The Social Consequences of Economic Globalization

"Yet it's bad economics to pretend that free trade is good for everyone, all the time. 'Trade often produces losers as well as winners' declares the best-selling textbook in international economics (by Maurice Obstfeld and yours truly). The accelerated pace of globalization means more losers as well as more winners; workers' fears that they will lose their jobs to Chinese factories and Indian call centers aren't irrational".

Krugman (2004).

1. Introduction

If mainstream international trade theories overwhelmingly point out the welfare to be gained by all countries in reducing trade barriers, some of these theories also clearly imply that trade liberalisation is not neutral, e.g. in terms of income distribution. International trade competition, alongside with technological change, has been considered as a possible explanation for increased wage inequality in some industrialised countries.

In some recent theories, free trade is shown to be potentially detrimental to technologically lagging countries. If this would be the case, trade liberalisation could actually hamper rather than spur economic growth in developing countries.

In this chapter, a critical review is proposed of some theoretical and empirical arguments in favour or in opposition to economic globalisation as a way to reduce the welfare gap between developed and developing countries or as a threat to the social cohesion in (ageing) developed countries.

2. In the Long Run: Lifting all Boats?

With the publication, in 1776, of the classical landmark *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith provided a first theoretical argument for the mutual gains from international trade. He showed that countries have an incentive to produce more of the goods that they can produce more efficiently (i.e. requiring less hours worked) than other countries and to export the produced surplus of these goods, in exchange for goods the other countries produce more efficiently.

In 1817, David Ricardo presented his theory of the *comparative advantage*, showing that contrary to the conclusion of Smith's theory of the *absolute advantage*, even a country that cannot produce any good more efficiently than another country, can improve its welfare relative to the autarky level, if it exports the goods that it can produce, compared to its trade partner, **relatively** more efficiently. Countries with an overall lower productivity level can therefore also gain from international trade[1].

Almost a century after Ricardo, Eli Heckscher and Bertil Ohlin linked the comparative advantage of a country to its relative endowment of production factors.
A country should export the goods that require much of those production factors it is relatively well endowed with.
This factor-proportions theory corroborated Ricardo's main conclusion, namely that all countries can reach a higher welfare level under free trade than under autarky.
The Heckscher-Ohlin (HO) model, which was further elaborated by e.g. Ronald Jones, Tadeusz Mieczyslaw Rybczynski, Paul Samuelson, Wolfgang Stolper and Jaroslav Vanek, relied on a number of rather restrictive (neoclassical) assumptions and starting with Wassily Leontief in 1953, empirical tests of the model did not seem to be very supportive (e.g. Bowen, Leamer and Sveikauskas 1987).
More recent empirical tests (e.g. Davis, Weinstein, Bradford and Shimpo 1997 and Hanson and Slaughter 1999) bolstered up the theoretical framework, though the fact that most of these tests are supportive of the HO model for interregional trade (within countries) suggests the importance of geographical distance.
The decreasing importance of distance, due to falling transportation costs and improved communication channels, is by many believed to be a driving force in economic globalization, suggesting that in the future empirical work could be more supportive for traditional trade theories that ignore transportation costs (e.g. the Heckscher-Ohlin model).

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[1] Keynes warned that the law of comparative advantage only applies if all nations have domestic policies that assure full employment. If not, countries can increase domestic welfare by forcing sales on foreign markets and restricting imports to maintain domestic full employment (Davidson 1999: pp. 11-12).

In some (endogenous) Growth models the gains from international trade are somewhat more ambiguous.

Grossman and Helpman (1991) stressed the importance of international commerce to facilitate knowledge transfer and spillovers but consider a number of cases in which international trade may actually slow down economic growth. If a country is relatively poorly endowed with high-skilled workers, trade liberalisation could reduce domestic R&D activities and shift production to stagnant traditional manufacturing industries. Even when considering international R&D spillovers such a country may grow more slowly under free trade than under autarky.

If spillovers are local, small countries performing little own R&D could specialize in traditional industries and even cease some innovative activities that would continue under autarky.

Governments of technologically lagging countries could *level the playing field* by encouraging domestic R&D activities though the impact of technology (and trade) policies will depend upon whether knowledge spillovers are local or global in scope (Grossman and Helpman 1991: pp. 337-339).

Aghion and Howitt (1998) also underlined the equivocal effects of trade liberalisation in models of dynamic comparative advantage in which technology is considered as an endogenous factor, intertwined with the world market.

Recently, Samuelson (2004) showed how even in a traditional simple (Ricardian) model with two goods and two countries with different productivity levels, technological progress in the lagging country could benefit the latter but hurt the more developed country, i.e. reduce the mutual gains from international trade. He points out that this conclusion holds in multi-factor models. Gomory and Baumol (2000) also find that, when accounting for rapid technological change and economies of scale, an increase in one country's productivity could harm all other countries.

Theories explaining the mutual gains from international trade have an outspoken long-run focus. As pointed out in this section, recent theoretical models are more ambiguous even with respect to the long-run gains. However, the recent globalization debate seems to

focus more on the short and medium-run (social) consequences than on the potential long-run economic gains.

3. Meanwhile, in the Short Run: Some Boats turning Turtle?

Free trade advocates feel backed up by mainstream trade theories to urge developing countries to open up to international trade as the best development strategy as well as to hackle most developed countries for only paying lip-service to the case of trade liberalisation, raising trade barriers (e.g. the Multi-Fibre Arrangement or export subsidies for the agricultural sector) with respect to those goods for which developing countries have a comparative advantage and disguising protectionist demands as genuine concern for social and environmental conditions in developing countries.

The sometime appraisal of import substitution as a way to initiate the industrialisation process in developing countries[2] gradually made way for a consensus on the virtues of a free market export-oriented development strategy, though in assessing the dynamic economic growth performance in East Asia, the World Bank (1993) conceded that, in addition to export-orientation, some degree of subtle import substitution and other types of state intervention probably enhanced the competitiveness of the Asian Tigers and Pussycats.

The successive General Agreement on Tariffs and Trade (GATT) rounds, culminating in the establishment of the World Trade Organization (WTO) in 1995, resulted in a gradual but substantial multilateral reduction of tariff and non-tariff trade barriers, which undoubtedly contributed to the considerable rise in world trade.

As the increasing number of demonstrations at meetings of the WTO show, a large number of non-governmental organizations and all kinds of less organized activists tend to disagree with the undiluted benign nature of the integration of all countries into a *global shopping-centre*.

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2 Prebisch (1950) reasoned that the persistent deterioration in the relative world market prices for raw materials harmed (Latin American) developing countries with a comparative advantage in primary goods. He therefore perceived inward-oriented policies as the appropriate way to support development through industrialisation.

A number of economists took the resounding objections into consideration.

Dani Rodrik, when wondering whether globalisation may have gone too far, believes that *much of what passes as analysis (followed by condemnation) of international trade is based on faulty logic and misleading empirics* but argued that economists have adopted an excessively narrow view on the impact of globalisation and did little to close *the yawning gap that separates the views of most economists from the gut instincts of many laypeople* (Rodrik 1997: pp. 3-4).

3.1 Poverty in Developing Countries

Stiglitz (2002), after recounting the virtues of globalisation for developing countries, fancied that for many in developing countries globalisation did not live up to the promises vowed by its supporters. According to Stiglitz, whereas in the 1990s world income increased by 2.5 per cent (on average), the number of people earning less than two dollars a day increased by 100 million. Stiglitz objects to the *Washington Consensus*[3], advocating privatisation, capital markets liberalisation and slimming of state intervention (i.e. reducing expenditures on healthcare and education), which he believed to have favoured commercial interests above the cause of environment protection, democracy, human rights and social justice.

In his view, not so much the WTO should be called to order but rather the Washington-based Bretton Woods institutions IMF and the World Bank, which have more power to push trough their free market agenda than the WTO. The latter is anyhow more of an umpire, observing the free trade rules agreed in consensus by its member states and arbitrating trade conflicts.

Jagdish Bhagwati dispatches the reasoning of his Columbia University confrère Stiglitz as *Jurassic Park* economics, *trying to revive dinosaurs, which we hoped we had slain*.

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3 The term *Washington Consensus* appears to have been introduced in 1989 at a conference organised by the Institute for International Economics to denote the consensus view of Washington-based international institutions like the IMF and the Worlbank, the US government and the Federal Reserve Board, with respect to policies that were promoted, if not imposed, in developing economies (van de Ven 2003: p. 16).

He brought forward the results of Xavier Sala-i-Martin, another Columbia University professor who, using data from 125 countries, stated that the number of people living on less than two dollars a day actually declined by nearly 500 million in the period 1976-1998.

Honouring the Columbia University idea of good-fellowship, Stiglitz apparently retorted Bhagwati's compliment: "*That is part of Bhagwati's charm, that he's such a curmudgeon*." (Hilsenrath 2002).

Crafts (2004) fears that Lucas (2000), when forecasting that global income inequality will decrease in the 21st century, due to neo-classical growth convergence, could have been overly optimistic. Crafts quoted New Geography theories, which consider the catch-up of a number of developing countries (e.g. Asian NIC) as a transition process of a happy few, favoured by location, rather than as an indication of general convergence.

Bloom and Sachs (1998) suggested that the disadvantageous geography of Sub-Saharan Africa could rather than political, social and demographic conditions, be the main explanation for the chronic poor economic growth performance of this region. Throughout history, tropical regions have lagged behind temperate regions and Sub-Saharan Africa is the most tropical region in the world, with a climate, soils, topography and disease ecology that raised unparalleled obstacles to growth.

Freeman (2004) judges that the battle between the adherents of the *Washington Consensus* and its discontents, though informed by trade theory, is largely empirical, but stated that both sides tend to exaggerate the impact of trade in the globalisation debate.

He contends that other aspects of globalisation, like immigration, capital flows and technology transfer have a far greater impact on labour markets and views the high volatility of capital flows as a potentially disruptive menace for developing countries.

Apparently, even sparring-partners Bhagwati and Stiglitz agree with one another that capital controls might had reduced the financial turmoil in some Latin-American and Asian emerging economies in the 1990s (Hilsenrath 2002).

The Asian financial crisis and the collapse of the *1990s poster country for globalisation*, Argentina, appear to have somewhat detuned the exuberant praise of the *Washington Consensus* by its adherents and Freeman contents himself with the indulgence of the

managing director of the International Monetary Fund that labour standards may benefit rather than harm the global economy (Freeman 2004: pp. 4-5).

Reviewing the empirical evidence on the impact of trade openness on growth and poverty in developing countries, Dollar and Kraay (2004) conclude that both individual case studies and cross-country growth regressions support the view that globalisation enhances economic growth and- on average- tends to reduce poverty in developing countries.
However, Winters (2004) subjoins that the evidence also shows that trade liberalisation alone does not boost growth significantly and that institutions play an important role in translating trade openness into economic growth.
On the other hand, Rodríguez and Rodrik (1999) believe that serious methodological problems do not permit to provide a clear-cut answer to the question whether lower trade barriers allow countries to grow faster and claim to find little evidence that lower tariffs and non-tariff barriers to international trade are significantly associated with higher economic growth.
Feenstra (2001) concludes that whereas few economists tend to doubt the beneficial effects of international trade, despite its impact on income distribution, evidence in support of the gains from trade, static or dynamic, is surprisingly thin.
But then again, Baldwin (2003) restate that the conclusion of most researchers that lower trade barriers, in combination with appropriate and stable exchange rates, prudent monetary and fiscal policies and corruption-free administration enhances economic growth, remains valid.

As the foregoing indicates, there is no consensus among economists about the impact of globalization on the position of developing countries. It seems however fair to say that if trade liberalisation offers developing countries a way to spur economic growth and raise the welfare of their inhabitants, history and common sense make it clear that liberalisation should be met with policies and institutions that allow countries to seize trade opportunities and that this may imply some degree of state intervention. However, the extent of state intervention that explains part of the strong growth performance of some Asian NIC fits awkwardly with nowadays principles of “fair” international trade

competition and is probably not an option for developing countries that are member of the WTO.

Today, the situation in many developing countries is still appalling and van de Ven (2003) rightly states that apart from environmental depletion, the closing of the indecently wide North-South divide is the true challenge of globalisation. Rich countries have the moral obligation to support developing countries in their search for a decent development level.

It would, however, be unfair to blame economic globalisation for everything that goes wrong with developing countries, as the situation of many poor countries was deplorable long before globalisation became a buzzword.

3.2 Inequality in Developed Countries

David Ricardo considered (homogenous) labour as the only relevant production factor. Therefore, income distribution between different factors was not an issue.

With the multi-factor Heckscher-Ohlin model income distribution was brought into prominence.

The Stolper-Samuelson theorem, i.e. one of the four core theorems of the HO framework, states that if a country opens up to trade with another country, the relative reward of its scarce production factor(s) will fall. So even if there is an overall net welfare gain from international trade, trade liberalisation is not Pareto-optimal, i.e. though all countries at the aggregate level may win, there could invariably be losers in all countries.

However, the fact that international trade is not neutral does not provide a valid argument against trade liberalisation. **If** there are net gains from trade, trade liberalisation in combination with income redistribution could result in a Pareto optimum, improving the welfare of all individuals.

Moreover, the Stolper-Samuelson theorem only holds if some goods are jointly produced in the countries considered. If countries would fully specialize, e.g. high-skill abundant countries in the production of high-skill intensive goods and low-skill abundant countries in low-skill intensive goods, there would be no competition between countries and trade

liberalisation would, as argued by Bhagwati and Deheija (1994) create a tide that lifts all boats, i.e. benefit all production factors in all countries.

Bhagwati (1998) reasoned that economies of scale could result in an improvement of overall efficiency due to trade competition, which could outweigh negative Stolper-Samuelson effects.

However, as pointed out before, Gomory and Baumol (2000) have shown that when accounting for economies of scale, a productivity gain in one country may actually harm all other countries.

Burkett (2000) and Schott (2003), using data for a panel of developed and developing countries, find indications that relative factor endowments are too divergent across countries to support a single-cone Hecksher-Ohlin model. However, countries do not appear to be fully specialized and there are a number of goods that both developed and developing countries produce.

Deardorff (2002) shows that with two cones of diversification, countries can produce the same goods with the same production techniques but with different relative intensity of production factors, given differences in factor rewards (which do not necessarily equalize as predicted by the Factor Price Equalization theorem in a single-cone HO model).

When in the 1980s the relative wages, as well as the relative employment, of low-skilled workers dropped dramatically in the United States, import competition from Newly Industrialised Countries (NIC), which was on the rise at about the same time, was soon to be lined up as a usual suspect.

The public prosecutor could invoke the Stolper-Samuelson theorem, which predicts that when a high-skill abundant country starts trading with a low-skill abundant country, the relative wages of low-skilled workers will fall in the high-skill abundant country and rise in the latter.

In the European Union, the trend in the relative position of low-skilled workers was rather mixed, with some countries witnessing a severe increase in wage inequality (e.g. the United Kingdom) and some countries were the unemployment of low-skilled workers rose substantially (e.g. Germany). This different pattern may still be explained by a

common cause though, affecting countries in a distinct way, due to cross-country institutional differences.

Labour market institutions (collective bargaining, minimum wages, unemployment benefits) are often blamed for causing high unemployment rates in a number of EU countries, as they are assumed to prevent market-clearing adjustment of wages though the evidence to support this view is not overwhelming (e.g. Agell 1999, Howell and Huebler 2001 and OECD 2004).

Different methodologies have been proposed to test the claim that international trade with Newly Industrialised Countries deteriorated the labour market position of low-skilled workers in industrialised countries.

In the mid-1990s, following the early empirical work, economists seemed to reach a consensus of opinion as to the at most limited impact of international trade. Skill-biased technological change (SBTC) ended up in the dock as the more likely culprit.

However, more recently a number of prominent trade economists uttered that the consensus may have been overhasty. Some new empirical methodologies and non-Heckscher-Ohlin theoretical models have been proposed that do not permit to exculpate international trade that easily.

Moreover, most empirical studies considered the situation in the United States. Relatively little research on this issue has been performed on data for EU countries, and if so mostly only for a single country. The substantial differences in institutions, trade flows and specialisation patterns between the United States and most EU countries, but also within the European Union, should warn against the extrapolation of previous results.

Estimations for a panel of EU countries in the 1980s and 1990s suggest that international trade competition from the NIC did affect the position of low-skilled workers in the EU, be it in terms of a rising skill premium or increased unemployment, though it is not likely to be the dominant explanation for the weakened labour market position of low-skilled workers in most industrialised countries (Cuyvers et al. 2003 a, b).

According to Arbache, Dickerson and Green (2004) the empirical evidence on the East Asian NIC seems to support the view that trade liberalisation reduced wage inequality, as

predicted by the Stolper-Samuelson theorem, but for a number of Latin American developing countries which opened up to trade more recently, wage inequality seems to have increased.

Krugman (2004) discounts pretending that free trade benefits all the people all the time as bad economics and reasons that the accelerated pace of globalisation implies not only more winners but also more losers. He does not dispatch workers' fears of losing their jobs to Chinese factories or Indian call centres as irrational.

If a shift in the output mix or trade specialisation pattern of a country can be modelled smoothly in theories, in practice these shifts are very unlikely to progress smoothly or painless. When, for example, the comparative advantage of a nation in textiles drops as a result of trade liberalisation, this country's textiles firms will probably not start producing telecommunication satellites. If they do not succeed in seizing a reasonable share in a top-end niche of the textiles market they will more probably have to close down. The social impact of the closing-down of large production facilities has been depicted elucidatory by Michael Moore, in his 1989 documentary *Roger and Me*, in which he showed the devastating effects on his hometown Flint (Michigan), when General Motors decided to fire 30.000 workers at its local plant, at a time when it was making record profits.

There could be a substantial lag between the job destruction due to the closure of firms and the job creation due to the entry of new firms or the expansion of existing firms, in sectors where the country supposedly has a new or increased comparative advantage. This time lag may lead to severe political pressure in favour of protectionism and fierce opposition to further liberalisation, the more if the lost jobs and the jobs that are created are geographically remote.

Concerns in most industrialised countries with respect to globalisation seem increasingly focused on the effects of relocation of activities to low-wage countries.

Whereas previously low-paid workers were affected, white-collar workers are now starting to feel the heat, which might explain the increased awareness of politicians. Some believe that the fact that the recent expansion in the United States is one of the

weakest in terms of job creation, can be explained by companies trying to raise the productivity of domestic workers relentlessly or outsourcing jobs to countries were armies of workers can be employed at a fraction of the wages in developed countries (e.g. Herbert 2004)

In Europe, many multinationals have (or consider to) relocate(d) a large number of their production activities to countries in Central and Eastern Europe or Asia.

ICT jobs or high-tech activities, i.e. the kind of jobs that are supposed to substitute for the relocated jobs, do not seem out of reach of the relocation trend.

Stephen Roach, Morgan Stanley's Chief Economist, reasons that the transfer of well-paid jobs from developed countries to low-wage countries may reflect a structural shift that could explain why recent economic recovery in most developed countries is rather disappointing in terms of job creation and why the negotiations in the recent WTO Doha Development Round are so laborious and have provided provisionally so little results, indicating that, both in developed and developing countries, the gains from further trade liberalisation are no longer taken for granted. Taking seriously the legitimate concerns of those that are affected by international trade should enter the political priority.

Amiti and Wei (2004), find that although outsourcing of services increased substantially, it is still at very low levels and that moreover in many industrialised countries (e.g. the US) "insourcing" dominates "outsourcing".

Cuyvers, Dumont, Rayp and Stevens (2005) review previous estimations of the impact of foreign direct investment on labour demand and perform own estimations on a panel of EU countries, with respect to investment in Central and Eastern European countries (CEEC). Using firm level data, labour demand elasticity was estimated within a flexible cost function framework. Activities of CEEC affiliates were found to have a significant impact on employment. In addition to the sector component, the component accounting for FDI spillover effects, often ignored in previous estimations, is also found to be significant and as substantial as the direct effect.

4. Immigration

In most trade theories, international factor mobility (e.g. labour migration) is considered as an alternative to free trade to achieve efficient worldwide division of labour.
This argument is often put forward to promote the reduction of international trade barriers as a way to reduce immigration flows from developing countries, as immigration seems to be an even more sensitive issue in industrialised countries than import competition.
Fears of large flows of immigrants from the Central and Eastern European Countries (CEEC) resulted in a phased acceptance of *free movement of people* between the joining and the established EU member states.

As immigrants in industrialised tend to be low-skilled they can be expected to raise the supply of low-skilled workers. All other things equal this will increase the skill premium, or given sticky wages, increase the unemployment of low-skilled workers. However, available data on relative labour supply in OECD countries suggest that if anything, the relative supply of high-skilled workers increased, which indicates that changes in labour supply cannot explain the weakened position of low-skilled workers, unless official data on labour supply severely underestimate the amount of clandestine low-skilled immigrants.
Abraham and Konings (1999) point out that the fact that, except for Germany, after the fall of the *Berlin Wall* and the *Iron Curtain*, the opening of Central and Eastern Europe did not result in large inflows of labour in the European Union can partially be explained by the reluctance of policy-makers to accept a substantial inflow of (low-skilled labour), given the high unemployment rates of low-skilled workers in most EU countries. They view trade integration as an alternative to labour migration, allowing CEEC to produce at home and allowing established EU countries to avoid the social tension that may result from large-scale migration.

Coppel, Dumont and Visco (2001) review trends of migration flows in OECD countries and their economic impact.

Statistics on legal migration show that from the mid-1980s the net inflow of immigrants rose noteworthy in the European Union, peaked in the beginning of the 1990s due to the opening of the CEEC and refugees from violent conflicts, to decline again from 1993 onwards as a result of tighter controls. Germany, the Netherlands, the Nordic countries and the United Kingdom received a large part of the immigrants. With the exception of Austria, Germany, Italy and Portugal, the number of foreign born as a percentage of total population hardly changed between 1988 and 1998 in most EU countries (Coppel, Dumont and Visco 2001: pp. 6-10).

Whereas studies for the United States generally fail to find an impact of immigration on employment, in some studies a small negative effect is found for European Countries, though this effect seems to occur in the short run as for the long run there are even indications of a positive impact.

Though most studies suggest only a small negative impact of immigration on wages, some estimates provide a more substantial impact when disaggregating labour by skill level. As immigrants are on average more low-skilled than domestic workers this seems in line with standard theoretical assumptions (Coppel, Dumont and Visco 2001: pp. 15-16).

Some OECD countries like France, Germany, Japan, The United Kingdom and the United States are promoting the immigration of high-skilled workers to match the high demand in some skill-intensive sectors with growing difficulties to recruit qualified domestic workers (e.g . Information Technology).

Given the ageing of the population in most industrialised countries, shortages of (skilled) workers are likely to become more acute in the future.

It is however not easy to fine-tune the level and composition of immigration and recruiting high-skilled workers from developing countries could induce a *brain drain* in developing countries.

Coppel, Dumont and Visco warned that although migration can partly offset the slowdown in population growth in OECD countries, it cannot, on its own, resolve the budgetary implications of ageing populations.

Moreover, the economic development of emerging economies could reduce the incentive for emigration from developing countries.

5. The Sustainability of the Social Model in Industrialised Countries

Sapir (2003) argues that the sustainability of the European (social) model is threatened by rapid changes in demography (ageing), technology and globalisation whereas, ironically, all these factors increase the demand for social protection

Rodrik (1997) believes that the more footloose capital becomes, the harder it will be for governments to sustain social insurance, as this implies increasingly taxing the most immobile production factors, i.e. labour, which will have to compete with a vast supply of workers in developing countries.

Sapir (2003) pointed out that GDP per capita of the EU stagnated at about 70% of the level in the US, since the beginning of the 1980s. Europe's *unsatisfactory* growth performance is viewed as a serious threat to the sustainability of the European (social) model. A reorientation of European micro-and macroeconomic policies towards a more innovation-oriented (e.g. through higher investment in R&D and education) and a more flexible economy is advocated as the best way to proceed.

In a response to the Sapir Report, Blanchard (2004) objects that Europe has performed better in the last three decades than is typically perceived, pointing out that productivity levels in Europe are rather similar than in the US. In his view Europe, however, contrary to the US, used productivity growth to increase leisure time instead of income.

De Grauwe and Polan (2003) find no evidence of a race to the bottom with regard to social spending in industrialised countries. For a panel of OECD countries they actually find a significant positive correlation between a country's social spending (unemployment, disability, health care, pension, family services and housing) and its world competitiveness. There does not appear to be much evidence for reverse causation, i.e. competitiveness allowing for high social spending.

The authors favour the explanation that a strong social system, limits social conflicts, raises investment in human capital and supports risk-taking, all of which can spur innovation, productivity and growth.

OECD (2004) found strong evidence that labour unions reduce wage inequality. This appears to be the only robust association as they did not find unambiguous evidence with regard to indicators of collective bargaining and the evolution of aggregate real wages or some non-wage indicators of labour market performance (e.g. unemployment rates).

Though the OECD does not preclude that a more detailed analysis that considers the interaction between collective bargaining and some labour market policies could provide more conclusive results, i.e. results in line with the orthodox view that most labour market institutions (rigidities) result in poor labour market performance, they grant that the inconclusive results could also indicate that substantially different institutional setups may lead to similar levels of macroeconomic performance.

This implies that labour market institutions (employment protection, collective bargaining, minimum wages…) will not necessarily be impaired by increased international trade competition.

6. Conclusions

Economic globalisation, i.e. the increased interdependence of countries through rising flows of goods, services, capital, labour, ideas and knowledge, has been spurred by trade liberalisation, deregulation and technological progress.

Though- at least theoretically- globalisation holds the promise of rising wealth for all nations in the long run, in the short and medium run it changes the lives of millions of people and not always for the better, in developing as well as in developed countries. Without accompanying policy measures international trade competition and technological change leaves many poorly off. Trade liberalisation is no guarantee for developing countries to witness strong economic growth. Even if the welfare of countries is increased, changes in international trade specialisation do not occur without friction and import competition from emerging low-wage economies and technological change can harm the labour market position of low-skilled workers in developed countries.

The negative effects of economic globalisation do however not provide a valid argument in favour of protectionism. The case for the mutual gains from free trade is still very plausible and a return to the *beggar-our-neighbours-and-ourselves-while-we-are-at-it*

isolationism of the 1930s should by all means be avoided. Policy makers would do well to consider the (social) effects of economic globalisation, both in the short and the long run, and to develop policies that allow for an equal distribution of the gains from trade.

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