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What Might Globalization's Critics Believe?

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ABSTRACT

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Critics of globalization object to many things, some of which can be easily understood within standard economic models, but others of which seem to reflect a view of the world that economists generally do not share. This paper attempts to identify several alternative frameworks for analysis within which some of their criticisms may be understood, with the ultimate aim of extracting testable implications that differ from standard models. Three such alternative models are suggested, all of which focus mainly on the behavior of owners and managers of corporate capital: an anti-labor model, in which capitalists are willing to sacrifice some of their own profits for the chance to make labor worse off; a labor-monopsony model in which capitalists cooperate globally to increase profits by depressing wages; and an international political economy model in which capitalists use their resources to influence the political process for more than just obtaining import protection. This third framework, which is not spelled out in any detail here, has capitalists seeking policies such as export subsidies and other means of promoting market access, and it also has them influencing the international negotiations that set the rules of international agreements and organizations, such as the NAFTA and WTO. Examples of the latter sort of influence are discussed.

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What Might Globalization's Critics Believe?*

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I. Introduction

In anticipation of preparing this talk, and as a project for the sabbatical that I began in September of this year, I decided to read a good deal more than I had before of the writings of what we have loosely called the anti-globalists. I read a number of books, ranging from William Greider's (1997) *One World, Ready or Not: The Manic Logic of Global Capitalism* and Naomi Klein's (2000) *No Logo*, both of which were quite informative for me but which surpass in passion their economic logic, to Joe Stiglitz's (2002) *Globalization and Its Discontents*, which, despite its title,[1] is mostly a strong critique of IMF policy with very little on other aspects of globalization. I also read a large number of items from the World Wide Web, again ranging from ill-informed diatribes that I won't mention, to the very thoughtful and balanced white paper by the Oxfam (2000) nongovernmental organization (NGO).

* This paper was conceived while I was visiting at the Institute for International Economic Studies, Stockholm University, during the fall of 2002, during which I benefited from financial support from Tore Browaldh's Research Foundation. I also benefited from discussions of these ideas with Jim Anderson, Harry Flam, David Greenaway, Henrik Horn, Bob Staiger, Ulrika Stavlöt, and from members of the audience at the World Economy Lecture at the Leverhulme Center, University of Nottingham, where it was presented. In this case, more than most, they may all choose to disavow these conversations.

[1] The misleading title, which echoes several other prior books of the same name, has made Stiglitz a champion of the anti-globalists, even though parts of his message I would interpret as saying that globalization has not gone far enough. This is especially true in the trade dimension, where he criticizes developed-country trade barriers.

My original intention, as signaled in the tentative title that I gave David Greenaway for this lecture, was simply to find out what the complaints of the anti-globalists really were, and I assembled quite a long list of these as I read. Some of them were complaints that I agreed with, as I will indicate below.

Others were ones that I disagreed with, but that could nonetheless be easily understood within a typical economist's view of the world. For example, we all know and understand that free trade and other aspects of globalization cause harm to some groups in society, at the same time that they benefit others, and we know that, according to our models, trade increases the total of economic welfare that could potentially be achieved through redistribution. Although I may favor such redistribution, I recognize that it seldom occurs, and I nonetheless make the value judgment that the overall gain from trade is worth having even when some will be hurt. Some anti-globalists see the world in the same way, but make the opposite value judgment, viewing the harm that is done, often to the poorest in society, as unacceptable, and therefore viewing globalization as harmful unless the terms are somehow altered to share the gains more equitably. I may disagree with that conclusion, but I do not disagree with the view of the world from which it emerges.

Still other complaints about globalization, however, seem to emerge from a different world than I am familiar with, and it is here that I wish to devote most of my attention today. Some of the alleged effects of globalization simply make no sense to me within the context of the neoclassical economic model on which I and my colleagues base most of our teaching and research. Our response to that fact is usually simply to say this – that the criticisms make no sense – and expect others to see the light. What I want to do here, instead, is to try to identify

some alternative frameworks, or views of the world, within which the criticisms may make sense. That is, I will suggest several models of the world economy that seem to be implicit in some of the anti-globalists' writings.

In fact, I will suggest three such models, two of which are sufficiently straightforward modifications of standard economic models that I think their implications should also be straightforward. One, as I will elaborate further shortly, is a model in which capitalists seek, not to benefit themselves, so much as to hurt labor – what I will call the anti-labor model. The second will be a model in which all of the world's capitalists collude for their own collective benefit at the expense of the labor that they employ – what I will call the labor-monopsony model. The third framework will actually be a class of models that I am not prepared to spell out in any detail, in which private-sector actors use political tools to influence not just tariffs, as in conventional political economy of trade models, but also other trade policies including export policies, and, even more important, seek also to influence the international negotiations that set the rules for international economic institutions such as NAFTA and the WTO.

In all of this, my ultimate aim is not even close to being achieved in this paper. It is to extract implications from these models that might distinguish them from our conventional economic model and from each other. Then, somewhere down the road, if the anti-globalists agree that one or more of these alternative models is what they have in mind, then it might be possible to test for which model's implications come closest to being confirmed empirically.

Of course, I will not get that far today. I will just sketch the three sorts of model I have just mentioned and suggest what seem to be a few of their implications. I then invite critics of globalization to respond, either by confirming that one of these models captures their view of the

world or, if that is not the case, by explaining their views in a way that might be susceptible to such modeling. My hope is that, at a minimum, this exercise will allow us to communicate more effectively across the divide that currently seems to separate most of the advocates and opponents of globalization. And perhaps, some day, some of us or some of them will be persuaded to modify their views.

As the three models I've just outlined indicate, my focus will be almost entirely on the role of "capitalists" in the world economy. This reflects my view that, while anti-globalists have a large number and variety of complaints, their most common theme is that they object to the power held and used by large corporations, the corporations that they identify as "transnational," or TNCs. Some would narrow this to American transnational corporations, while others would then broaden this to Americans more generally, but I think these are a minority. Anti-globalization is not primarily anti-Americanism, but primarily anti-corporate.

Another focus of anti-globalization "discontent" is of course the international (or transnational) institutions: the IMF, World Bank, and WTO. But here too I believe that the reason for popular distrust of these organizations is not the belief that they are themselves intrinsically harmful, but rather that they are dominated by, or primarily influenced by, corporate interests. This is certainly the view expressed forcefully by Stiglitz (2002).

Finally, one more important theme of some anti-globalists within the developed countries is their perception that their own incomes and wages are being undermined by competition with low-wage labor in developing countries (and also, in a similar way, by labor-saving changes in technology). Here you might think that the focus of their complaints would be against the developing countries or their workers, but in fact it is not. Again, they blame

corporations for taking the jobs to those countries, not the countries themselves for attracting them.[2] On the contrary, the critics have a remarkable ability to perceive this process as hurting both rich-country workers and poor-country workers, the former through lost wages and lost jobs, and the latter by exploiting workers with substandard wages and working conditions. So here too, it is the corporations that are the villains.

What about the "market"? Don't they object to it, as well? Yes, and there are plenty of complaints about impersonal market forces that alter the lives of people without regard to their wishes or well-being. But while a few of the protesters may in fact see the market as an economist would – the collective result of a multitude of atomistic agents, and therefore, indeed, truly impersonal – I would bet that most of them see the market too as a creature of the big corporations. The market is impersonal, not because no person controls it, but because the persons that do, in the form of corporate owners and managers, are heartless, greedy, profit-seeking monsters. Or perhaps, somewhat less viciously, the market really is an impersonal force, but it is the corporations that give it importance by caring only about its dictates rather than about human values.

A byproduct of this is that critics see the harm done by open international markets, in both trade and capital flows, as being done by corporations and other "capitalists" to the rest of society, and not as the collective expression of the world's supplies and demands as an economist would see it.

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[2] An example of this is nicely documented in Cowie (1999), which describes the repeated shifts in production of televisions by the RCA company from New Jersey, first to Indiana, then to Tennessee, and finally to Mexico. At each stage, movement was in response to high wages and strong unionization in the old location and low wages and weak unionization in the new, but the workers in an old location virtually never blamed the workers in the new locations for their lost jobs, only the company itself.

That may seem trivial. Corporations, after all, are primarily about making money, not about doing good, so isn't it natural to see them as inherently bad? Perhaps it is, but of course that is not exactly the view of economists. We agree that profit-seeking firms, if given too much power, will at least be suboptimal if not actually undesirable. But we also tend to believe in the power of competition among such firms to render their greed harmless and in fact to turn it into an engine for making people better off. We have this model, you see, in which competition among firms leads in a perfect world to economic efficiency. And while the world is obviously imperfect in many ways, we still tend to believe that this force for good usually plays the dominant role.

We are so sure of this that some of us, at least, automatically discount both the views of those who disagree with us, and the evidence that they present. We have built our academic careers on the foundation of this model, and it has served us well, so we believe that evidence of its failure is either anomalous or insufficient to negate the main message: that markets are good. When confronted with those who disagree with us, we almost always can find elements of their arguments that are contrary to fact – or if not to fact, then to theory – and we marshal our own arguments in the comfortable context of our theory without really hearing what others are saying.

So, as I've said, what I want to do is to try to listen more carefully to what the anti-globalists are saying. I want not only to understand their arguments, but also to try to comprehend the world that they think we live in. Instead of seeing their objections within the context of my standard economist's model, where I already know that many of them do not make sense, let me try to formulate the model that they have in mind. Ideally, if I can do this,

then their model or models will have different implications than ours, perhaps even testable implications that could ultimately be used to differentiate between them.

What to Call Them

First, let me confront an issue that always gets in the way of this discussion: what should I call the group of anti-globalists. The term I've mostly used so far, anti-globalists, is familiar and relatively easy, but it would be rejected by a fair fraction of those it is supposed to describe. At most, many of these people would say that they are opposed to globalization in its current form, not to globalization in general. And indeed, as many on both sides of the debate have pointed out, these people, whoever they are, have themselves made great use of globalized communications and often also globalized commerce in pressing their point of view, as why should they not? As I've already said, what they really oppose, more than globalization, is the power of transnational corporations, but it would be incorrect as well simply to identify them as anti-corporate. I don't think that most of them want to destroy the corporate world. They only want to change it too for the better, either by changing how corporations themselves behave or by having government play a larger role with respect to them.

An alternative term for this group is "globalization skeptics." That seems much better, since it does not presuppose a desire to eliminate globalization, but it is too weak. They do not just remain to be convinced of the benefits of globalization; they are downright sure that many aspects of it are awful. The term that I will favor, therefore, is also the one settled on by a

previous paper that confronted this issue, "globalization critics."[3] They do indeed criticize globalization and are often very sure in their criticism. But like critics in other realms, their criticism is not necessarily unmixed with praise, and many of them are quite capable of imagining changes in the global economy that would leave it global, and perhaps even in the hands of corporations, but that they would then be able to accept.

Where We Agree

First, let me identify the ways in which I too am a critic of globalization. There are several criticisms of globalization, and specifically of the policies of governments and international institutions that are part of globalization, that I wholeheartedly agree with. There are still others for which I have varying amounts of sympathy, whether or not I agree completely.

Most of these tend to be areas in which, in a sense, globalization has not gone far enough, rather then where it has gone too far.[4] That is, like most economists, I strongly condemn the trade barriers that developed countries continue to impose on exports from developing countries. This is most obvious in the labor-intensive industries producing textiles and apparel, where developing countries would be most likely to find their comparative advantage were they permitted to export freely. But it is also the case in other mature industries where rich countries have repeatedly used administrative protection – anti-dumping duties and other forms – to limit imports from multiple sources including developing countries. This

[3] See Elliot et al. (2002).
[4] See Rodrik (1997).

behavior is not what I would call a part of globalization but rather a counter to it or resistance to it, but be that as it may, it is certainly a fact of current globalized life, and it confirms the impression of some in developing countries that the powers of globalization are stacked against them.

Similarly, and again like most economists, I condemn the subsidies that Europe especially, but also the United States, continue to provide in agriculture. Here too is an industry in many parts of which developing countries often have a plausible comparative advantage, and yet they are unable to compete against the rich country subsidies. As a trade economist, I am fond of pointing out that in the aggregate such subsidies hurt the country whose government pays them and actually benefit the rest of the world. And if the subsidies were in fact delivering affordable food to the world's hungry, I would not mind them at all, as long as they could be depended on to continue. But in fact, as I understand it, most of the hungry in developing countries are in rural areas where, instead of benefiting from this cheap food, they have to compete with it for a livelihood. In the long run, that may or may not be the best use of their labor, but in the short run these subsidies are simply driving small developing country farmers further into poverty. That is inexcusable.

A third issue on which I criticize the current stance of globalization is intellectual property (IP). Here the issue is one of balance, since a certain amount of intellectual property protection is certainly necessary to provide the incentive for innovation and creativity, so long as these are left in the hands of the private sector. But IP protection creates costs as well as benefits, those costs arising from the monopoly power of, and the monopoly prices charged by, the IP owners. This is not only economically inefficient; it also causes redistribution of income

from consumers broadly to the producers of IP. This mostly means redistribution away from developing countries toward corporate owners in developed countries. Just where the balance should be struck between protecting rich country IP producers at the expense of poor country IP consumers cannot be answered objectively, but my own impression is that the TRIPs agreement of the WTO goes way too far in favor of the producers. Whether redressing this balance would be a move toward more globalization or less, I do not know, but I think it should be done.

Finally, there is one issue area where it appears that less globalization and even less freedom of markets would be desirable: short-term capital flows. Changes in technology have accompanied changes in policy during the last thirty years or so to permit financial capital to flow among countries at speeds and in quantities that are almost impossible to comprehend. If markets were static and came at all close to the ideal of fully informed, perfect competition, then the case could easily be made that these markets enhance efficiency, transferring capital from those who have it to those who need it, to the benefit of all. But if ever there were markets that were not static, these are them. And the assumption that there is full information in these markets is laughable. Instead, the large swings in fashion and expectations that cause short-term capital to flow into and then out of vulnerable countries seem most unlikely to be beneficial for the world, and they certainly are not beneficial to the countries that become their victims. I am far from alone, even among economists, in believing that this just has to stop.

These are the major issues on which my own criticisms of current policies and institutions are most clear: developed country trade barriers, especially in textiles and apparel; administered protection in both developed and developing countries, especially anti-dumping

duties; developed country subsidies in agriculture; the extreme coverage and discipline of the WTO TRIPs agreement; and the volatility of short-term capital movements. There are also several other issues on which I certainly sympathize with the globalization critics, even though I may not be prepared to agree with them fully:

- Although I reject the claim that the WTO would be more democratic if it included a voice for nongovernmental organizations (NGOs), I do agree that WTO decision making seems to be unduly dominated by the rich countries, and some more formal means of representing developing country interests should be devised.
- Likewise, although I see the danger inherent in opening WTO dispute settlement to public view, on balance I think the benefits outweigh the costs.
- I have little patience with the view that the IMF and World Bank are motivated by ill will in their prescriptions for policy changes in developing countries, but I do believe that some of their advice has turned out to be unfortunately misguided and destructive. I hope and believe that they will learn from that experience and pursue their aims of truly helping developing countries in the future more successfully.

II. The Critics' Models

In reading what the critics have to say about globalization, I came across hints of several views about why it is that globalization has such perceived harmful effects. What I want to suggest here are a few models that may capture pieces of what the critics may be thinking. All

of these models focus on the behavior of "capital," which I take to stand for the managers of large firms rather than necessarily their owners. I will call these people "capitalists" for want of a better term.

The Anti-Labor Model

One idea is simply that the capitalists share, in one respect, the point of view of the globalization critics: they believe that they are engaged in a struggle in opposition to labor, and that, in order to win, they must reduce as far as possible the economic benefits that accrue to labor. That is, they see labor as in some sense the enemy, and victory for them requires defeat for labor. Thus, whenever capital has the opportunity to reduce what it pays to labor, either per hour or in total, it will do so.

Now that statement cannot, in itself, provide a workable model, since on its face it predicts that all use of labor would simply stop, and that the economy would shut down completely unless the capitalists can find a way to produce with machines alone. The view here may well be that this is the ideal, but since it is not (yet?) possible, we must modify the model somewhat to have it make any sense at all. My thought would be, then, to assume that capitalists take advantage of any opportunity they can to reduce payments to labor, so long as doing so does not actually cause their firm to make a loss. Thus they do not seek to maximize profits, necessarily, but rather to minimize payments to labor subject to the constraint of zero (or perhaps "normal") profits.

Please don't ask me the question of why they would do this, since I cannot answer it. But it does seem to me that some of the more extreme globalization critics have in mind exactly

such an adversarial view of capital and labor, and that they believe this to be the case. If capitalists shared this view of the world, then perhaps they would in fact behave this way.

What does this "model" imply? If we interpret it together with all the other usual assumptions of perfect competition, then it actually does not generate any implications that are different from the standard model. With free entry and exit of firms, and with common knowledge of available technology, we may expect profits to be driven to zero. These anti-labor capitalists will then have no room to exercise their supposed preference for hurting labor. In order to avoid making a loss, they will have to do all the things that a profit-maximizing capitalist would do, including hire labor up to the point that the value of its marginal product equals its wage. Failure to do so will induce entry by other capitalists who are willing to operate even marginally closer to this condition, and drive those who fail to observe it out of business.

Admittedly, the assumption of free entry fits uneasily with the assumption that capitalists seek to hurt labor, so perhaps a better assumption would be that capital in an industry is fixed and that positive profits are possible. And even with free entry, other market imperfections such as patents or trade secrets that secure a technology for a single firm may lead to positive profits. And it is here, with positive profits, that this model generates implications that are different from the conventional model.

With the potential for positive profits, the anti-labor model predicts that, given a wage, firms will hire less labor than would maximize profits, sacrificing this profit in order to hurt labor. And if firms also have some market power over the wage, so that they need not take the wage as given, they will also seek to depress wages below the levels that would maximize profits. I

will start with the first case, a potentially profitable firm that is a perfect competitor in the labor market.

Such a firm may or may not have market power in its product market. If it does not – if it takes the price of its output as well as the wage and other prices of inputs as given – then rather than hiring labor up to the point that the value (at these prices) of the marginal product of labor equals the wage, it will hire less labor than this. Thus in its anti-labor equilibrium, the value of labor's marginal product will be greater than its wage. In principle this might provide us a way of distinguishing the behavior of anti-labor capitalists from normal profit-maximizing ones: if price-taking firms display a value of marginal product of labor that is greater than the wage, then this would be evidence of such antipathy toward labor.

Thus, if we could learn how much output a firm could achieve by employing an additional unit of labor, and if we believed the firm to be a price taker in its output market, then we could just multiply this price times the extra output and compare to the wage in order to infer whether it is deliberately trying to hurt labor even at the expense of its own profits. If an additional hour of labor in a shoe factory, for example, could produce one additional shoe with a value of, say, $20, then evidence that the firm pays less than a $20 wage would support this model of capitalist motivation.

Unfortunately, however, things are not this simple if firms have market power over the price of their output. Indeed, this same condition would also necessarily be violated by profit maximizing firms if they have such product market power. With product market power, firms expand output only to the point that marginal cost equals marginal revenue, not price, and this too implies that the value of labor's marginal product is greater than its wage. The condition for

equilibrium here is, instead, that the marginal-revenue product of labor should be equal to the wage. Calculation of this requires knowledge not just of the marginal product and the price, but also of the level and the elasticity of demand for the product. This is therefore a much more demanding condition to check. For the hypothetical shoe manufacturer above, we would need to know how much price of shoes would have to fall in order to expand demand by one shoe, and what this would do therefore to the revenue from all sales of shoes together. In principle, I suppose, this could be ascertained, but the calculation would be so sensitive to the data used that I doubt much confidence could be placed in the results. Some other implication of the model might therefore be more useful.

Such an implication is not hard to find. This anti-labor model not only implies, in the case of profitable firms, that they will hire less labor than would be optimal for profits. It also implies that they will produce less than the profit-maximizing output, keeping output down precisely in order to avoid benefiting the hated labor. Thus we can ignore labor altogether and simply ask whether the firm could be making a larger profit than it is, if only it were to produce and sell more product. Thus, those who wish to provide evidence for this sort of anti-labor behavior need only show that firms could be making more profits if they were to produce more output and sell it for a lower price.

I do not doubt that, if such evidence were to be found, defenders of capitalism would respond by finding explanations for it other than a desire to hurt labor, and some of these defenses need to be accounted for in any sensible test. Thus, for example, the true demand for a branded shoe may depend in rather unconventional ways on both its price and on the quantities being sold, as signals of its quality and/or its level of market cachet. Thus the usual

estimation of market demand curves may not be appropriate for evaluating such a market. But regardless of how one diagnoses the problem faced by the firm, the objective of defenders of this anti-labor model of capitalists should be to show that capitalists are sacrificing profit in a way that hurts labor.

Another implication of this model that distinguishes it from the profit-maximizing model can be found in the response to a technological improvement. Suppose an improvement occurs that increases output for each level of labor input in an industry for which demand is elastic. If firms were to hold employment constant, industry output would rise and price would fall while still increasing revenues and thus profit. Since the improvement would increase the marginal product of labor, profit-maximizing firms would increase their demand for labor and expand. But labor-minimizing firms would see the increase in profit as an opportunity to reduce employment, and they would do so. If the industry faces an upward sloping supply of labor, then the wage will also rise in the first case and fall in the second. But even without that we find employment in the industry expanding under profit-maximizing firms and contracting under labor-minimizing firms. Thus the response of such an industry to an exogenous improvement in labor productivity provides another possible way of distinguishing conventional models from this anti-labor model.

The Labor Monopsony Model

Consider now a model in which capitalists are after all quite rational, seeking simply to maximize their own well being and not directly concerned about that of labor, positively or negatively. This is the assumption that we economists are most comfortable with, but unlike our

usual models in which self-interested capitalists lack market power, assume now that they are somehow able to collaborate and act in their collective self interest. That is, capital is managed as a monopoly, the purpose of which is to maximize the total returns to capital. Thus, capitalists exercise monopsony power in the labor market. This is a sort of conspiracy theory of factor markets, and it also I gather has a Marxian flavor.

Within a closed economy, these monopsonists would pay lower wages and employ less labor than perfect competitors, in ways that I will explore in a moment. International trade alone will not lessen that market power, but international capital mobility will, if the conspiracy is at the national level and yet foreign capitalists, not part of the conspiracy, are permitted to employ domestic workers. Since that seems to be the essence of the much vilified transnational corporation, the assumption of collaboration only at the national level will not get us very far. Instead, this view on the part of the critics would seem to require that the monopsony be global. That is, the capitalists of the world are united in collectively exploiting labor as best they can, given labor's behavior as suppliers.

Countervailing against this, one could assume that labor too is able to act collectively, though this seems unlikely on a global basis, and in any case it is not the model of the critics. I assume therefore that labor acts competitively, individual workers supplying labor in passive response to whatever wage the capitalists collectively choose to set. This wage will then depend on the nature of this labor supply curve in each country.

Of course, if labor supply were perfectly elastic at some wage, then the monopsony power would be meaningless: the capitalists would be wage takers in spite of their ability to collaborate. If on the other hand labor supply were everywhere perfectly inelastic, then the

capitalists would simply reduce the wage to zero, making the assumption of inelasticity untenable. We must therefore assume an upward sloping labor supply curve, one that is presumably quite elastic at the subsistence level where workers' effectiveness is compromised by poor nutrition, but that becomes less elastic at wages above this.

The standard model of monopsony then tells us what to expect. Whereas competitive labor demanders would present a demand for labor that is the value of its marginal product, monopsony demanders will hire less than this, setting a level of employment that equates the value of labor's marginal product not to the wage, but rather to the marginal wage bill. They then set the wage to elicit that amount of labor. The result is, as in the previous model, a wage that is less than the value of labor's marginal product. Thus the observation that labor is paid less than its marginal product would be consistent not only with the previous model of capitalists that irrationally seek to hurt labor, but also with this monopsony model. On the other hand, the monopsony model shares the property of the competitive model that a technological improvement in an elastically-demanded industry will cause that industry to expand, in contrast to the implication that we saw above for labor-minimizing firms.

International Political Economy

While the most standard economic models of international trade have focused solely on economic processes and economic actors, there has long been an interest also in political processes, usually for the purpose of trying to understand why governments so often restrict trade. What has not, to my knowledge, gotten much attention is the interaction between private and public sectors beyond the realm of simple protection and especially into the realm of international economic rule making. And yet much of the rhetoric of globalization's critics suggests that they believe that the rules of the international economy have been tailored to the interests of large corporations. This, to me, suggests the need for a model in which capitalists attempt to influence political actors, but where this influence extends far beyond the setting of tariffs into other aspects of international economic policy, and especially into the setting of the rules of the international trading system.

For example, suppose that we take an existing model of the political economy of protection and expand it to allow, as a policy option, export subsidies. Since these have much the same effect on profits in an export industry as do tariffs in an import competing industry, we should expect that political processes would promote their use just as they do protection. That is, political actors will be motivated to strike a compromise between the general interests of the electorate, which presumably favor free trade in both export and import-competing industries, and the special interests of lobbying firms in these industries. If corporate profits are the main driver of trade policy, then we should see export subsidies in exporting industries, just as we see import tariffs in import-competing industries. Of course, both of these policies may be constrained by international agreements such as the GATT, raising the separate question of how

these institutions and their rules are influenced by political pressures. But the constraints themselves, and perhaps various efforts to circumvent them, may be taken as evidence of the power of capital to capture the political process and secure these policies.

In contrast, an alternative model might place power to influence the political process in the hands of labor rather than capital. Labor is employed in both exporting and import-competing industries, so it might be thought that it would lobby for the same policies as capital. But whereas tariffs benefit existing workers by preventing their industries from contracting, export subsidies primarily benefit workers who will be added to an industry as it expands, and neither they nor their union may know who they are in advance. Such a model therefore suggests that the political power of labor, if it exists, will primarily generate import protection, while that of capital will generate both import protection and export subsidies.

It is tempting, therefore, to counter the critics by observing that the GATT prohibits export subsidies but actually permits import tariffs, constraining the latter only by prohibiting their increase beyond bound levels. Can we take that as evidence that trade policies favor labor more than capital? Perhaps. But in fact export subsidies are far from nonexistent, in spite of their supposed prohibition under the GATT. In agriculture they have been explicitly permitted, and getting rid of them today is proving to be extremely hard. Even in manufacturing, although industry-specific export subsidies do seem to be effectively curtailed, programs like the United States Foreign Sales Corporation, which the WTO has now judged to be an export subsidy and which the United States is finding it politically very difficult to abandon, suggest that export subsidies have never yet been eliminated.

Adding export subsidies to the menu of policies in a political-economy model only begins to capture the role that political forces, and thus corporate capital, might play in international trade policy. Although formal modeling of these effects might be too cumbersome to pursue, it is surely plausible to imagine that one country's exporters may play an active role in inducing its government to press another country to reduce its trade barriers. These may be simple tariffs and quotas, or they may involve much more subtle regulations and practices that the exporters perceive as interfering with their "market access." Indeed, the exporters have an incentive to allege the existence of such invisible barriers whether or not they exist, since they will benefit from efforts to offset them in either case. Thus, policies of "voluntary import expansion," such as were urged upon Japan by United States policy in the 1980s, could be taken as evidence of lobbying by capital especially if the Japanese barriers to imports were in fact imagined. Not that such lobbying needs to be inferred indirectly; it was done quite openly and was alleged to be based on the principles of free trade.

If such barriers are explicit or otherwise demonstrably exist, then I suppose the standard model would be that enlightened governments negotiate with others to pursue free trade simply because they recognize the compelling intellectual case for it, passed along to them by academics. But surely as plausible a model is that these governments are actually responding to political inducements offered them by export interests. And export interests, as noted above, are more plausibly those of capital rather than labor.

What about the making not of trade policies themselves, but of the rules that countries accept as constraining those policies? Are these subject to political processes, and do they respond to the interests of capital and/or labor? It seems obvious that they do, even though I

know of no formal models that try to capture this effect. Models of the GATT, for example, such as Bagwell and Staiger (1999), focus mostly on the process of negotiations under the GATT and WTO, and not on the rules of these two institutions. Indeed, I am not sure that the original structure of the GATT – as it was drafted in the mid-1940's amid the idealism of the anticipated postwar recovery and the fear of a renewed Great Depression – requires a conventional political-economy explanation. Also, at that time the process of international institution building was new and uncertain enough that I doubt that private sector interests, including corporations, were yet aware of the potential to gain advantage by influencing the rules. But over subsequent decades of GATT and other international negotiations, they surely learned. The forces of economic self interest expressed through politics seem to be written all over the more recent expansion of the GATT as embodied in the WTO, and also in other international trade arrangements that have been negotiated or contemplated especially during the 1990s.

The Canada-US Free Trade Agreement of 1989 may have been the last agreement to be relatively free of political-economic influence. It seems to have arisen primarily out of Canada's frustration with US application of administered protection, together with a new US willingness to negotiate bilaterally when multilateral negotiations seemed to be bogged down. But the FTA may have awakened corporate interests in both countries to what could be accomplished through trade agreements, and they became active players in the subsequent negotiation of the NAFTA. Ross Perot, with his "great sucking sound," greatly exaggerated the role that the NAFTA would play in permitting industry to migrate into Mexico, but he was quite

correct that many US corporations supported the NAFTA and participated in drafting its rules because they hoped to take advantage of its provisions.

During the NAFTA debate, critics made much of the fact that the agreement occupied such a large document, including far more complicated provisions than one might have thought were necessary if the aim were simple free trade. On the one hand, this criticism was unfair, in part because it covered so much more than free trade. Also, as a free trade agreement – unlike a customs union with a common external tariff – NAFTA intrinsically requires rules of origin that necessarily are somewhat complicated to spell out. But on the other hand, the NAFTA rules of origin are well known to be far more complicated than would be necessary, with details that reflected both the fine points of sector-specific negotiations and also the influence of industry representatives who were involved in the negotiating process. The NAFTA agreement grew to the size it did in part because, like an omnibus legislative act that tries to cater to a wide variety of interests in Congress, it incorporated numerous provisions designed to satisfy special interests in each of the negotiating countries and especially in the most powerful country, the United States.

Did those interests include both capital and labor? I don't know, and I think a study of the NAFTA text to ascertain the contributions of the various interests involved would be worthwhile. But judging both from the fact that it was negotiated by a Republican administration in the US and from the perceived need by the Democrats who then took power for a separate side agreement on labor issues, I am sure that the original NAFTA agreement reflected the interests of capital far more than those of labor.

One might argue that any free trade agreement will seem to favor capital over labor, without capital necessarily participating in the negotiating process, and this may be true. But there are features of the NAFTA that seem especially to favor capital. The rules of origin in the automobile industry, for example, are explicitly designed to favor US-owned companies compared to their Japanese-owned rivals, without any similar tilt that I know of toward US workers. The rules for the trucking industry, in another example that I happen to favor, are very much for the benefits of the industry's corporate customers, and they have been so resisted by the US truckers themselves that they have still not, as far as I know, been implemented. Finally and most egregiously, consider the now notorious NAFTA Chapter 11, which gives foreign direct investors a private right of action against host country governments. This can only have been inserted into the NAFTA in the interests of capital, since it gives corporations a level of recourse against governments that they have been unable to obtain under domestic laws, even in the United States. To me, with only very partial knowledge of what the NAFTA includes in its lengthy agreement, all this suggests that the rules of NAFTA were indeed drafted for the benefit of corporations. It is also very plausible that they should have been. The incentive for drafting rules in their corporate interests seems easily as clear as the incentive to seek tariff protection. Furthermore, government negotiators were eager to seek their participation in the negotiations, both in order to lighten the workload and to smooth the way toward passage of the agreement once it was completed.[5]

[5] See Deardorff and Hall (1998) who stress the role of lobbyists in the United States in helping with the workload of legislators.

At the same time that the NAFTA was being negotiated, the Uruguay Round was also plodding along, and it too had extensive participation by corporate interests. Not everything that found its way into the resulting agreement can be attributed to this, by any means, but some of the major components of the resulting World Trade Organization, both good and bad in my view, seem clearly to have been the creation of capitalists. Exceptions include the strengthening of anti-dumping rules, which seem to reflect the interests of both labor and capital in import-competing industries, and the scheduled termination of the Multi-Fibre Arrangement, which actually goes against certain corporate and labor interests in developed countries in favor of the developing world.[6]

The latter, however, was viewed as a price that the developed world and a larger corporate constituency was willing to pay in return for the TRIPs agreement, which strikes me as the best evidence yet of the role that corporate interests have been able to play in the setting of the international rules of trade policy. The TRIPs agreement was sought by a subset of corporate interests who perceived that they were losing profits from unauthorized use of their intellectual property (IP) – patents, copyrights, and trademarks – in countries with weaker or more laxly enforced intellectual property rights regimes than exist in most industrialized countries. They lobbied aggressively, first to include IP in the Uruguay Round negotiations under the heading of Trade Related Intellectual Property Rights (TRIPs), but then expanding the coverage of these negotiations well beyond what could plausibly be called trade related to include the entire domestic IP regimes of all member countries. The result was to require that all

[6] I don't know, however, what role corporate importers such as WalMart may have played.

WTO members implement and enforce IP regimes comparable to those in the developed countries.

IP protection is certainly not a bad idea economically, even though the obvious beneficiaries are the owners of IP rights, most often corporations. Without IP protection, the incentive to produce IP – to invent, write, or otherwise create – is weak or nonexistent. IP protection grants to owners of IP monopoly rights over their creations, thus providing that incentive. But the monopoly power distorts market signals, leading to an equilibrium that is inefficient. And worse, it distributes income toward the owner of the IP and away from its consumers. In the case of the products most affected by the TRIPs agreement, this means that they are provided at inefficiently low levels and that, compared to the regime in which IP protection was absent from developing countries, income has been redistributed away from them and toward the corporate owners of IP in the rich countries.

From the point of view of the corporations that operate most successfully in international markets, the TRIPs agreement seemed like a natural extension of other aspects of the GATT, in that it extended their market access into developing countries. But from the perspective of the economic case for free markets and free trade, it did not fit in at all. It is no accident that within the GATT "protection" is viewed as a negative, while within TRIPs the same word has a positive connotation. The GATT is about making markets freer, while TRIPs is about making them less free, albeit with the admirable purpose of promoting innovation and creativity. Thus the fact that TRIPs became part of the WTO is surely evidence of the growing role of corporate interests and a move away from freedom of markets as a guiding principle. IP protection, like

tariff protection, distorts markets at the expense of consumers for the benefit of a subset of producers.

The corporate role also seems to have been decisive in creating the other new component of the WTO, the General Agreement on Trade in Services, GATS. Here, as in the role of corporations in pushing for reduced barriers to exports, I see this role in a largely positive light. The fact that the GATT did not cover services from the start was due to the administrative difficulty of addressing them, and not to any intrinsic reason why trade in services should be less free than trade in goods.[7] However, it was certainly not the intellectual case for free trade in services that put them onto the agenda of the Uruguay Round negotiators, but rather the active influence of large international corporate service providers, who lobbied governments especially in the United States to bring them on board. Indeed, it was only after corporate pressure set the agenda for services trade liberalization that academics like myself thought to look at the economics of the issue. Again, therefore, as in the case of TRIPs but here with more unambiguously positive effects, it was the corporate capitalists who were responsible for this entirely new initiative in international trade law.

Since the completion of the Uruguay Round and the formation of the WTO, international rule making has moved out of the spotlight. Within the WTO, further negotiations have reached new agreements in the areas of financial services and basic telecommunications, both of which consisted primarily of balancing the corporate interests from different countries.

The only other new initiative of which I am aware prior to the current Doha Round has been the negotiations within the OECD of a proposed Multilateral Agreement on Investment,

MAI. As I understand it, this was intended to do for international investors worldwide much of what the NAFTA had done for them within North America, and as was the case there, the initiative came from corporations. The case for relatively free international movements of real capital, in the form of FDI, is similar to the case for free trade, and therefore this initiative might well be expected to be beneficial. But because it was focused almost exclusively on the rights of investors, rather than on the benefits that their investment might provide to consumers, it also may well have included bias in favor of corporate interests.

In fact, I do not know a great deal about the MAI, which attracted the attention of globalization critics well before it attracted mine. The critics today take credit for having derailed this initiative, though I am told that this failure, like that of the WTO in Seattle, had more to do with conflicting interests among the negotiating countries than with pressure from NGOs. In any case, the MAI does not today seem to have much chance of being revived. My sense is that its demise may have marked an important change in the international rule-making environment. Corporate interests may have been the first to recognize the potential for gain from influencing international rules, and they exploited this leverage on world affairs quietly and effectively during the NAFTA negotiations and with the creation of the WTO. But today many other interests have been alerted, and they have shown their presence, if not their influence, in the fight against the MAI.

I conclude that a political economy model of international rule-making is still what is needed to understand events. However, while the model of the 90s may have been one in which corporations alone wielded power related to their positions in international markets, the

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[7] See Deardorff (1985).

model from now on will include competing players. Corporations will continue to be an important influence, but now they must contend with countervailing forces from more organized labor, as well as from NGOs representing the environment, human rights, and other issues. Furthermore, while in the 90s the corporate lobbyists only had to deal with government of the industrialized countries, today the developing countries are increasingly recognizing also the importance of advancing their own interests. With all of these other forces to contend with, it remains to be seen whether corporations will continue to wield the power that they may have in the past.

III. Conclusion

In preparing for this talk, I read more than I ever had before of the writings of globalization critics, including several books and numerous items on the web. My intention, as I have said, was not only to find out what their criticisms were, but also to infer, if I could, something about the worldview that underlay their criticisms. There are of course plenty of faults in the world trading system that I can identify and deplore within my own worldview. But many of their other criticisms simply make no sense within the traditional neoclassical, neoliberal model of a perfectly competitive world economy that, like most economists, I take as my starting point for understanding the world. Nor do many of these criticisms make much more sense if one relaxes the assumption of perfect competition and allows various market distortions to enter the picture. Therefore what I have sought to find were alternative models, ones that I would not necessarily even begin to believe myself nor expect other economists to subscribe to,

but that might capture important features of how at least some of the globalization critics view the world.

My purpose in doing this has most definitely *not* been then to take issue with these alternative assumptions, by saying for example that it is implausible that the world's capitalists are so cohesive that they are able to coordinate in collusive behavior toward labor. The assumptions of the neoclassical model are no doubt very implausible as well. Rather, my ultimate objective is to find testable implications of such alternative models, implications that differ from those of the neoclassical model and that might provide an opportunity to differentiate between it and them, or among them. I have not achieved this objective in this paper, but have only suggested several such alternative models that, I hope, others will want to develop further and explore.

I will not recapitulate here the three alternative models that I have suggested above. Rather, I'd like to close by reporting how my own attitudes toward globalization have changed during the course of this exercise of reading and writing.

As I mentioned to colleagues along the way, I sometimes felt that I was brainwashing myself by reading the works of globalization critics. Particularly, perhaps, because I was determined to keep an open mind to their point of view rather than constantly marshalling my economist's presumptions against them, I found as I read that I too sometimes became appalled at the state of the world that they described. I too sometimes easily accepted that it was globalization that had in some manner contributed to this situation.

In the end, what I realized was that my previous defensive posture towards the critics of globalization had perhaps prevented me from giving proper weight to the flaws in the world

system that even defenders of globalization have long deplored. I tended, before this, to dismiss those flaws as exceptional and to focus instead on the much broader good that I thought globalization could do and had done. The latter, I still think, was appropriate, but the flaws deserve attention too. Some of these flaws, like textile protection and agricultural subsidies, can properly be seen as globalization not going far enough, failures that deprive a large part of the world from enjoying the benefits of globalization that are rightfully theirs. But others, like TRIPs and short-term capital flows, do genuinely reflect globalization going too far, and the reason for them seems easy to identify in the strong political role played by powerful corporations.

Perhaps more than most economists, I am personally predisposed to see corporations as beneficial to society.[8] It seems obvious to me that corporations have made possible a level of well being throughout most of the world that far exceeds what could have been achieved without them. The invisible hand of the market only partly accounts for this, since large corporations clearly have far more power over markets than we assume in our competitive models. But as long as these large corporations are forced to compete with one another and also with small new entrants that may at any moment emerge – a level of competition that requires the active vigilance and sometimes enforcement by government competition authorities – I have no doubt but that they do far more good than harm for the vast majority of the world's population. And indeed, within the markets in which they operate, corporations are much more vulnerable to public opinion and therefore powerless than is often thought. (This, incidentally,

[8] This is not because of any personal corporate connections. Neither I, nor any of my forebears that I know of, have owned any capital to speak of, except perhaps for my pension holding in TIAA-CREF. Nor have we worked in any capacity for corporations. I really don't know why I take this view.

was one of the surprising messages that I got from reading Naomi Klein's 2000 book, *No Logo*, though probably not the message that she intended.)

But it is also true that much that is wrong with the world trading system reflects the influence of private-sector actors on the public sector, including especially some of the international rules and the actions of international organizations. Such influence has been wielded to some extent by the labor movement and by NGOs, but at least until recently I think it is clear that it has been wielded far more by corporations. For all of these groups, the influence is sometimes good and sometimes bad, but because it by definition reflects special interests, not general interests, one cannot count on it being beneficial.

So the result of my reading is now that I am much more attuned than I was before to the role that special interests, including but not limited to corporations, play in the setting of international economic policies and in the writing of the international rules under which such policies are conducted. I suggest that others like myself should become similarly attuned.

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