

A Demonstration of Globalization's Benefits for the Economies of the World

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Since the dawn of man, economies have been changing and expanding, but most importantly, converging. In recent years, although economic convergence has been occurring for ages, this idea has become a hot topic of political and economic debate. Do the benefits of globalization outweigh its costs? How can the costs and benefits even be empirically measured? These questions may be left to interpretation, but this discourse has the intention of evaluating both and proving the benefits to be greater than the costs.

Globalization is a trend difficult to define. Paul Masson describes it as a “phenomenon whose economic dimensions involve increases in the flows of trade, capital, and information, as well as mobility of individuals across borders” (2). Others have defined globalization as a “historical process, the result of human innovation and technological progress” (Globalization). Thomas L. Friedman, after 469 pages, comes to more or less the same conclusion. Globalization spans so many fields: labor, the economy, politics, and technology; therefore, it is difficult to capture. The virtual absence of borders in the transfer of ideas, capital (including human capital), and technology is a very concise and fitting characterization of globalization in the twenty-first century.

To account for the most recent wave of globalization, Masson, as well as Friedman, provide compelling and plausible causes. Masson highlights a decline in transportation and communication costs over time, an increase in health and education, and more free trade than ever before (5–8). For example, it cost \$60.42 to make a 3-minute telephone call from New York to London in 1960, but only \$.40 in 2000 (Masson 6). The world has drastically become more accessible to the producer and the consumer. Trade, commerce, and other business transactions are thus significantly expedited. Friedman touches on a few specific historical events that contributed to the modern wave of globalization. The fall of the Soviet Empire and the end of Communism in Eastern Europe, the creation of the World Wide Web and new software, and finally, the outsourcing and offshoring of jobs and entire industries are a few of the main causes he presents (Friedman). These events did indeed bring about much political, technological, and socioeconomic restructuring.

In a purely statistical and subjective analysis, globalization proves to have many advantages. During the 20th century “global per capita GDP increase[ed] almost five-fold,” the flow of private capital sharply increased, and technological innovation occurred (Globalization). These are the factors of globalization and also, more importantly, the factors that sustain and improve standard of living. Standard of living is the most accurate description of a nation's well-being. Over the span of forty years (1960–1999), the infant mortality rate in Mexico dropped from 93 (per 1,000 live births) to 29 (Masson 8). The life expectancy for the average Chinese citizen increased from 36 to 70 years (Masson 8). Even the countries of sub-Saharan Africa made improvements in infant mortality, life expectancy, and adult literacy. Everyone gains from globalization.

Despite the benefits, critics still avidly express their disaffection for globalization and free trade, mostly for its inequities, security issues, and unpredictability. As countries' economies

grow, there exists no way to guarantee equity. The Gini Index indicated an income inequality between the rich and the poor to be 37.8 in the United States and 59.6 in Brazil (Masson 12). Global income per capita may have risen, but there has been very little improvement in income distribution for some less developed nations; income distribution is more unequal than it was at the start of the 20th century (Globalization). The countries with more stable governments, capital, and higher quality of education will have the resources to improve with globalization. Currently, the most captivating argument for critics of globalization in the United States is protectionism. Many people fear globalization and wish to vote against policy to expand trade because of the consequences faced by national security and job security. Globalization, by means of outsourcing, does destroy domestic jobs (jobs that can be done more efficiently in other nations). There is a very low demand for technology assistance operators in the U.S. labor market because laborers in India can do the job for much less. Protectionists also believe in taxes, subsidies, and tariffs to allow the protection of infant industries until they are able to compete in the world market (Mankiw 194). Lastly, protectionists fear for national security. If the country were to go to war, certain industries (especially production industries) would be unavailable (Mankiw 194). People fear the volatility of such rapid growth. Masson notes that “the 1990s saw a series of financial crises,” mostly due to the explosion of information technology (13). Fearing another dot-com bubble and bust, skeptical investors refuse to allow more economic expansion.

The faults and shortcomings of protectionism can be highlighted through the basic and logical principles of free trade and comparative advantage. Comparative advantage is the idea that two parties are both better off by specializing in the production of the product that they can produce for a comparatively cheaper opportunity cost and then trading at a rate which brings surplus to both parties. The United States has a comparative advantage in producing services and highly skilled labor activities; therefore, the U.S. should produce highly skilled services and import other goods and services from nations that can produce them more cheaply. It is difficult to accept the fact that manufacturing, agricultural, and other such jobs will leave the United States and go to India, China, Russia, etc., but one must recognize that the United States economy as a whole benefits. Comparative advantage concedes to the protectionists that a few jobs are lost, but different jobs are created and the economic well-being is elevated. Trade, virtually free from tariffs, in itself extends a nation’s surplus. Exporting and importing both possess the power to hurt and benefit consumers and producers, but both yield a greater total surplus. For example, the U.S. may import bananas from Brazil because Brazilian bananas are a cheaper price than domestic U.S. grown bananas. At the new price, consumers gain a considerable area of surplus and producers lose some, but the total magnitude of surplus increases. When countries implement tariffs and anti-globalizing and protectionist policies, they incur an efficiency loss, as well as a smaller surplus than trade without barriers. Brazilian producers, sans tariff, enjoy a large increase in surplus, while the country’s domestic consumers do incur a small loss. Comparative advantage and trade sustain economic growth. Without economic growth, the United States would lose its power on the global playing field and its standard of living.

The other protectionist tenets are viewed as quite extreme and exaggerated cases or as rather difficult to implement. The idea that a country should not globalize and outsource because of the chance of war is extreme. With the most effective global peacekeeping and trade-enforcing organizations the world has ever seen, the advent of a war with nations deprived of necessary goods and services is tremendously unlikely. The protectionist policy for infant

industries is difficult to implement. A government cannot precisely determine when the right time is to let an industry loose into the global market or how much to subsidize or tax imports. Companies should incur losses (if they are inefficient) if they expect to grow and compete in the world market. Equity among nations is not necessarily desirable. An equal, but lower, standard of living for all nations is not conducive for the global economy, and it in no way promotes growth or progress.

In order for globalization to have its full effect and bring about the most benefits, governments and societies must adopt certain policies. The IMF designates these qualities as macroeconomic stability, pro-trade policies, encouragement of domestic competition, efficient government institutions, high-quality education and training, and external debt management (Globalization). A nation that carries out all of these policies will inevitably be successful in the globalized economy.

Nations are afraid to enter the new global economy, but they also fear the consequences of keeping themselves from it. Scepticisms can be eradicated with the data collected involving global standard of living, the principles of trade, and comparative advantage. It is more important now than ever before that the United States adopt policies and create institutions that will sustain and propel globalization. If not, then America can say good-bye to its position of preeminence and take a backseat to the more globalized nations.

References

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