to suddenly be affected. This twenty-first century version of globalization therefore does require a new political response to guarantee continued public support and the aggregate welfare gains it entails.

The new required policy response does, however, look quite dissimilar in character on each side of the Atlantic. As evidenced by both Germany's erstwhile Agenda 2010 and the EU's ongoing and broader Lisbon Agenda, Europe has—in fits and starts—begun to fundamentally reform many of its long-standing government and market institutions and introduce increased flexibility into its social model. In the face of globally integrating markets, this is an attempt by Europe's leaders to both raise the continents' economic growth potential and make this economic growth more inclusive by bringing into the economic mainstream many previously excluded outsiders among younger people, women, and immigrants.

U.S. policymakers face a different challenge. In response to global economic integration and the ensuing public anxiety, America must reform its domestic institutions in a manner that ensures that its public is more adequately protected against the worst personal outcomes potentially arising from globalization and the loss of a job. This means first and foremost a reform of America's ailing healthcare system. No candidate in this year's election can hope to restore public support for globalization without alleviating the increasing uncertainty of healthcare coverage and costs for America's middle class.

Another and longer-term challenge further increasingly looms for U.S. policymakers striving to reform America for the age of globalization—that of educational standards. America rose to global economic prominence and superpower status in the twentieth century on the shoulders of the most highly skilled and best educated workforce in the world. Now-aging baby-boomers—2008 is the first year in which Americans born after WWII can retire with a public pension—were the best educated workers in the world when they entered the U.S. workforce some thirty years ago. Building on earlier visionary policies like the GI Bill of 1944, college-level graduation rates for American baby-boomers reached almost 40 percent during this period, far exceeding the 20-25 percent graduation rates enjoyed by contemporary British, French, German, or Japanese baby-boomer generations in the late 1960s and 1970s.

As such, in the last part of the twentieth century, no one would have been in a better position to take advantage of precisely the trade liberalization and the opening up of global markets that globalization entails than this group of Americans. Sadly, the situation today looks very different.

Almost uniquely in the OECD (in fact only Germany is in the same wretched position) and the direct result of 30 years of educational stagnation, the college-level graduation rates among present day U.S. labor market entrants age 25-34 years of age is the same as that of their retiring baby-boomer parents aged 55-64. For the first time in perhaps a century, the natural entry and exits occurring in America's workforce will thus no longer result in a compositional improvement of the skill level herein.

Meanwhile, the rest of the world has not stood still. Over 50 percent of young Canadians, Japanese, and Koreans obtain tertiary education and today's American youth barely make the global skills top ten. Precisely at the time when globalization makes education matter more than ever, America's former lead is rapidly eroding. Without fundamental reform of the country's education system, it is increasingly uncertain that coming generations of Americans will reap the same vast economic benefits of globalization that their parents did. As a result, one should not be too surprised if their political support for globalization were to dampen.

Far-reaching domestic policy reforms are therefore required in both Europe and the United States to prevent today's public perception of globalization from causing a self-destructive political backlash against it. Strong political leadership will be required to address this issue before it becomes a crisis. So far in 2008, it has been lacking.

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