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Introduction

Today in the United States—and many other countries as well—there appears to be significant opposition to policies aimed at further liberalization of international trade, immigration, and foreign direct investment (FDI). A large number of political events in recent years suggest a marked turn away from liberalization, and many prominent observers have raised alarms about this "globalization backlash."

For example, in August 2000, Federal Reserve Chairman Alan Greenspan acknowledged that liberalization efforts had stalled and outbreaks of protectionism were a distinct possibility: "Despite extraordinary prosperity, the ability to move forward on various trade initiatives has clearly come to a remarkable stall . . . there remains considerable unease among some segments [of society] about the way markets distribute wealth and about the effects of raw competition on society. . . . It is quite imaginable that support for market-oriented resource allocation will wane and the latent forces of protectionism and state intervention will begin to reassert themselves in many countries, including the United States" (*New York Times,* 26 August 2000).

What exactly is meant by globalization? For our analysis, we define globalization as the increased integration of product and factor markets across countries via trade, immigration, and FDI—that is, via cross-border flows of goods and services, of people, and of capital linked with multinational firms. Our analysis excludes cross-border flows of financial capital; these flows have surely been important in recent years (e.g., exchange rate crises in Europe in 1992 and 1993 and worldwide between 1997 and 1999), but they entail many macroeconomic issues beyond the scope of our microeconomic analysis of individuals.

Figure 1.1 Globalization in terms of US imports and exports as a share of GDP

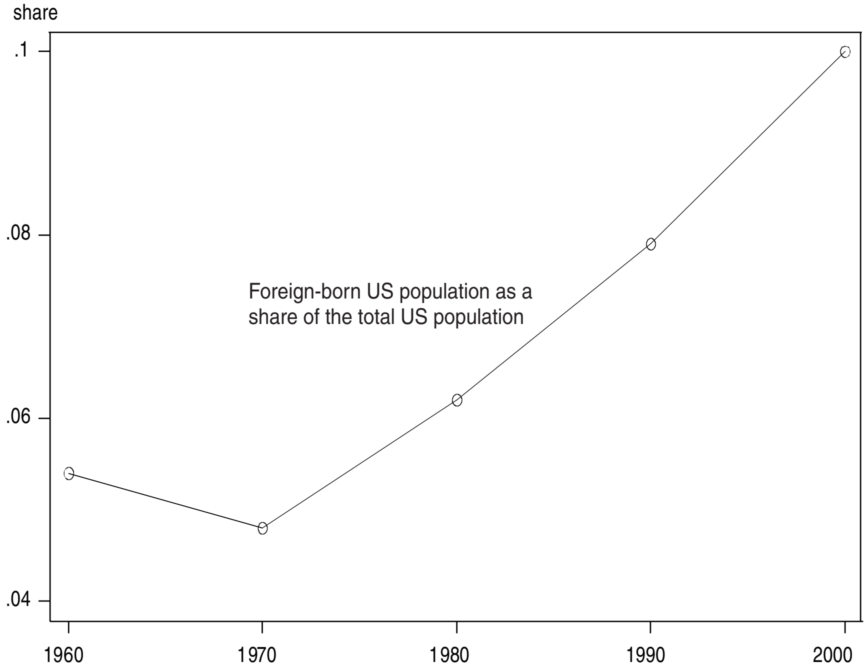
Source: Bureau of Economic Analysis, US Census Bureau. http://www.bea.doc.gov.

Note that we delineate globalization as an economic phenomenon. We acknowledge that a broader definition includes noneconomic elements such as culture and the environment (see Keohane and Nye 2000 for a discussion of globalization's many components). Our economic perspective highlights the role of labor-market interests and pressures in shaping perceptions of and preferences about globalization, a role that has been relatively underanalyzed. This is not to diminish the importance of noneconomic aspects of globalization, nor to deny the possibility of issue linkages between economic and noneconomic concerns. Indeed, in our empirical analysis we explicitly address how other, noneconomic issues may be related to individual preferences about economic globalization.

Figures 1.1, 1.2, and 1.3 offer three images of globalization at work on the US economy in recent decades. Figure 1.1 plots US exports and imports, each as a share of US gross domestic product (GDP). Figure 1.2 plots the share of the total US population that is foreign born, and figure 1.3 plots the market value of total US inward and outward FDI stocks, each as a share of GDP. All three figures show rising flows of goods and services, people, and multinational capital across US borders in recent decades.[1]

1. Note that figures 1.1 through 1.3 all show quantity evidence of market integration across borders. For many issues, economists think that price evidence is at least as important, if not more so.

Figure 1.2 Globalization in terms of US immigrant inflows



Note: Data for the year 2000 are estimated.

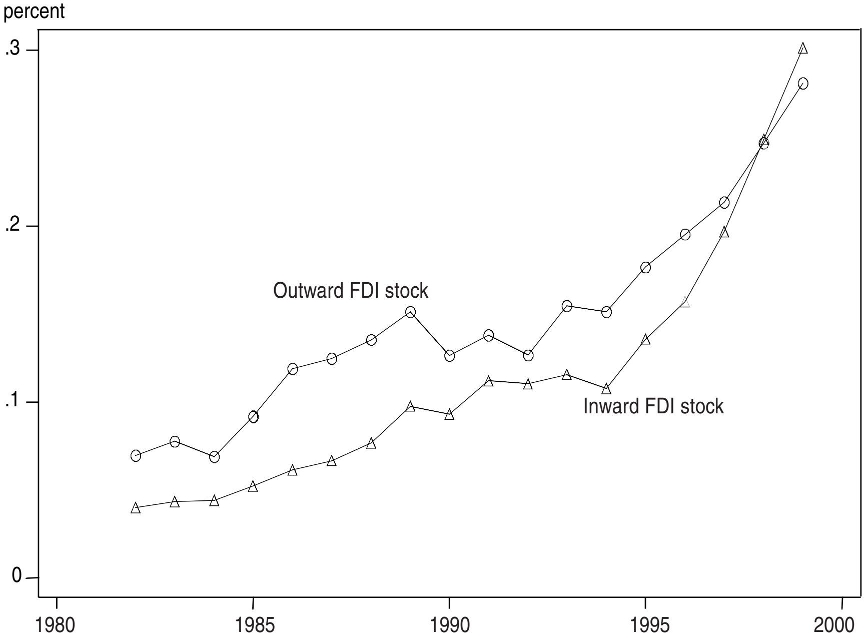
Source: Borjas et al. (1997, table 1).

What drives this process of globalization? In the models of economists, important forces include differences across countries in consumer tastes, production technologies, and factor supplies. But another key force in the process may be declining barriers, both natural and political, to cross-border flows. In recent decades natural trade barriers have declined thanks to advances in communications, information, and shipping technologies (e.g., fax machines, the Internet, and wide-body jets). What role have political barriers played? Some kinds of political trade barriers have fallen around the world in recent decades—for example, average tariffs, thanks largely to the General Agreement on Tariffs and Trade and other treaties.

Many other kinds of political trade barriers, however, have not been falling but instead have been holding steady or even rising. For example, antidumping filings have increased sharply in recent decades in the United States and many other countries (Prusa 1999). It is precisely this kind of political resistance to further policy liberalization that is often cited as evidence of a rising globalization backlash.

To make things concrete, here is a summary of several recent US events commonly cited as examples of the backlash. These events surely involved

Figure 1.3 Globalization in terms of US inward and outward FDI stock as a share of GDP



Source: Scholl (2000, table 2).

issues beyond globalization, but opposition to globalization seems to have played a prominent role in all of them.

- *Inability to renew "fast-track" negotiating authority.* The Trade Act of 1974 granted the president the ability to negotiate trade agreements with carefully delineated congressional oversight. Once the president reached an agreement in principle, Congress had to vote yea or nay on the agreement in a fixed period of time without the option of attaching amendments. Congress renewed fast track in 1979, 1988, 1991, and 1993. But in 1997, after pushing for a bill renewing fast-track authority, President Clinton asked House Speaker Newt Gingrich to kill House consideration of the bill after the White House concluded it did not have enough votes for passage. In 1998 fast-track renewal was again considered in the House; this time it came to a vote, but it was defeated 243 to 180, with over 80 percent of the president's own party voting against renewal.

- *Public protests over the 1999 WTO ministerial meetings in Seattle and over the 2000 IMF/World Bank annual meetings in Washington.* At both these meetings, tens of thousands of protesters representing a wide range of interest groups severely disrupted official proceedings (especially in Seattle), all with the attention of worldwide media coverage. At least 30,000 members of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) marched in various protest rallies aimed against freer trade. Trade was the central issue in Seattle; at the Washington IMF/Bank meetings, it was a major issue along with international finance issues such as external-debt relief for highly indebted countries and conditionality of IMF/Bank loans. Many commentators have credited the size and severity of the Seattle protests with contributing to the failure of the WTO delegates to initiate a new round of negotiations. Positions taken by the US delegation—arguing for labor standards to enter the WTO agenda, refusing to accelerate Multifiber Arrangement phase-outs, and refusing to countenance restrictions on US antidumping filings—were widely criticized as protectionist obstacles.

- *China-US trade agreement.* The most volatile US trade issue in 2000 was the vote in the House of Representatives on whether to grant permanent normal trade relations (PNTR) status to China. This plan passed more easily in the Senate, but the House vote was widely regarded as very close in the preceding months. The US labor movement waged a massive opposition campaign, "its biggest lobbying campaign ever on trade matters," according to a *New York Times* front-page story (14 May 2000). On 12 April, thousands of AFL-CIO members rallied on Capitol Hill and lobbied dozens of House members against the bill.

  The bill finally passed in the House on 24 May by a 237-197 vote, but with many free trade supporters concerned about the intensity of opposition. For example, Albert R. Hunt worried in the *Wall Street Journal* that the "vote on free trade with China was a warning shot for free traders, the business community, and labor groups. . . . More remarkable than the passage, however, was how tough it was to approve a measure so demonstrably beneficial. Americans are currently enjoying the best economy ever. If it's a struggle to pass free-trade bills in this environment, what would it be like in less bullish times?" (*Wall Street Journal,* 25 May 2000, A27).

- *The African Growth and Opportunity Act.* This bill will liberalize trade with dozens of small, vulnerable countries in Africa; in particular, it proposes eliminating a 17 percent ad valorem tariff on US imports of African clothing. The bill passed through Congress in May 2000, after having been stalled for almost five years in the face of sharp opposition widely regarded as led by the major US textile union, the Union of Needleworkers, Industrial, and Textile Trades Employees (UNITE), and by the American Textile Manufacturers Institute.

  This opposition was widely thought to be driven by groups opposed to freer trade. Thomas L. Friedman argued in the *New York Times* that the opposition stemmed from "sheer knee-jerk protectionism—even though the bill has tough measures to protect against any surge in imports from Africa, and restricts free-trade status to African countries moving toward democracy, economic reform, and real worker protection" (*New York Times,* 7 March 2000). And the actual liberalization is modest, with tariff reductions accompanied by strict quotas: African duty-free clothing imports cannot exceed 1.5 percent of all US textile imports in the first year of the law, with the cap rising to only 3.5 percent after eight years.

- *Debate surrounding the 1993 congressional vote on the North American Free Trade Agreement (NAFTA).* The summer and fall of 1993 saw intense national debate over whether the United States should extend the Canadian-US free trade agreement to include Mexico. Destler (1995, 217) called these discussions "the most prominent and contentious domestic debate on trade since the Smoot-Hawley Tariff Act of 1930." NAFTA opposition was led by Ross Perot, who as an independent candidate received 19.1 percent of the popular vote in the 1992 presidential election. The debate reached a rhetorical peak on 9 November with a nationally televised prime-time face-off between Perot and Vice President Al Gore on *Larry King Live,* just days before the House vote. Gore was widely perceived as the winner of this debate; his performance, plus intense White House lobbying, helped the House pass the NAFTA on 17 November by a vote of 234 to 200.

- *Death of the Multilateral Agreement on Investment.* In December 1998, the Organization for Economic Cooperation and Development halted its efforts to ratify among its members a new FDI treaty aimed at ensuring that host governments treat domestic and foreign-owned firms equally. It is widely believed that a significant force behind the collapse of this agreement was intense lobbying efforts of nongovernmental organizations, whose tactics included posting on the Internet a smuggled draft of the treaty. After three years, negotiations halted in April 1998 for additional discussion among relevant parties. Negotiations never fully resumed, however, and in December that year, efforts ceased. (See Graham 2000 for details.)

- *New immigration restrictions.* Border enforcement policies have toughened considerably in recent years. In 1994, California voters approved Proposition 187, which denied public services such as public education and health care to illegal immigrants. Since 1997, legislation has barred the use of federal money to cover Medicaid costs for poor legal immigrants during their first five years of residence.

Taken together, these events suggest that a globalization backlash is under way in the United States. But what forces underlie this backlash?

It has commonly been characterized as reflecting the interests of a collection of relatively small groups whose diverse agendas have very little connection, if any, with the economic consequences of policy liberalization. This view has been prominent in the media coverage of high-profile backlash episodes such as the protests in Seattle and Washington.

For example, Rich Miller (*Business Week*, 24 April 2000, 46-47) calls the protesters "a curious bunch. . . . There are intellectuals who believe the IMF bungled the Asian crisis. And there's an amorphous amalgam of Gen Y college students and aging baby boomers united by their abhorrence of big business. Organizers are using the Internet and the promise of plenty of street theater, music, and giant allegorical puppets to entice the young to turn out." Writing about Seattle, Friedman observed, "The environmentalists and the unions—and the stone-throwing anarchists who joined them—are not organic allies, with a shared agenda. (God save any turtle that gets in the way of the dockworkers unloading a boat. You wouldn't want to be that turtle.)" (*New York Times*, 1 February 2000) And *The Economist* declared the protesters to be devoid of clear thought: "This week's grotesque pantomime in Seattle suggests that this horrible prospect [of stalled WTO progress] needs to be thought about. To say this is not to support the preposterous non-arguments with which the WTO has been assailed these past few days . . . all these claims are either meaningless or demonstrably false" (4 December 1999).

This consensus view of the protesters presents an incomplete picture of the globalization backlash, however, because it does not take into account the views of the broader population. What, if anything, do people think about the liberalization of trade, immigration, and FDI? To what extent do these backlash events resonate with the broader public? Are policy attitudes commonly held, or do they divide along particular lines? Are such cleavages related to the actual economic impacts of globalization?

To fully understand the globalization backlash, it is essential to investigate the policy attitudes of US citizens. In this book we analyze the *perceptions* and policy *preferences* of US citizens and workers toward globalization and then compare these perceptions and preferences to the labor-market *pressures* that globalization may be imparting to the US economy.[2] We generate an account of the globalization backlash that differs sharply from the consensus described above. We argue that the backlash reflects

2. This analysis draws on our work in Scheve and Slaughter (2001a, b). It is related to a large body of research linking the politics of globalization to mass politics, including Aldrich et al. (1999a, b), Anderson and Kaltenthaler (1996), Busch and Reinhardt (2000), Citrin et al. (1997), Eichenberg and Dalton (1993), Espenshade and Hempstead (1996), Frieden (1991), Friedman (2000), Gabel (1998a, b), Garrett (1998), Greider (1997), Hiscox (1997), Irwin (1994; 1996), Kapstein (1999), Kessler (1998), Midford (1993), PIPA (2000), Rodrik (1997), Rogowski (1987; 1989), Timmer and Williamson (1998), Verdier (1994), and Wallach and Sforza (1999).

widespread skepticism among US citizens about globalization and that these perceptions seem to be closely connected to the labor-market pressures globalization may be imparting to US workers.

Our account focuses on just one country, the United States. The most important reason is that in recent decades the United States has been at the forefront of shaping policy discussions surrounding globalization and a substantial backlash against liberalization in the United States would be felt around the world. The United States, however, is by no means unique; many other countries have liberalized international exchange or experienced backlash against such policies, but we think the US experience is particularly informative.[3]

The remainder of this introductory chapter summarizes our findings. Our analysis starts with a detailed look at the perceptions and policy preferences of US citizens, as documented in public opinion surveys. We start here because policy *actions*—such as the actions against globalization listed above—are the outcome of the interaction between policy preferences, collective-action problems, and political institutions.[4] Policy preferences, collective-action problems, and institutions together determine policy actions, so the link between preferences and actions is not unambiguous. The globalization backlash could be consistent with many different policy preferences. For example, globalization opponents may be only a small minority of the US population, concentrated in particular groups (socioeconomic, or geographic, or industrial) with a narrow set of concerns, such that the backlash does not reflect majority opinions. Alternatively, globalization opponents may be a large majority of the US population, with broadly shared concerns. To make sense of the backlash, it is essential to know what is going on with public preferences. We acknowledge that understanding policy preferences alone is not sufficient for completely understanding policy actions. Our analysis will not go beyond preferences to consider how preferences are aggregated via institutions into particular globalization policies. Thus, we will not offer to explain Seattle, the China PNTR vote, and the like, but rather the public preferences helping to shape these actions.[5]

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3. Additional research exploring both similarities and differences among countries in public opinion about globalization will help put our analysis in perspective. See Scheve (2000) for one analysis explaining systematic differences between countries in public opinion about one particular form of globalization—regional economic integration.

4. By collective-action problems, we refer to the common situation in which individuals or firms would be better off if they contributed to a common effort (e.g., protesting or lobbying for policy changes), but have no incentive to do so individually or as a single firm.

5. Rodrik (1995) makes this distinction between preferences and actions when arguing that a complete political economy model of trade policy "must contain a description of how these individual preferences are aggregated and channeled, through pressure groups, political parties, or grass-roots movements, into 'political demands' for a particular policy." Studies relating preferences with actions include Destler (1995) and Baldwin and Magee

One key finding is that the backlash does reflect significant opposition among US citizens toward globalization. A wide range of public opinion surveys report that a plurality or a majority of US citizens oppose policies to further liberalize trade, immigration, and FDI. On some issues the public is evenly split, but even this divide reflects substantial skepticism about globalization. These perceptions do not simply reflect ignorance about the economic benefits of liberalization. On the contrary, the majority of those surveyed acknowledge gains from international transactions, such as greater product variety, lower import prices, and increased product-market competition for producers. But at the same time, the majority also have concerns about these transactions, in particular their adverse labor-market impacts. On balance, more people seem to weigh these costs as more important than the benefits, such that across a wide range of survey questions they respond with preferences for policies aimed at less, not more, liberalization of trade, immigration, and FDI. This connection between individual preferences and the labor-market effects of liberalization is further confirmed by evidence that opinions become more favorable toward liberalization when it is explicitly linked to adjustment assistance for workers.

A second key finding is that preferences about trade and immigration policy align strongly with labor-market skills.[6] Less-skilled individuals, measured by educational attainment or wages earned, are much more likely to oppose freer trade and immigration than their more-skilled counterparts. For example, our analysis suggests that the probability that an American supports trade protection falls by about 30 percentage points when that American increases his or her schooling from 11 years to 16 years. Many other possible cleavages, surprisingly, do not materialize. Industry of employment is not systematically related to trade policy preferences. Those working in "trade-exposed" industries (e.g., textiles and apparel) are not more likely than others to oppose freer trade. In views on immigration policy, location does not matter. People living in "immigration gateway" communities (e.g., California) are not more or less likely than others to oppose freer immigration. We do find some other differences in opinion: for example, union members are more likely to oppose freer trade, and blacks and immigrants are more likely to support freer immigration. And we do find evidence of issue linkage: proenvironment people are more likely to oppose freer trade, and individuals with generally more tolerant attitudes are more likely to support freer immigration. But across both

(2000). Destler (1995) provides a comprehensive overview of recent US trade politics. Baldwin and Magee (2000) examine the determinants of recent Congressional trade policy votes and, in consonance with our skills-preferences division, they find that the less skilled the labor force in a legislator's district, the more likely that legislator is to oppose trade bills.

6. We limit our analyses of cleavages in public preferences to trade and immigration, where we have, relative to FDI, much better data.

trade and immigration preferences, no other cleavage is as consistently important as that of labor-market skills. The main policy concern seems to be the perceived economywide labor-market pressures generated by liberalizations.

Note that this skills-preferences cleavage is a statement of central tendencies: all else being equal, individuals with more labor-market skills are more likely to support freer trade and immigration. But across many dimensions all else is not equal in the real world, and the other cleavages we describe matter as well. Thus, for many reasons—for example, issue linkage with environmental concerns—some highly skilled individuals can be expected to be skeptical of liberalizing policies. Also, note that our focus on skill differences across individuals runs solely along the dimension of labor-market abilities and is itself an admittedly imperfect measure. For empirical analysis of labor-market pressures, however, the skill measures we employ are thought to be the most accurate—or least imprecise—available. A critical point to keep in mind is that less-skilled workers, as typically defined by labor economists, constitute the majority of the US labor force.

These two key findings raise two questions. What sorts of labor-market *pressures* have been facing different skill groups in the US economy? What role has globalization played in these pressures? The answers are summarized below.

First, the premium earned by more-skilled American workers over less-skilled workers has been rising sharply since the late 1970s. Second, average real-wage growth in the United States has been sluggish since the early 1970s, the recent improvement of the past 5 years notwithstanding. All this means that *compared with high-skilled workers, the majority of the US labor force has had close to zero or even negative real-wage growth for about 25 years.* These patterns differ sharply from earlier decades, when real-wage growth was both faster and enjoyed by all groups, with steady or declining inequality.

Globalization appears to have had at least some role in these changes, as is suggested superficially by figures 1.1 through 1.3. On closer inspection, however, globalization's role seems to be only modest. Most academic research has concluded that increased trade, immigration, and FDI have not been the most important forces driving shifts in real and relative wages. Growth in labor productivity and real wages has been slowest in the service sectors, many of which are nontraded or are largely domestically owned. And technological change favoring skilled workers seems to have been the major force driving up the returns to skills. There is little evidence that greater trade, immigration, and FDI have played the main role in widening inequality, though they have played some.

Despite this balance of academic evidence, preferences about globalization policy divide strongly across labor-market skills, suggesting that globalization is perceived to be an important source of wage pressure. Surveys show people believe globalization has slowed real-wage growth and increased relative-wage inequality. In this book, we discuss this relationship between worker perceptions and pressures. For many reasons, it is important *not* to see the two as somehow inconsistent. First, a small effect of globalization on wages is not zero effect. Second, people may think government policy cannot impede technological change, so they may opt for antiglobalization policies. And third, people may be forward-looking: even if they think globalization has had no role in US labor markets so far, they may think it will in the future.

The book is organized as follows. Chapter 2 presents the public opinion evidence on US opposition to globalization. Chapter 3 presents some standard economic models to understand what opinion cleavages might underlie the surveys, and then presents empirical evidence on these divisions by documenting both the skills-preferences cleavage and the absence of other expected cleavages. Chapter 4 puts all this in the context of recent US labor-market pressures and their link to globalization. Chapter 5 concludes with a discussion of the links between worker preferences and pressures and of how our findings inform the policy debate about globalization.