3081

OTHER THINGS EQUAL

Learning to Love Globalization

Deirdre McCloskey
University of Iowa
and
Erasmus University of Rotterdam

Protectionism comes in a lot of forms. The most popular nowadays is what the Pope said in St. Louis this last January, that globalization is a threat to worker welfare. You hear it a lot, often tied to the Son of Socialism, environmentalism. What's supposed to be bad is that Nike doesn't pay American wages in Thailand or International Paper doesn't follow the American EPA's rules in Indonesia or G.M. doesn't have NLRB-style labor relations in Mexico.

Well, excuse *me*, but modern economic growth in its global form has done more for workers and the environment than any army of government bureaucrats. We Americans are rich not because of unions or anti-trust or the Occupational Health and Safety Administration but because on the whole we've let capitalism work (until 1945 we were a protectionist country, but with a tiny share of trade in GDP; in our enormous internal market we didn't allow much "protection"). The same enrichment will be the story for the globe in the next 50 years. In fact it has been the story of the globe in the past 200 years, as Jeffrey Williamson and his associates have shown. The big rise in global income per head since 1800 despite a fivefold increase in global population is not attributable to protectionism in any of its forms, but to its opposite. Hurrah for economic orthodoxy.

Even in the short run, letting capitalism work in Thailand or Indonesia or Mexico is not so obviously evil as the Pope and Barry Commoner suppose. Nike pays top Thai wages, International Paper assaults the environment at the express invitation of the Indonesians, and G.M. accepts local working conditions in order to give Mexican workers a better deal than the one they have now. But the main point is that in the long run the Thais and Indonesians and Mexicans are brought into a world economy with incomes per head that permit adequate nutrition, small families, expanded education, and all the other increases in human scope that modern economic growth has brought to, say, South Korea. This is hardly exploitation, hardly grounds for papal viewing with alarm. I know it's a terrible thing that in the meantime the stockholders of global corporations earn profits. (It is not surprising that the Pope and Barry

---

Other Things Equal, a column by Deirdre McCloskey, appears regularly in this *Journal*.

Deirdre McCloskey: Economics Department, S336 PBAB, University of Iowa, Iowa City, IA 52242-1000 . E-mail: deirdre-mccloskey@uiowa.edu

Eastern Economic Journal, Vol. 25, No. 1, Winter 1999

Commoner detest profits, as a world-denying religiosity always has; as a Christian I can only point out wearily that there are other religiosities, some of which do not object to mutually advantageous exchange.) Yet for the profit the world is becoming rich. The capitalist deal is: Let me make profits and I'll make you rich.

I realize that actually the emotional energy behind protectionism is more a concern for American workers than for Thai and Mexican workers. It's analytically true, as Heckscher and Ohlin and then in formal terms Samuelson-Stolper observed long ago, that free trade equalizes wages. Trade is a substitute for migration. We can buy Mexican labor directly by permitting immigration or indirectly by permitting imports. For American wages in the long run it doesn't matter. All I can say is what economists have always said to the proposal that therefore we should seek self-sufficiency, erecting tariffs against goods and barbed wire against people. First, allowing the equalization is Hicks-Kaldor improving for labor globally. Second, American average income (capital and labor combined) is rigorously increased. Third, American "workers" own a lot of human capital, which rigorously benefits from increases in raw labor. And, fourth, it's always been a contradiction in the American left that it favors high wages for poor people with American passports at the expense of even poorer people who lack them. Hurrah for cosmopolitan ethics.

We economists, though, have a problem in making the free trade case. The problem is that we are fixated on Ricardo's comparative advantage argument. Now I do believe in comparative advantage. It's really neat, and has all those nice diagrams, too. I certainly recommend it for organizing the Thanksgiving meal, and for global trade, too. Let Aunt Laura make the turkey and Uncle John do the dishes. We're all better off. The problem is that quantitatively speaking the direct, static gains from comparative advantage are chicken feed. Any economist of experience knows this. It's enshrined in Chicago tradition as Harberger's Law. If trade is 10 percent of national income and free trade improves the terms of trade 20 percent, then (multiplying a fraction by a fraction) the rigorously derived gain to national income is . . . 2 percent. That's once-for-all, not cumulatively year-upon-year.

The problem? According to Angus Maddison's magnificent compilation of global incomes, *Monitoring the World Economy, 1820-1992* [OECD, 1995] real national income per head in the United States increased from 1820 to 1994 by not 10 percent or even 50 percent—a scale along which a gain from trade of 2 percent would start looking important—but by *1600* percent. In 1820 the average American, free and slave, earned $1290 (expressed in 1990 Geary-Khamis dollars; that's purchasing-power parity, folks, and is as good as you're going to get for comparisons across such immense economic distances). Now she earns $22500. If the gain from trade I was talking about was all that happened she would be now earning $1316, a little above the present-day average income for Africa.

The trouble is that no amount of static efficiency gain can account for such a gigantic accomplishment. Try as you will, adding 2 percent to 10 percent to 3.5 percent, eliminating every failure to exploit comparative advantage to the fullest, every (non-arbitrary) economy of scale, and you're still not going to come within hailing distance of 1600 percent. It's got to be a free lunch, which is to say a rise in the production function, which is to say a flowering of human ingenuity. (If you want my opinion—no extra charge—you can forget about endogenous growth models; they are just another round of *A*-prime, *C*-prime game playing.) The deepest source of the trouble is that we do not know the connection between free economic institutions (such as paying Thai workers only a little above their best alternative wage) and the flowering of human ingenuity. Not really. We have ideological faiths about it, but we do not scientifically know.

What I am saying is that the best way of viewing modern economic growth is not the neoclassical economics I learned from Samuelson and Stigler, the economics of Max U going around spotting opportunities for arbitrage, putting a little less labor in agriculture and little more in Nike factories. The best way is either the economic historian's way (thus Joel Mokyr or Angus Maddison) focusing on the story of ingenuity or the Austrian economist's (thus Israel Kirzner) focusing on the image of alertness. In these ways of looking at globalization what makes it good is not the static gains from trade but the pressures to perform, the demonstration effects, the mobility of capital that punishes anti-capitalist regimes. We teach static gain, and I repeat I'm all for it. Economists have long noted that the little Harberger triangle of static social gain from free trade would more than pay the salaries of every economist in the world. Go on teaching it. But to understand the most important event in world history—that 1600 percent, pretty much matched by every now-rich nation from Britain to Japan—we need something else.

Still, I say, globalization is good, for these other, growth-inducing reasons. It encourages the capitalist engine. If people understood how generous the engine has been they would have much less enthusiasm for protectionism or socialism in any of their forms. People think that the gains to income, properly measured, have been modest; that the poor have been left behind; that the Third World has been immiserized in aid of the enrichment of the First; that population growth *must* be controlled; that world income is essentially stagnant; that diminishing returns has been the great force in world economic history since 1800. All of these erroneous opinions are held strongly, you will find, by the average politically involved English professor. Go ahead, ask.

We economists can do good in the world if we spread the news of capitalist enrichment. What I want you to do is to make a copy of the following set of facts and distribute them next week to your church or coffee house or neighborhood party. Or just stand out on the main street of your neighborhood with a placard containing them, trading on (and ruining) your reputation for sobriety as an economist. At the very least show them to your undergraduate class—and announce that the facts *will* be on the next examination.

Using Maddison's tables we can see that

The World Has Moved 1820-1992
from Bangladesh to Mexico

Year	World GDP/capita in 1990 Dollars	Comparable country now	World population in millions
1820	$651	Bangladesh	1.07
1870	895		1.26
1913	1539	Pakistan	1.77
1950	2138	Philippines	2.51
1992	5145	Mexico	5.44

Source: Maddison, A., *Monitoring the World Economy 1920-1992, OECD*, Column 2:228; Column 3: 194-206; Column 4: 226.

That's a very good thing, to go from the level of desperation to the level of hope. Notice the acceleration, except for 1913-50, that era of deglobalization, of protection, of self-sufficiency, of foreign policies governed by notions of economic nationalism of the sort recommended by some now, with the wars that come from such mercantilist notions as *lebensraum* or the East Asian Co-Prosperity Sphere or making America into a World-Beating Competitive Team.

The first industrial nation, and the champion of free trade, the United Kingdom went from $1756 in 1820 to $3263 in 1870, nearly doubling in the face of exploding population during the fifty years that the avant garde of the European intelligentsia decided that capitalism was a bad idea. U.K. income per head was above all others until the New Worlds exceeded it (New Zealand in 1903, the U.S. in 1905, Australia in 1906; later the Antipodes slipped back). The rest of Europe did not catch up with U.K. income per head until after World War II. Now the U.K. wobbles upward with the other advanced industrial countries in a band plus or minus a few percent from the average (except the big, rich U.S.A., the exponent of free trade internally and externally, which persists about 30 percent above the Western European average). So much for economic "failure" in the pioneer of global capitalism.

Japan in 1870 was roughly at the present-day Bangladesh level of income per head. It had an income per head the same as Brazil's in that year. In 1939 it had attained the level of U.S. income per head 60 years before (and was double that of Brazil at the time). In 1994 it had attained the level of U.S. income per head 10 years before (now four times Brazil). It was a convergence through imitation, saving, education, and work. Which South Korea then repeated. Its income in 1952 was a desperate $855. Now it is $10,000.

In 1820 American GDP per capita was about the level of present-day India. By 1920 it had more than quadrupled, to the level of present-day Hungary, by 1950 to the level of present-day South Korea. Now it is what you see around you, not heaven on earth, but giving hundreds of millions of people a scope of life denied to their great-great-great-grandparents.

That's how I make it vivid to my students. Think back to how your great-great-great-grandparents lived, all 32 of them. Rural paradise? Happy small town life? Satisfied craftspeople? I don't think so: not on the U.S. income of $3200 a year in 1880, and much, much less if they were then living in Sicily or Shanghai.

Try it on your students. It's hard to get across what it means to have one dress for Sunday and one set of clothes for the rest of the week, or to be pleased if you learn to read a little, or to spend 40 hours a week as a woman on food preparation alone. But try. We've got to educate the rest of the putatively educated in the facts of capitalist growth, before they block the spread of riches to the globe, that globalization of which they think so little.

REFERENCES

Maddison, A. *Monitoring the World Economy.* OECD, 1995.