BUT...Why does globalization generate so much resistance if it makes us wealthier?!?!

RICARDO DOES NOT tell us anything about the sizes of the pieces of the pie

Trade theory (Heckscher-Ohlin model) tells us....

Trade/Globalization alters the size of the pieces of the pie

US GDP 1990

US GDP 2006

US manufacturing

workers

US manufacturing

workers

Domestic distributional consequences of globalization

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Even though international trade increases the national wealth of the economy in the aggregate, some groups see income gains AND some groups see income losses

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International trade helps to create jobs in sectors that rely disproportionately on resources that US possesses in abundance

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The abundance drives down the costs of these factors and makes goods that rely on them as inputs relatively cheaper

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Example: job creation in financial and high tech services because intensively use high-skilled labor (people with college or advanced degrees)

Domestic distributional consequences of globalization

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Jobs are lost in sectors that rely disproportionately on resources that are scarce in the US

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Example: unskilled labor in manufacturing

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Problem: when lose job in manufacturing cannot find work in high tech because do not possess requisite skill level

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Political implications:

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Globalization tends to activate domestic political conflict because some groups win and some groups lose

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This powerful reason to explain prevalence of barriers to trade that constrict national income

Who wins in the domestic political

conflict over trade policy?

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One answer from earlier in semester: consumers

lose because of collective action problem

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Institutions help to set rules by which winners and

losers from trade hash out trade policy

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Example: agriculture still receives heavy support

because disproportionately represented in the Senate

Key institution: RTAA

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US significant shift to embrace free trade post-World War

II, why?

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Institutional change that moved responsibility for trade

policy from Congress to Executive Branch

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Reciprocal Trade Agreements Act (1934)

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Congress authorized president for fixed period of time to

negotiate bilateral trade deals with other countries in

which principle of reciprocity guided both to mutual

reduction in tariffs

Key institution: RTAA and now fast track

authority

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Remember importance of constituency size

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Congress represents smaller constituencies, more likely to have

concentration of one sector in district that favors some form of protection

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President responsible to national constituency, more likely to favor free

trade because increases national income

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Fixing problem of logrolling exposed by Smoot-Hawley tariff

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Congressman from Pennsylvania supports tariffs on corn in exchange for

support on steel tariffs from Congressman from Iowa

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Net result: higher tariffs on everything

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Contemporary equivalent of this delegation: fast track authority

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Congress authorizes President (say at beginning of term) to negotiate

trade deals and then promises up/down vote without amendment

Bretton Woods economic order

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Emerges in final stages of World War II (1944): US supports

creation of international organizations to ensure economic

growth through international trade

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Impetus from:

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Great Depression

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Emerging battle against Communism

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Increasing support for free trade in US

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Key organizations emerging from:

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General Agreement on Tariffs and Trade (GATT that would become WTO)

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International Monetary Fund

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International Bank for Reconstruction and Development (would become World

Bank)

GATT

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Multilateral international organization designed to support reduction

of trade barriers on a reciprocal basis

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GATT: provided a series of rules that would guide negotiating

rounds during the Cold War

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Important: no enforcement capabilities, trade disputes handled

on a bilateral basis

World Trade Organization (WTO)

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Key difference: institutionalized a dispute settlement mechanism with

established procedures for filing grievance, investigating complaints, and

punishing defection

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Designed to ensure that states uphold existing trade concessions (e.g. tariff

cuts) negotiated through GATT/WTO

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Judicial panel can enforce these obligations by authorizing compensation

to injured party in form of trade sanctions

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Interesting: plaintiff has a lot of discretion on where to impose retaliatory tariffs

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Political logic: WTO enforcement capacity keeps global economy open by

punishing states pursuing protection

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While successful at preserving existing trade concessions, WTO relatively

ineffective over last decade in securing further trade

liberalization because

limited support in developed world (US, Europe, Japan)

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Perhaps this is changing over the last few weeks...