

Why the world needs more globalisation, not less

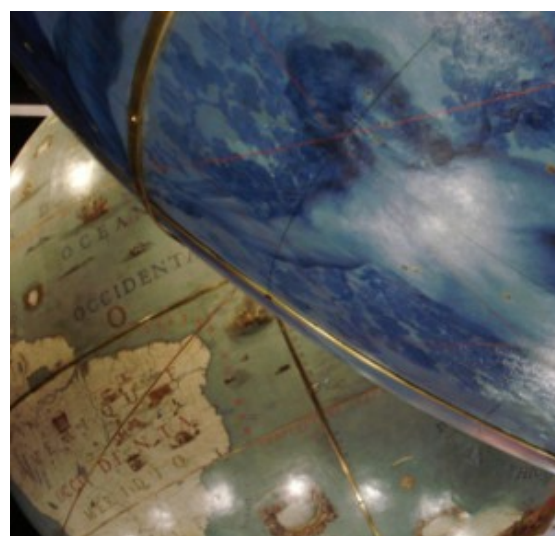


in the developing world.

*The perceived negative effects of globalisation have frequently been the subject of criticism and political opposition. **Jason Sorens** writes that much of this scepticism toward globalisation is misplaced. He argues that social scientists have a responsibility to tackle the ‘anti-foreign’ and ‘anti-market’ biases that underpin many of these perspectives, and that removing trade restrictions such as agricultural subsidies should be a key priority for those who wish to tackle poverty*

In his most recent book, *The Globalization Paradox*, Dani Rodrik argues that appropriate regulation of the marketplace requires national, democratic self-determination, even if it comes at the expense of globalisation. His argument was summarised in a [recent EUROPP post](#).

While Professor Rodrik is right to be sceptical of full regulatory harmonisation at the global level, the argument in his book goes beyond this relatively uncontroversial position to reach conclusions that are not supported by the evidence. Instead of pulling back on globalisation, economists should be telling the simple truths about open markets that, if widely understood, could pull many millions of human beings out of poverty.



Coronelli globes, Credit: Photogestion (CC-BY-SA-3.0)

Footloose capital

Professor Rodrik argues that globalisation of capital allows investors to escape domestic regulation. As he states: “Suppose I outsource some of my domestic production to a Bangladeshi subcontractor whose factory is a fire hazard. Is this any different from my importing Bangladeshi workers and putting them to work directly at home under hazardous conditions? From an economic standpoint, the answer is no. From an ethical standpoint, we may split some hairs, but the answer is also no to a first order of approximation. Why should trade allow me to do something that domestic regulations explicitly forbid?”

But in fact, there is very little evidence that multinational firms outsource production to low-regulation destinations, leading to a “race to the bottom”. Among advanced industrial societies, political scientist Geoffrey Garrett [has found](#) that countries more open to international capital flows do not have smaller governments. Indeed, the United States, often assumed to be the avatar of small-government capitalism, also has [the highest marginal corporate tax rates](#) in the world. Developing countries like Brazil and India also have very high corporate taxes, and Tufts political scientist [Dan Drezner has found](#) no tendency for globalisation to undermine labour and environmental standards in developing countries. Multinational firms prefer to invest in [stable democracies](#) with [better human rights](#) records, not repressive dystopias. They care most about security of their investment, quality of the workforce, and access to markets, not getting rid of fire codes.

Democracy’s value

Democratic control of national regulatory systems provides contestation, and multiplicity of national regimes allows for experimentation. It is right and good to have multiple experiments in

regulatory policy and to make regulatory policies contestable rather than entrenched. Professor Rodrik acknowledges these advantages but maintains that the real value of democracy is that it enacts a society's "values."

There are two main problems with this view. First, **Arrow's Impossibility Theorem** from social choice theory tells us that it is impossible to aggregate individual preferences into social preferences in a fair and consistent way. Societies don't have values. Second, detailed studies of real-world regulations show that they are determined either by the **machinations** of **well-connected interest groups** or by the **preferences of powerful bureaucrats**. The social control of regulations that Professor Rodrik imagines is impossible, even in democracies. The most we can hope for is that electoral competition and technological change sometimes "shuffle the deck" so that today's insiders don't remain insiders forever.

The tasks still undone

Social scientists should not quail from the responsibility of communicating the advantages of open markets, even when openness is unpopular. The risks of globalising too little are far greater than the risks of globalising too much. There is little prospect of a global analogue of the European Union, harmonising rules for the 190-plus sovereign polities on the planet. Even the European Union's economic problems have come not so much from harmonising too much (despite the occasional ridiculous overreach in this department), but from a poorly designed currency union. Overall, the single market has **greatly benefitted** Europe's people.

In his book, Professor Rodrik repeatedly argues that policy barriers to trade and investment are already low, and that we now need to expend effort on shoring up national sovereignty and political control over capital. Yet even seemingly small restrictions can have huge impacts on very poor people. Developed countries spend hundreds of billions of dollars a year on agricultural subsidies, tariffs, and price supports, **dwarfing** what they spend on aid to poor countries. Oxfam estimates that U.S. cotton subsidies alone cost Burkina Faso 1 per cent of its GDP, Mali 1.7 per cent of its GDP, and Benin 1.4 per cent of its GDP. These countries are among the poorest in the world. **Hertel et al.** find that successful multilateral trade liberalisation would dramatically decrease the long-run poverty headcount in Indonesia.

Moreover, foreign investment remains unduly regulated in many developing countries, even though FDI is robustly associated with GDP **growth**, **human capital** development, and **growing wages**. Recently, India nominally opened its supermarket sector to FDI, but in fact the reform has been **blocked** at the local level. More dramatically, the governments of Argentina, Bolivia, and Venezuela have recently expropriated foreign firms or enacted high effective taxes on their cross-border activities. Unilateral liberalisation of investment would give developing-country governments the opportunity to provide a truly level playing field for domestic and foreign companies. To date, bilateral investment agreements between rich- and poor-country governments have often been **tilted** to the advantage of rich-country multinationals. Instead of begrudgingly negotiating away the right to invest with a far more powerful government, developing-country governments should proactively open up their markets and set the terms of participation.

Professor Rodrik worries that footloose capital raises the relative bargaining power of capitalists against workers. Commendably, he also recognises that removing barriers to the free flow of workers can help solve this problem: let employers compete more intensely for workers. Beyond trade and capital flows, the oft-ignored "third leg" of the "globalisation stool" is free migration; social scientists should do more to promote the benefits of open migration to all.

Conclusion

People are far too sceptical of globalisation. George Mason economist Bryan Caplan **has found** large gaps between the views of economists and even educated laypersons of similar ideological backgrounds on questions of trade, migration, technology, and markets. Social scientists need to

press forcefully against the “anti-foreign,” “anti-market,” and “pessimistic” biases most people bring to their political notions. In general, present-day globalisation’s political and economic limitations can be solved with, respectively, more education and more globalisation.

This piece is based upon an earlier, shorter [blog post at Pileus](#).

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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About the author



Jason Sorens – Dartmouth College

Jason Sorens is Lecturer in the Department of Government at Dartmouth College. He is the author of [Secessionism: Identity, Interest, and Strategy](#) (McGill-Queen’s University Press, 2012).

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