

Globalization With Minimal Apologies

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Dr. Ngozi, it's an incredible honour to be here. This is my first visit to the World Trade Organization (WTO). That makes it about a one hundred to one ratio of visits to the International Monetary Fund (IMF) and World Bank compared to visits to this incredibly important international economic organization and I'm hoping that in the years to come I can further improve on that ratio.

I've always done research, policy work and teaching on a very broad set of economic areas, of which trade is just one. There are people in this room that have forgotten more three letter acronyms for trade than I'll ever know. I'm not a lawyer, I'm not a nerd about the very specific things in trade. Instead what has motivated me is the very biggest questions: What can you do to raise living standards? What you can do to reduce poverty? What you can do to address the challenge of climate change? What you can do to extend people's lives? And for all of these trade in specific and globalization more generally is absolutely essential both to understanding the trajectory of the global economy and to trying to change that trajectory for the better going forward.

The Success of Hyperglobalization

I first started learning economics at university in the late 1980s. At that point in time, a certain amount of economic theory said that there should be convergence among countries, where poorer countries grow faster than richer countries. But that theory wasn't working in practice. Global inequality was growing, the rich countries were growing faster than the poor countries and pulling further apart from them. You might be tempted by that observation to subscribe to theories like Dependency Theory in Latin America, that rich countries were getting rich at the expense of poor countries, that trade was zero sum, and that to reverse this global inequality somehow needed to separate yourself from the rest of the world.

If you were sitting in the United States when I first started learning economics, you were 20 years into a dramatic productivity slowdown, a dramatic reduction in the growth of living standards, an increase in inequality, and you were also looking at other countries—in our case, at the time, Japan—worried that somehow they were getting rich at your expense and taking advantage of the United States.

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That was 35 years ago.

Now, after a quarter century of hyper globalization, the poor countries are, on average, growing faster than the rich countries. That's happened on a sustained basis for about 30 years now. That's even true if you take China out of the equation and look at the rest of the developing and emerging economies. This has happened because growth has increased in developing and emerging economies not because it has slowed in the rich countries. In fact, if anything, relative to when I first started studying economics, productivity growth has picked up, especially in the frontier economy of the United States.

This isn't just an abstract set of economic statistics. Everyone in this room is familiar with this fact but it just awe inspiring every time about it that I want to underscore: over the last quarter century, a billion people have been lifted out of extreme poverty. Even at the same time that the global population has increased by 2 billion, so if you look at the share of people in deep poverty around the world, it's fallen by 70 percent.

It's not just poverty. It is life expectancy, maternal mortality, literacy, all of the things that matter to a good life, all of the things that are most important to us as humans, have gotten dramatically better over these 25 years.

Part of the improvement has been a function of the increase in incomes. Life expectancy, maternal mortality, all of those are very much a function of income. But also, amazingly, for any given income, you see less maternal mortality, less child mortality, higher life expectancies than you did before. So, we've also gotten more efficient at translating GDP into the things that matter for people.

There's an old saying that "*Defeat is an orphan, but victory has many parents,*" and that's certainly true here. There are many causes you could point to, and you could debate the relative magnitude of the causes of this enormous, success of the last quarter century, the likes of which have never been seen in the course of human history from the perspective of the economy of living standards.

One is better macroeconomic policies, for example more countries are doing a better job at accumulating reserves and not having unsustainable exchange rate policies. Market oriented reforms, most impressively in China, also in India and many other countries around the world, have played a role too.

But it's not an accident that this global convergence, this global poverty reduction, this historic change, has happened at a time of enormous globalization. Globalization in trade in goods and services; globalization in capital flows including foreign direct investment; globalization in ideas people attending university, bringing ideas back; globalization in the movements of people.

We know this in part because no country has been very successful anywhere in the world without a very big component of that success being that their country is a major part of the phenomenon of globalization. And conversely, countries that have tried to separate themselves from it have done the worst job participating in this miracle that I've talked about.

This isn't that surprising to economists. One of the oldest ideas in economics comes from Adam Smith, and it's the gains from specialization. You can improve your productivity, make things better, if you divide the task up and have more people doing different parts of it.

Almost as old of an idea is David Ricardo and comparative advantage, that even if a country isn't as good in another country as making anything, it's still worth it specializing and making something, the thing that it's comparatively better at.

Over the centuries, economists have only added to their understanding of the benefits of trade. The new trade theory emphasizing the returns to scale and specialization so that even two countries with similar endowments and similar skills still may want to trade. And then new growth theory, the idea that technological progress itself is grounded in trade. You don't just think that the production function is something that's fixed, endowments are something that's fixed, but trade itself can lead countries to specialize. Just look at the global supply chain for microchips and the intense specialization that you get individual countries around the world, like the Netherlands, other parts of the world, South Korea, etc. Enormous amounts of innovation come out of that specialization and scale.

Now this isn't just something that affects emerging and developing economies. Much of the miracle I described has happened there, but it also helps countries like my country of the United States. It helps on the export side, where export jobs pay more than other jobs. Where about one quarter of productivity growth in recent decades in the United States is tied to global trade, productivity growth that's essential for having sustained real wage growth.

On the consumer side, in the United States, the median worker gains more than 25 percent of their purchasing power from trade. Moreover, that's the median worker. If you look at lower income consumers in the United States, they get an even higher share of their living standards from trade, both because goods are a larger fraction of it, and those goods tend to be more foreign produced and so on the consumer side, trade is enormously progressive, something I will come back to.

Trade is not just about prices, it is also about variety. You can get whatever fruits and vegetables you want at any time of year, you get an enormous array of goods and services and quality and innovation.

So, we had this miraculous quarter century, it's been miraculous for many developing and emerging economies, although too many of them are still left behind from that progress, and that's an important conversation to have. It's been a benefit in countries like the United States.

But at the same time, paradoxically, there's been a sharp turn away from globalization at precisely the moment of its greatest success. It's under the greatest amount of attack strain and threat of reversal.

So why do we have this this enormous success and this backlash at the same time? I'm going to address four questions over the remainder of my remarks. The first is, why does trade always face a headwind? The second is, why is it particularly severe right now? The third is, what are the consequences of this going forward? And then finally, what can we do about all of it?

Why Does Trade Always Face a Political Headwind?

Why does trade always face a headwind? There are three types of reasons why the political system can end up doing something very different from what an economist could go on and on about being good, as I have been doing here.

The first reason that people could not like something is because they don't understand it. In that case the remedy is to explain it better, maybe ensure that this lecture is broadcast to the entire world (which it is) or that the entire world is currently watching (which may not be the case).

The second possibility, though, is that the opposition to things isn't because people *don't understand* and you need to explain it better, but it's because people *do understand*, and they do understand that it is not in their narrow special interest—even if it is in society's broader interest.

The final possibility is that people broadly understand something economists are missing about how best to maximize society's broader interest.

In the case of trade it is a combination of all three, although I don't think the last one—economists missing the problems with globalization—is the most important factor. But an awful lot of the opposition is special interests that do correctly understand that their interest on a particular matter at hand is to not expand globalization, taking advantage of all of the misunderstandings to build broader public support for it, or at least not opposition.

Take a current event: the Japanese steel company Nippon Steel has proposed to buy the American company U.S. Steel (not a trade issue, but it has a similar political dynamic). Just about every expert, including some of the most protectionist, think that this is a good idea. U.S. Steel is strapped for cash and this initial additional inflow of investment will really help it. In addition, Nippon Steel has made a set of commitments to workers. Absent a deal many of its steel plants could move elsewhere in the United States or even the world. Notwithstanding all of this, both the Biden administration and the leading candidates for President from both parties have come out against the merger.

Part of this is that it is possible that the labor union involved correctly understands that it would be better off if U.S. Steel remained an American company—even if it was worse for the country as a whole. But if it blocking the merger just helped a small number of people at the expense of everyone else you would not be able to get majority support because the everyone else would not go along with blocking it. This is where the first possibility, the broader public not understanding the issue, comes into play. In sum, the policy happens because of the interplay between a special interest with a correct understanding being able to garner broader support that relies on a broader misunderstanding.

Myths and Misconceptions about Globalization and Trade

I could spend hours talking about all the myths and misconceptions that have grown up around globalization and trade, but given my limited time, I will briefly go through what I see as three of the most important misconceptions and misunderstanding.

Let me admit in advance: I am not steelmanning the argument against trade by only addressing the best arguments against it. Instead I am strawmanning the arguments against trade, taking some of the arguments against it and taking them apart. My defence for spending much of the time on the strawman weakest arguments against trade is that many of leading political opponents of trade also spent the vast majority of their time making intellectually incoherent and incredibly weak arguments against trade. So, it's not my fault that I'm starting this debate with a strawman—but I will get to the steelman issues shortly.

The first misconception is that trade is somehow different from technology. Imagine we invented a machine that you could grow soybeans, put soybeans into the machine, and the machine would turn the soybeans into cars. No one would have any scepticism, doubt, or fear about this machine, and if workers lost their job to this machine, some might think it was unfortunate, some might want to compensate them, but it wouldn't arouse anything like the passions we have now. Trade is just like that machine. The United States just put the soybeans into a container, ships the container, maybe to Japan or Korea, and back come cars. There's many ways the effects on workers and consumers are analogous between this technology and trade hypothetical. But the mental process people use for them can be radically different.

The second is a set of macroeconomic misconceptions that trade surpluses are good, that trade deficits are bad because they take jobs away from a country. Moreover, the belief that trade deficits are caused by unfair actions by others or can be solved by tariffs.

In my introductory economics class I spend half an hour every year dismantling this set of ideas, which are pervasive. I'll spend half a minute here saying that economists understand imports are actually the good thing that is what we enjoy, it's the benefit we get from trade. Exports are the unfortunate thing we do just so we can get those desirable imports.

Moreover, the determinants of trade surpluses and trade deficits lie in policies like whether the government is running a budget deficit or encouraging saving than it does in any trade policies. The United States runs, in many cases, bilateral surpluses with countries that have high tariffs against us, like Brazil, and trade deficits with countries that have lower tariffs with us, like Japan. Moreover, none of this matters for jobs—those are generally decided by the central bank which adjusts interest rates to achieve whatever level of demand it wants.

A third myth, one that I almost wouldn't have imagined would rise to the level of prominence (perhaps being a little bit parochial about the debate we're having in the United States right now) is the idea that tariffs are a miraculous way to get foreigners to pay taxes instead of local residents. There's a famous saying, "Don't tax you, don't tax me, tax the person behind the tree." People have been trying to find that person behind the tree, and some people think they've discovered them in the form of tariffs, which are paid by foreign countries. Unfortunately that is not the way tariffs work.

The person responsible for trade policy in the United States, the United States Trade Representative, said the link in terms of tariffs to prices have been largely debunked. To her credit, she somewhat walked that statement back after making it. The person running for president from the other party has made the statement more strongly and does not have much

of a reputation for walking his statements back. If anything, he's doubled and tripled down on it.

As an aside, I do not even understand the coherence of the argument that tariffs are fully borne by foreigners. If that was the case they would not raise domestic prices, discouraging imports and shifting to local production. Moreover, if foreigners pay tariffs then who will foot the bill when foreign countries retaliate with their own tariffs?

Trade and Inequality

Whether trade causes inequality is a serious empirical question that should be taken seriously, not something that lends itself to the framework of myths and misconceptions.

Let me go quickly through just a few aspects of it. First of all, at the global level, trade and globalization more broadly have contributed to an incredibly rapid, enormous reduction in inequality. If you look at the inequality among all the people in the world you erase national borders and ask just how much inequality is there among 8 billion people? If you look at Branco Milanovic numbers, there all of the increase in inequality from the year 1900 to 2000 went away between 2000 and around 2020. In a quarter century of hyper globalization erased a century's worth of increased in global inequality.

Second, the question that you want to ask is probably not does inequality go up but what happens to the living standards for the middle class and the poor. *If* trade helps everyone but helps some people more than others that might be to some degree lamentable, but you probably wouldn't want to stop it from happening. I believe a lot of trade has had this character especially when you take into account the enormous and progressive gains from trade on the consumer side that I discussed earlier.

Third, it is possible that inequality is a little higher in advanced economies because of trade. But even this requires context. Globalization as a treatment has been applied to all of the advanced economies but they have had very different outcomes in terms of inequality. The Anglo-Saxon countries have seen a big increase in inequality, a lot of continental Europe hasn't, so inequality is probably telling you more about your institutions than trade. Moreover, even in the United States the biggest increase in inequality happened from 1980 to 2000 when the bulk of trade was with other rich countries. Since China joined the WTO and trade expanded with lower-income countries pre-tax inequality has grown more slowly and some leading estimates find that after-tax and transfer inequality has declined. In the United States the increase in transfers like nutritional and health assistance and support for children have more than compensated for even upper bound estimates of the increase in inequality due to trade. (To be clear, I am talking about inequality by quintiles; both trade and trade restrictions result in winners and losers—both in terms of people and geography.)

Fourth, trade is a terrible tool to deal with inequality. It is possible that in the hands of an incredibly enlightened, rational policymaker, they could use trade restrictions to reduce inequality, but I don't think they do what we do in the United States, where we put a 10% tariff on ballpoint pens, a 28% tariff on backpacks and gym bags. The exact magnitude of the tariff depends on whether the bag has velcro leather, the pen has ink or lead in it, and whether your sweater is made out of wool or cotton. Most of these tariffs being on goods that we

don't even make in the United States. Moreover the tariffs are higher on products bought by lower-income people. That's just an insane way to deal with and reduce inequality. Moreover, to the degree policymakers focus on trade restriction tools to address inequality that could actually crowd out a rational sane discussion that could actually address the root causes and compensate for the issues.

Globalization and Resilience

Another issue that deserves to be taken seriously is trade and resilience. This has been a topic of growing interest in recent years given the widespread supply disruptions in the wake of COVID. These discussions, however, have been colored by a bad news bias.

It's a famous notion that no one opened up the newspaper to read a headline saying that yesterday 10,000 planes landed safely. The only time an airplane makes the news is if that airplane crashes. Global supply chains in the wake of COVID were miraculous and would not have been that way without globalization. There were a few terrifying weeks in March of 2020 in the United States and many other countries around the world where we couldn't find masks but we could still get most everything else we needed, even toilet paper. We were scared for ourselves and heartbroken when we looked at the people, the first frontline workers in hospitals who were reusing their masks. That period lasted what seemed like an eternity, but in retrospect, was only a few weeks. And why did that problem end? Well, it ended because a lot of masks came to the United States from China and produced around the world. It was globalization that solved that problem.

There were problems with supply chains, but one of the biggest problems supply chains had was the massive fiscal stimulus and excess saving in advanced economies that led people to buy much more than they wanted before. By June of 2020, Americans were buying nearly 10% more durable goods, measured in real terms, than they were prior to the pandemic. In the best of times, it would be hard for supply chains to handle that, but yet they did, even in the midst of a global pandemic. By March of 2021 spending on durable goods reached more than 30 percent more than its pre-pandemic peak, increasing rapidly even as the economy was reopening and people were returning to gyms and restaurants. This increase could never have been managed as well as it was without globalization, which in the case of the United States manifested itself as a large increase in imports and the trade deficit.

There are tricky issues around concentration of global production, when one country and there's been a lot of concern about China in this regard, makes 90 or 95% of something in a critical category. What will happen if there were ever increasing geopolitical tensions? There is a legitimate complicated set of issues around resilience and we should focus on those. But we should not let myths and underselling of the enormous resilience we have had—and the role of demand in helping to generate problems and global supply in helping to solve them—lead to a poorly designed overcorrection.

So-called Free Trade Agreements are not Always about Free Trade

One place where I think critics of trade have gotten it right is about overbroad protections for intellectual property and other measures introduced into trade agreements that

are extraneous and can even limit trade. Supporters of trade agreements should reflect more on these. For example, I was a big champion of the Transpacific Partnership (TPP) when I was in the White House, but I didn't love some of the pharmaceutical intellectual property provisions. I thought they went too far and in some ways were actually restricting trade in pharmaceuticals rather than promoting it and that they were included less because of a detailed policy analysis and more because of raw political interests. Not everything that calls itself globalization and free trade really is true to that word. Certain voices have had disproportionate impacts in how trade agreements are shaped. A better reflection of the broad public interest would help restrain protectionism and also lead to better trade agreements.

Why the Backlash Now?

Why at the height of the success of globalization are we seeing a backlash against it? Partly we're a victim of success. A lot of the scepticism about trade itself is in the United States. And while I would not recommend the United States become an autarchy, it would work out less badly as an autarchy than it would in many others in the world. We could still feed ourselves, we would still have oil and we could maybe somehow figure out how to make cars all by ourselves. If Sweden tried to be an autarchy, half the workers would lose their jobs and they would probably starve within a year or two. So, it's no surprise that Americans can indulge in more of a protectionist fantasy than Swedes can because the downsides are there for the United States, but they're not as big as they would be for say Sweden.

The form of globalization that has gotten the most controversy in the advanced economies is not trade but immigration. Immigration is highly visible. Moreover it is true that the foreign-born population in countries throughout the advanced world is the share is higher now than it's ever been in many countries, or than it's been in more than a century in the United States. That's a wonderful thing. It's key to economic growth, helping to overcome the demographic barriers to growth while increasing productivity. But it is also a real change and is happening very rapidly often in a concentrated manner. It's not a completely irrational concern. And globalization in trade and immigration are fitting together in many people's minds—for the worse.

Geopolitical fragmentation, especially the divide between the United States and China has been a big driver of the turn against globalization, in some cases for good reasons. National security has always been invoked in the context of trade. But just because it is a risible in some cases, like the argument that steel imports even from allies made in the Trump administration and pared back but not eliminated in the Biden administration, does not mean it is risible in all cases.

But when the national security arguments that might be legitimate blend together with economic arguments that are much more dubious I get suspicious. Take a case where this does not happen. The United States dramatically restricts trade with Russia. No one would say we're doing that in order to help American workers, increase American manufacturing or deal with a trade deficit from Russia. No one makes an argument that sanctions benefit the United States economically. Instead they make a national security argument that it is worth bearing a small cost to help reduce Russia's military effectiveness and deter further escalation—national security goals that, in my opinion, are worth paying a price to achieve.

When it comes to China, there's some national security, but it gets mixed up with a set of confused arguments about it also helping jobs and helping manufacturing and helping the trade deficit. That makes me worried about the argument over all. If you say that these trade restrictions have a cost, and ask, is the cost worth paying for national security, you might get to the right answer. The United States set out the right principle that economic relations with China should be governed by a "small yard, high fence" with serious restrictions on a limited set of items that were critical to national security. But if you make the mistake of believing that all trade restrictions on China help Americans then you have no limit—and the result is tariffs on consumer goods unrelated to national security along with intermediate inputs that could end up hurting American manufacturing more than it helps it.

Finally, I have been disproportionately discussing the United States because it is the world's biggest economy and sets the tone for many others. I am also from there. But it is not like the rest of the world is innocent. In developing and emerging economies, which have benefited the most from globalization, some of the attempts to stall or reverse globalization could be even more dangerous and harmful. I am not an expert in why this is happening but the example of growing trade restrictions and interference in both the United States and China is probably not helping. Moreover, the same logic of special interests who understand correctly taking advantage of more diffuse groups who misunderstand is likely at work.

Globalization is More Like a Dandelion than an Orchid

I don't want to be too dire about the future of globalization. It is always tempting to say that things used to be great and that it's all terrible now, and it's just getting worse. I've been hearing about the imminent end of globalization for pretty much my entire career. Yet globalization has been much more like a dandelion than it is like an orchid. Dandelions can thrive no matter what you throw at them. Orchids are very sensitive and need to be nurtured with exactly the right conditions.

Trade and other types of globalization are like a dandelion because the benefits are so large. All the things that I was talking about, all the gains from trade, are precisely why it is so strong and so resistant.

Another reason globalization can be like a dandelion is trade diversion. As the United States and China do less trade with each other, it creates an opportunity for Vietnam, Indonesia, India, and other countries around the world. An opportunity for the so-called middle powers, both at a policy level, a specializing in production level, maybe even taking advantage of some of the competition to negotiate better deals for themselves.

So this is not at all the end of world or the end of globalization. Globalization is incredibly resilient, but nevertheless, we should be doing to foster it, to get more of it.

Next Steps on Globalization

I'll very briefly lay out a few ideas for what can be done next on globalization.

The first is, ideas really do matter. You could not have the backlash we have without a huge amount of confusion and trying to dispel and explain. England would never have gotten rid of the Corn Laws without some interests in getting rid of the Corn Laws, but also the set of ideas that Smith and Ricardo and others advanced. So, ideas really do matter—although I should confess that I may be a little biased given all the time I spend teaching those ideas.

The second is, there's a lot that countries other than the United States and China can do to expand trade among themselves, negotiate better deals with the United States and China as well.

Third, the world does need the United States and China. I have talked more about some of the self-inflicted problems we have in the United States, but China is very, very far from being an innocent actor in trade restrictions and distortions.

Fourth, national security and resilience are legitimate issues for trade, but they're legitimate issues if we approach them in a much more rational way, where we talk about weighing off trade-offs of costs and benefits, rather than just pretending it's benefits, and benefits being much more limited about the countries they apply to and the sectors they apply to, and being much clearer about where those limits are.

Finally, the WTO plays an incredibly important role. I would be thrilled with yet another global trade round that was unanimously agreed to by every country in the world. But it has been a while and no one is putting all their eggs, or really even many eggs, in that basket. Fostering as much plurilateralism as possible and as many agreements that create an incentive for other follower countries to want to join them should be the emphasis.

Conclusion

In conclusion, we should be mostly unapologetic about globalization. There are downsides, there are countries that have not participated, but the overwhelming story is one that historians will look at centuries from now as a big success, reducing global inequality and doing it while raising living standards in advanced economies and slashing global poverty. The question is what can we do to have more of this and continue while managing the very serious geopolitical tensions in the world today. There are many steps we can take and I am looking forward to the conversation about them.

Thank you.