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NEW THREATS TO GLOBALIZATION

Address to a dinner for the 20th Asian Trade Promotion Forum

Thursday 12 th April 2007

Sydney Opera House

by

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...But given that, and given the persistent refusal of the United States and the European Union to agree to bring trade in agricultural products under the same set of rules as those pertaining to manufactured goods, is it any wonder that nations (particularly those in the developing world) whose comparative advantage lies primarily in agricultural commodities see those rules as being stacked against them?

The second reason why protectionism may be gaining in popularity may be the growing dissatisfaction, particularly in the United States, with the way in which the rewards of globalization are being distributed. There are two aspects of this on which I want to focus this evening.

The first is the growing share of national income accruing to businesses as distinct from households. In 2006, after-tax corporate profits represented 12.2% of US GDP. By a wide margin that is the highest proportion since at least 1929; over the past 77 years this ratio has averaged 5.9% and, prior to the present decade, had exceeded 7½% only five times (the last such occasion being in 1950).

17 Adam Smith, *The Wealth of Nations* (1776; Penguin 1985), Volume 1, Book 1, pp. 232-3.
18 US Trade Representative's Office, *National Trade Estimate Report on Foreign Trade Barriers*, (Washington DC, 2 April 2007), pp. 104-5.
19 Which, in OECD countries, amounted to US$385bn in 2005, according to OECD estimates: OECD PCE/CSE database 2006.

7 Similar trends are apparent in many other countries. In Japan, for example, companies' current profits were last year higher as a share of nominal GDP than at any time since at least 1960. 'Entrepreneurial income' as a share of Germany's GDP in 2006 was at a post-reunification high, almost 4 pc points above its 1990s average.

Here in Australia, the gross operating surplus of corporate non-financial enterprises in 2006 was the highest since records commenced in 1959, and some 7 pc points above its five-decade average.[20]

In the sense that globalization has resulted in a significant increase in the global supply of labour relative to that of capital – the IMF's latest *World Economic Outlook*, published this week, suggests that the effective global labour supply has quadrupled over the last 25 years, with most of the increase taking place since 1990. 21

– this result is exactly in accordance with the long-established predictions of economic theory. [22]

To the extent that enhanced trade and productivity have boosted the size of the 'total pie', workers may still be better off in absolute terms even if their share of that pie has diminished – and the IMF suggests that this is indeed the case in all advanced economies. 23

But this may be of little comfort to householders – that is to say, voters – to whom their diminishing share of national income appears to be of greater importance. Nor has it been of any assistance in alleviating those grievances in the United States in particular, that taxes on corporations have been cut at a time when their share of national income has been rising sharply.

The second aspect of the distributional question is that, in the United States at least, the distribution of income among households has become considerably more skewed (in favour of the highest income households). According to the US

Census Bureau, the top quintile of the income distribution has received over 50% of total household income in three of the past five years, for the first time since at least World War II. [24] The share of household income going to the top 5% of the income distribution topped 22% in 2005 for the first time.

As Federal Reserve Chairman Ben Bernanke has noted, 'skill-biased technical change … does not provide a complete explanation for this trend … especially the large wage gains seen at the top of the distribution … the variety of economic forces grouped under the heading of "globalization" may also have been a factor in the rise in inequality'. [25]

20 In Australia the 'corporate profits share' of national income (the short-hand term by which this measure is often described) has been boosted by the privatization of formerly government-owned enterprises.
21 International Monetary Fund, *World Economic Outlook* (Washington DC, April 2007), p. 162.
22 The Stolper-Samuelson theorem: see Wolfgang Stolper and Paul Samuelson, 'Protection and Real Wages', *Review of Economic Studies* Volume 9 (1941), pp. 58-73.
23 IMF, op. cit., p. 168.
24 Carmen DeNavas-Wait, Bernadette Proctor and Cheryl Hill Lee, *Income, Poverty and Health Insurance Coverage in the United States: 2005* (US Census Bureau, Washington DC,, August 2006).
25 Ben S. Bernanke, *The Level and Distribution of Economic Well-Being*, Remarks before the Greater Omaha Chamber of Commerce (Omaha, 6 February 2007), pp. 4-5.

As was the case in the late 19th and early 20th centuries, increasing inequality in the distribution of income provides a fertile soil for those seeking to sow the seeds of protectionism and other 'anti-globalization' policies. In that earlier era, the 'anti-globalization' backlash was initially led by populists such as William Jennings Bryan, but was quickly taken up by the Republicans under Theodore Roosevelt and continued under the Harding, Coolidge and Hoover Administrations in the 1920s and early 1930s.

Today, the protectionist charge may be being led by Democrats such as Charles Rangel, Charles Schumer and the recently-elected James Webb; but according to Republican Senator Lindsey Graham, 'this is one issue where Republicans and Democrats are together'. [26]

Once again, it has hardly assisted the cause of those who wish to argue against the proposition that globalization primarily or even only benefits the rich that taxes on upper-income earners in the United States have been explicitly reduced by the current Administration.

The more redistributive nature of Australia's tax-transfer system, by contrast, appears to have prevented a similar trend emerging in this country[27], at least as regards the distribution of income (although I am not as confident that this also applies to the distribution of wealth).

Ironically, the distribution of income is also becoming more unequal in China. By one account, the richest 10% of Chinese households now account for more than 40% of China's wealth, and the poorest 10% for only 2%.[28] However there is as yet no sign that these trends have contributed to rising anti-globalization sentiment in China, as they evidently have in the United States. That may be because the poor (at least in urban areas) and the middle classes are getting richer, and believe that they will continue to do so, even if they aren't getting as rich as quickly as the highest-income groups.

Nonetheless, the Chinese leadership has indicated it is acutely conscious of the need to ensure a wider distribution of the benefits of China's increasing engagement with the global economy.

A new emerging threat to globalization is the possibility that quite legitimate concerns about the environment may be used by protectionists as a cover to advance their cause.

With the growing acceptance by governments and businesses of the threat posed by anthropogenic climate change comes a danger that some will seek to use the contribution to greenhouse gas emissions made by the transportation of goods,

services and people to advance their urging of greater restrictions on the movement of goods, services and people across international borders.

26 Reported by Stephen S. Roach, Morgan Stanley *Weekly International Briefing* (New York, 5 April 2007), p. 2.
27 See, for example, Ann Harding and Quoc Ngu Vu, 'Income Inequality and Tax-Transfer Policy: Trends and Questions', Presentation to the 'Making the Boom Pay' Conference (Melbourne, 2 November 2006) available at www.natsem.canberra.edu.au/publications/papers/cps/cp06/cp2006_014/cp2006_014.pdf, pp. 9-12.
28 Rawi Abdelal and Adam Segal, 'Has Globalization Passed its Peak', *Foreign Affairs* Vol 86 No. 108 (January-February 2007), reprinted in *The Australian Financial Review*'s Review section under the title 'Globalisation becomes a victim of itself', 2 March 2007 pp. 9-10.

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It would not be surprising if industries which have traditionally enjoyed (and continue to seek) high levels of 'protection', and those who now purport to see something inherently noble in 'self-sufficiency' in food (a trend highlighted by the emerging practice of including 'food distances' on restaurant menus) sought to make common cause with those urging practical ways of ameliorating global warming. The European Union, in particular, has been seeking to have WTO rules altered to allow it to restrict trade on what it regards as 'environmental grounds'. 29

As Austrade's prolific Chief Economist Tim Harcourt points out, exports benefit economies and nations in many ways: they under-write economic growth; they encourage innovation and the transfer of knowledge; they generally achieve higher levels of productivity; they provide safer working environments and invest more in the training of their work forces; and they create personal as well as business relationships between nations. [30]

But as Tim Harcourt also says, 'we can't have exports without imports'. **Export promotion agencies need to be at the forefront of efforts to persuade people of the broader benefits of trade and investment liberalization, to ensure that those benefits are widely and fairly distributed (and seen to be so), and thereby help to counter the siren song of protectionism which once again threatens to grow in intensity to the detriment of us all.**

29 See Alan Oxley and Steven Macmillan, *The Kyoto Protocol and the APEC Economies* (Australian APEC Study Centre, Monash University, November 2004), pp. 24-25; **and Lawrence A. Kogan, *'Enlightened' Environmentalism or Disguised Protectionism* (National Foreign Trade Council, Washington DC, April 2004), esp. p. 86.**
30 Tim Harcourt, *Why South Australia Needs Exports: The Economic Case for Exporting* (Austrade, 9 August 2006), available at http://www.austrade.gov.au/Why-South-Australia-Needs-Exports/default.aspx; and 'Exporters key to better productivity', *Australian Financial Review* (10 April 2007) p. 55.