Peter Marber is an author, professional money manager, and faculty member at the School of International and Public Affairs at Columbia University.

Globalization and Its Contents

Peter Marber

Ask ten different people to define the term "globalization" and you are likely to receive ten different answers. For many, the meaning of globalization has been shaped largely by media coverage of an angry opposition: from right-wing nationalist xenophobes and left-wing labor leaders who fear rampant economic competition from low-wage countries to social activists who see a conspiracy on the part of multinational corporations to seek profits no matter what the cost to local cultures and economic equality to environmentalists who believe the earth is being systematically ravaged by capitalism run amok. "Globalization"—as if it were a machine that could be turned off—has been presented as fundamentally flawed and dangerous. But "globalization" is a term that encompasses all cross-border interactions, whether economic, political, or cultural. And behind the negative headlines lies a story of human progress and promise that should make even the most pessimistic analysts view globalization in an entirely different light.

Two decades ago, globalization was hardly discussed. At the time, less than 15 percent of the world's population participated in true global trade. Pessimism colored discussions of the Third World, of "lesser developed" or "backward" countries. Pawns in the Cold War's global chess game, these countries conjured images of famine, overpopulation, military dictatorship, and general chaos. At the time, the prospect of the Soviet Union or Communist China integrating economically with the West, or of strongman regimes in Latin America or Asia abandoning central planning, seemed farfetched. The possibility of these countries making meaningful socioeconomic progress and attaining Western standards of living appeared utterly unrealistic. Yet the forces of globalization were already at work.

On average, people are living twice as long as they did a century ago. Moreover, the world's aggregate material infrastructure and productive capabilities are hundreds—if not thousands—of times greater than they were a hundred years ago.[1] Much of this acceleration has occurred since 1950, with a powerful upsurge in the last 25 years. No matter how one measures wealth—whether by means of economic, bio-social, or financial indicators—there have been gains in virtually every meaningful aspect of life in the last two generations, and the trend should continue upward at least through the middle of the twenty-first century.

Most people are living longer, healthier, fuller lives. This is most evident in poor parts of the world. For example, since 1950, life expectancy in emerging markets (countries with less than one-third the per capita income of the United States, or nearly 85 percent of the world's population) has increased by more than 50 percent, reaching levels the West enjoyed only two generations ago. These longevity gains are linked to lower infant mortality, better nutrition (including an 85 percent increase in daily caloric intake), improved sanitation, immunizations, and other public health advances.

Literacy rates in developing countries have also risen dramatically in the last 50 years. In 1950, only a third of the people living in these countries (roughly 800 million) could read or write; today nearly two-thirds—more than 3.2 billion people—are literate. And while it took the United States and Great Britain more than 120 years to increase average formal education from 2 years in the early nineteenth century to 12 years by the mid-twentieth century, some fast-growing developing countries, like South Korea, have accomplished this feat in fewer than 40 years.

The world now has a far more educated population with greater intellectual capacity than at any other time in history. This is particularly clear in much of Asia, where mass public education has allowed billions of people to increase their productivity and integrate in the global economy as workers and consumers. Similar trends can be seen in Eastern Europe and in parts of Latin America. This increase in human capital has led to historic highs in economic output and financial assets per capita (see chart below).

Measured Global Progress, 1950-2050E

	1950	2000	2050
Global Output, Per Capita ($)	586	6,666	15,155
Global Financial Market Capitalization, Per Capita ($)	158	13,333	75,000
Percent of Global GDP			
Emerging Markets	5	50	55
Industrial Countries	95	75	45
Life Expectancy (years)			
Emerging Markets	41	64	76
Industrial Countries	65	77	82
Daily Caloric Intake			
Emerging Markets	1200	2600	3000
Industrial Countries	2200	3100	3200
Infant Mortality (per 1000)			
Emerging Markets	140	65	10
Industrial Countries	30	8	4
Literacy Rate (per 100)			
Emerging Markets	33	64	90
Industrial Countries	95	98	99

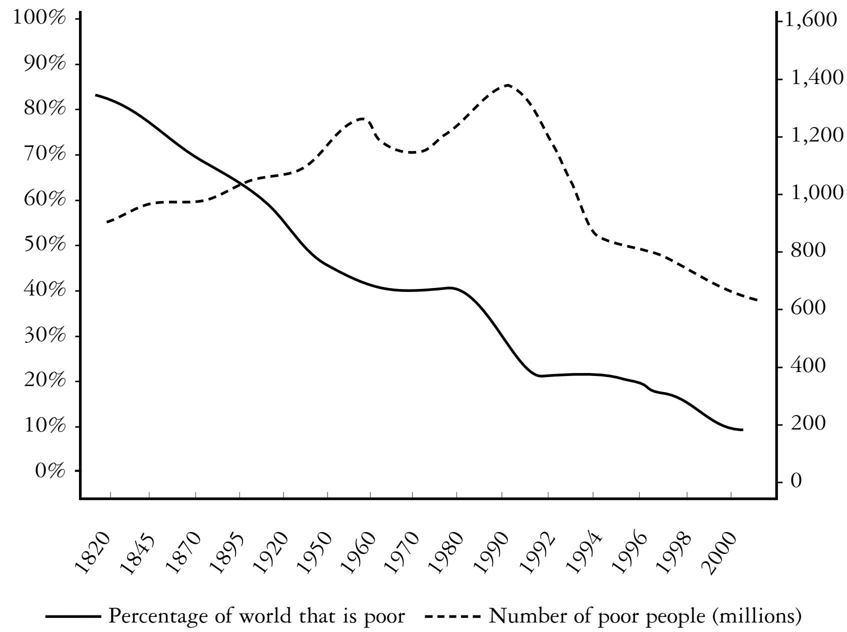
Sources: Bloomberg, World Bank, United Nations, and author's estimates. Output and financial market capitalization figures are inflation-adjusted.

During the twentieth century, economic output in the United States and other West European countries often doubled in less than 30 years, and Japan's postwar economy doubled in less than 16 years. In recent decades, developing country economies have surged so quickly that some—like South Korea in the 1960s and 1970s, or China in recent years—have often doubled productive output in just 7 to 10 years.

We often forget that poverty was the human living standard for most of recorded history. Until approximately two hundred years ago, virtually everyone lived at a subsistence level. As the economist John Maynard Keynes wrote in 1931 in *Essays in Persuasion*: "From the earliest times of which we have record—back, say, to two thousand years before Christ—down to the beginning of the eighteenth century, there was no very great change in the standard life of the average man living in civilized centers of the earth. Ups and downs certainly. Visitation of plague, famine, and war. Golden intervals. But no progressive violent change. This slow rate of progress was due to two reasons—to the remarkable absence of technical improvements and the failure of capital to accumulate." Beginning in the early nineteenth century, this picture began to change. The proportion of the world's population living in poverty declined from over 80 percent in 1820 to under 15 percent in 2000; moreover, the actual number of people living in poverty over that period declined, even as the world's population exploded from something over 1 billion to more than 6 billion.

The application of mass production technology, together with excess capital (or "profit") and a free market to exploit such technologies—is at the root of our modern prosperity. Upon further examination, one can see the virtuous cycle that connects human progress, technology, and globalization. Let's take two countries, one being richer than the other. The richer country has a more educated workforce, with nearly 99 percent literacy, while the poor one has only 50 percent literacy. Due to its less educated workforce and lack of infrastructure, the poor country might only be able to participate in global trade through exporting commodities—let's say fruits and vegetables. The rich country grows fruits and vegetables as well, but it also produces clothing and light manufactured goods such as radios. In the classic Ricardo/Smith models of comparative advantage and free trade, the wealthy country should utilize its skilled workforce to produce more clothing and radios for domestic consumption and export, and it should import more fruits and vegetables from the poorer country. This would, in turn, provide the poorer country with capital to improve education and infrastructure.

Historic World Poverty Levels, 1820-2000



Sources: World Inequality Database, Asian Development Bank, World Bank, et al., as cited by Surjit Bhalla in "Imagine There's No Country: Poverty, Inequality, and Growth in the Era of Globalization" (Institute for International Economics, 2002), p. 144.

As this trade pattern creates profits for both countries, human capital can be mutually developed. Eventually, the poorer country (by boosting literacy and education) should develop its own ability to produce clothes and radios. Over time, the wealthier country—having reinvested profits in higher education, research and development, etc.—will begin to produce higher-tech goods rather than clothes and radios, perhaps televisions and cars. At this stage, the wealthy country would export its cars and televisions, and import clothes and radios. In turn, the poorer country begins to import agricultural products from an even poorer third country while exporting clothing and radios to both countries. As participating countries make progress through cross-border trade and the continuous upgrading of their workforces, it follows naturally that patterns of labor and employment will evolve over time.

It is sometimes argued that free trade harms economic growth and the poor by causing job losses, particularly in wealthier countries. But trade liberalization works by encouraging a shift of labor and capital from import-competitive sectors to more dynamic export industries where comparative advantages lie. Therefore, the unemployment caused by open trade can be expected to be temporary, being offset by job creation in other export sectors (which often requires some transition time). Output losses due to this transitional unemployment should also be small relative to long-term gains in national income (and lower prices) due to production increases elsewhere. In other words, these short-term labor adjustments should be seen as lesser evils when compared to the costs of continued economic stagnation and isolation that occur without open trade.

The shifting U.S. labor pattern from low-wage agricultural labor to manufacturing to higher-paid office and service employment during the nineteenth and twentieth centuries resulted largely from trade. Similar shifts are now seen all over the globe. In the 1950 and 1960s, the United States imported electronics from Japan, and exported cars and other heavy goods. In the 1970s, we began importing small cars from Japan. In the last 30-odd years, Japan has seen its dominance in electronics and economy cars wither amid competition from China and South Korea. But Japan has made a successful push upmarket into larger, pricier luxury cars and sport utility vehicles. While these markets were shifting over the last three decades, jobs were lost, gained, and relocated in the United States and abroad. But living standards in America, Japan, South Korea, and China have all improved dramatically over that same time.

Working Less, Producing More

There is a growing consensus that international trade has a positive effect on per capita income. A 1999 World Bank study estimates that increasing the ratio of trade to national output by one percentage point raises per capita income by between 0.5 and 2 percent.[2] But the most dramatic illustration of how greater prosperity is spread through globalization is by our increased purchasing power. Ultimately, what determines wealth is the ability to work less and consume more. The time needed for an average American worker to earn the purchase price of various goods and services decreased dramatically during the twentieth century.

In 1919, it took an American worker 30 minutes of labor to earn enough to buy a pound of ground beef. This number dropped to 23 minutes in 1950, 11 minutes in 1975, and 6 minutes in 1997.[3] But this downward trend is even more impressive with respect to manufactured goods and services. For example, in 1895 the list price for an American-made bicycle in the Montgomery Ward catalog was $65. Today an American can buy a Chinese-manufactured 21-speed bike at any mass retailer for the same amount. But an average American needed to work some 260 hours in 1895 to earn the purchase price of the old bicycle, whereas it would take the average worker less than 5 hours to earn enough to buy today's bicycle.[4] In our own lifetimes, the costs of goods and services, everything from televisions to household appliances to telephone calls, computers, and airplane travel have plummeted relative to income—and not just in the United States.

Around the world, both basic commodities and items once considered luxury items now fill store shelves and pantries as increasing output and income have lifted most people above the subsistence level. The 50 most populous countries average more than 95 televisions per 100 households. In the 25 wealthiest countries, there are approximately 450 automobiles per 1,000 people, and China is now among the fastest-growing markets for cars, clothes, computers, cellular phones, and hundreds of household items.

This deflationary effect has also led to a radically improved quality of life. In 1870, the average American worker labored 3,069 hours per year—or six 10-hour days a week. By 1950, the average hours worked had fallen to 2,075.[5] Today, that number is closer to 1,730.[6] This pattern has been repeated around the world. In 1960, the average Japanese worker toiled 2,432 hours a year over a six-day work week; by 1988, this figure had dropped to 2,111 hours a year, and by 2000 it was down to 1,878 hours. There were even more dramatic reductions in European countries like France, Germany, and Sweden.[7] The Nobel Prize–winning economist Robert William Fogel estimates that the average American's lifetime working hours will have declined from 182,100 in 1880 to a projected 75,900 by 2040, with similar trends in other wealthy industrial countries. Fogel notes that while work took up 60 percent of an American's life in 1870, by 1990 it only took up about 30 percent. Between 1880 and 1990, the average American's cumulative lifetime leisure time swelled from 48,300 hours to a remarkable 246,000 hours, or 22 years.[8] This is a pattern of improvement in the human condition that we first saw in the industrialized West and then in Japan, and which is now spreading to dozens of developing countries that are integrating into the global economy.

A Thriving Middle Class

The recent surge in progress is certainly tied to technological advances, but it is also due to the adoption of free-market practices. Cross-border trade has ballooned by a factor of 20 over the past 50 years and now accounts for more than 20 percent of global output, according to the World Bank. Indeed, trade—which grew twice as fast as global output in the 1990s—will continue to drive economic specialization and growth. The global economy is becoming more sophisticated, segmented, and diversified.

The adoption of free-market practices has gone hand-in-hand with greater political freedoms. At the beginning of the twentieth century, less than 10 percent of the world's population had the right to vote, according to Freedom House. By 1950, approximately 35 percent of the global population in less than a quarter of the world's countries enjoyed this right. By 2000, more than two-thirds of the world's countries had implemented universal suffrage.

These symbiotic developments have helped completely recompose the world's "middle class"—those with a per capita income of roughly $10–40 per day, adjusted for inflation and purchasing power parity (PPP). According to the United Nations, in 1960 two-thirds of the world's middle-class citizens lived in the industrialized world—that is, in the United States, Canada, Western Europe, Japan, and Australia. By 1980, over 60 percent of the global middle class lived in developing countries, and by 2000 this number had reached a remarkable 83 percent. It is anticipated that India and China combined could easily produce middle classes of 400–800 million people over the next two generations—roughly the size of the current middle-class populations of the United States, Western Europe, and Japan combined.

A thriving middle class is an important component of economic, political, and social stability that comes with globalization. According to the World Bank, a higher share of income for the middle class is associated with increased national income and growth, improved health, better infrastructure, sounder economic policies, less instability and civil war, and more social modernization and democracy. There are numerous studies that also suggest that increasing wealth promotes gender equality, greater voter participation, income equality, greater concern for the environment, and more transparency in the business and political arenas, all of the quality-of-life issues that concern globalization skeptics.[9]

Measuring Inequality

Even if they concede that the world is wealthier overall, many critics of globalization cite the dangers of growing income inequality. Although the science of analyzing such long-term trends is far from perfect, there are indicators that point toward measurable progress even on this front.[10] The preoccupation with income or gross national product (GNP) as the sole measure of progress is unfortunate. Income is one measure of wealth, but not the only one. And income comparisons do not always reflect informal or unreported economic activity, which tends to be more prevalent in poor countries.

Many social scientists use Gini coefficients (a measure of income dispersion between and within countries) to bolster their arguments about inequality. The lower the Gini figure (between one and zero), the more equal income distribution tends to be. Unfortunately, the Gini index does not take into consideration purchasing power parity, the age dispersion of a population, and other variables that affect the overall picture. When adjusted for PPP, the Gini index for world income distribution decreased from 0.59 to 0.52 between 1965 and 1997, an improvement of nearly 12 percent.[11] Poverty rate trends are also cited by condemners of globalization, but this approach is problematic as well. The impoverished are often defined as those who earn 50 percent less than the median income in a country. But because 50 percent of median American income is very different than 50 percent of median income in Bangladesh, poverty rates may not tell us as much about human progress as we might think.

We can better gauge human progress by examining broader trends in bio-social development than income-centered analyses. A yardstick like the United Nations Development Program's human development index (HDI), for example, which looks at not only income but also life expectancy and education (including literacy and school enrollment), with the higher numbers denoting greater development, provides a clearer picture of global well-being:

	1960	1993	2002
OECD Countries	.80	.91	.91
Developing Countries	.26	.56	.70
Least Developed Countries	.16	.33	.44

What these numbers show is not only that human development has improved overall but that differentials between rich and poor countries are closing. While the HDI figure for wealthy OECD countries in 1960 was five times greater than that for the least developed countries (and three times higher than that for developing countries), those gaps were nearly halved by 1993. And in the most intense period of recent globalization, from 1993 to 2002, these gaps closed even further.

This by no means negates the reality of poverty in many parts of the world. There are still an estimated 1 billion people living in "abject" poverty today, but the World Bank estimates that this number should decline by 50 percent by 2015, if current growth trends hold.

Potholes on the Road to Globalization

The great gains and momentum of the last 25 years should not be seen as sufficient or irreversible. There are still formidable impediments to continued progress, the four most serious being protectionism, armed conflict, environmental stress, and demographic imbalances.

•*Protectionism.* One of the responses to globalization has been the attempt to pull inward, to save traditional industries and cultures, and to expel foreigners and foreign ideas. In India, consumers have protested against McDonald's restaurants for violating

Hindu dietary laws. In France, angry farmers have uprooted genetically engineered crops, saying they threatened domestic control over food production.

Possibly the most harmful protectionism today relates to global agricultural policy. Farming subsidies in wealthy countries now total approximately $350 billion a year, or seven times the $50 billion that such countries provide annually in foreign aid to the developing world.[12] Global trade policies may exclude developing countries from $700 billion in commerce annually, denying them not only needed foreign currency but also the commercial and social interaction necessary to bio-social progress.[13]

Protectionism in the form of tariffs, rigid labor and immigration laws, capital controls, and regressive tax structures also should be resisted. Wealthy countries should not cling to old industries like apparel or agriculture; it is far more profitable, economically and socially, to look forward and outward, to focus on growing higher-skill industries—like aviation, pharmaceuticals, and entertainment—and to embrace new markets. In turn, poorer countries have generally grown richer through economic interaction with foreign countries, by refocusing nationalistic energies and policies toward future-oriented, internationally engaged commercial activity. The late-twentieth-century march away from closed economies has improved the lives of billions of people. To bow to nationalistic calls for protectionist policies could slow and even reverse this momentum.

•*Armed Conflict.* Countries cannot compete economically, cultivate human capital, or develop financial markets in the midst of armed conflict. According to the Stockholm International Peace Research Institute, there were 57 major armed conflicts in 45 different locations between 1990 and 2001; all but 3 of these were civil wars, which inflict deep economic damage and stunt development. In addition to ongoing civil wars, there are a number of potential cross-border powder kegs (beyond the recent U.S. invasions of Afghanistan and Iraq): Kashmir, over which nuclearized India and Pakistan have been at odds for decades; Taiwan, over which China claims sovereignty; Israel and its Arab neighbors; and the Korean peninsula. The economic, political, and cultural uncertainty surrounding these areas of potential conflict restricts the flow of capital, and paralyzes businesses, investors, and consumers.

To the extent that defense budgets continue to grow in tandem with global tensions and economic resources are used for military purposes, there will be fewer resources devoted to the development of human capital and economic competitiveness.

•*Environmental Stress.* There is no getting around the fact that the success of globalization is underscored by dramatic increases in consumption. With increased consumption comes environmental degradation. Damage to the environment, current or projected, can impede economic progress in many ways. Climatic changes attributed to greenhouse gas emissions and pressure on natural resources are serious problems. Resource scarcity is only one issue we will have to confront as 2–3 billion more people consume like middle-class Americans over the next 50 years. In the face of these environmental dangers, a host of new regulations may be enacted locally or globally. Increased environmental awareness among wealthier populations may lead to domestic policies that will raise costs to businesses and consumers, which in turn could curb economic expansion.

One step in the right direction would be increased public spending on alternative and renewable energy sources in the wealthier countries. The world is clearly underpowered, and the need for diversified energy grows as we speak. The benefits of a burgeoning alternative energy sector could be multiplicative. First, it might spur new economic growth areas for employment in rich countries, supplying them with potential technologies for export while reducing their reliance on foreign oil. Second, it might encourage developing countries that are over-reliant on oil exports to develop and modernize their economies and societies. Third, it would allow developing countries to build their infrastructures with a more diversified, sustainable energy approach than the first wave of industrializing countries.

•*Demographic Imbalances.* There are sharply contrasting population trends around the globe: developing nations are experiencing a youth bulge while industrialized countries are aging rapidly. This divergence may present a variety of challenges to globalization.

In poorer developing countries, the youth bulge equals economic opportunity but is also potentially disruptive. In more than 50 of these countries, 50 percent of the population is under the age of 25. In some cases, half the population is under 20, and in extreme cases, even younger. These developing nations are also among the poorest, the fastest urbanizing, and the least politically or institutionally developed, making them susceptible to violence and instability. The large number of unemployed, disenfranchised young men in these countries may explain the growth of Islamic fundamentalism and the existence of pillaging bands of armed warriors in sub-Saharan Africa. Large young populations may also lead to unregulated, unlawful migration that can create long-lasting instability.[14]

While the youth bulge can cause problems that derail global progress, the richest countries may fall victim to their past success. Prosperity, while providing more lifestyle choices and wellness, also results in lower birth rates and increasing longevity which could dampen long-term economic demand. The aging of wealthier populations also stresses public pension schemes that were conceived under different demographic circumstances—eras of robust population and consumption growth. In economies where populations are stagnant or shrinking, the specter of lengthy "aging recessions"—characterized by vicious cycles of falling demand for consumer goods (and deflation), collapsing asset values (including real estate), shrinking corporate profits, deteriorating household and financial institution balance sheets, weakening currencies, and soaring budget pressures—looms large.

Preparing for the Best, Not the Worst

Globalization and its major engines—burgeoning human capital, freer markets, increasing cross-border interaction—have created a new world order that has incited passionate debate, pro and con. However, both sides have more in common than one might imagine.

First, if human capital is a key component of improved living standards, it is arguable that increased spending on education should become a priority in rich and poor countries alike. Wealthier nations continually need to boost productivity and comparative advantage, while poorer countries need to develop skills to compete in the global economy. By adding to the numbers of the educated, there will be a wider base of workers and consumers to contribute to the virtuous cycle of prosperity we have witnessed in the last 50 years.

Second, boosting human capital in poor countries through increased financial and technical aid should also help broaden the marketplace in terms of workers and consumers. Appropriating an extra $100 billion in aid each year—a drop in the bucket for the 20 richest countries—could help some 2 billion people overcome their daily struggles with malnutrition, HIV/AIDS, malaria, and dirty drinking water, thereby increasing the number of healthy, productive workers and consumers.

Third, reorienting wealthy country subsidies away from low-tech areas like agriculture and mining toward higher-tech industries (including alternative energy development) would accelerate comparative advantage and stimulate greater trade. With wealthy countries focusing on higher-value-added industries for domestic consumption and export, poorer countries could pick up the slack in lower-skilled sectors where they can begin to engage the global economy. Over time, the poorer countries would become larger markets for goods and services. This, along with the two attitudinal and policy shifts mentioned above, could have a positive effect on the well-being of the world's population.

Even with its positive trends, globalization is not a perfect process. It is not a panacea for every problem for every person at every moment in time. It is a messy, complicated web of interdependent relationships, some long-term, some fleeting. But globalization is too often cited as creating a variety of human miseries such as sweatshop labor, civil war, and corruption—as if such ills never existed before 1980. Poverty is more at the root of such miseries. That is why the wholesale rejection of globalization—without acknowledging its tremendously positive record in alleviating poverty—is shortsighted. Indeed, one could see how simply embracing globalization as inevitable—rather than debating its definition and purported shortcomings—could potentially foster more cross-border coordination on a variety of issues such as drug trafficking, ethnic cleansing, illegal immigration, famine, epidemic disease, environmental stress, and terrorism.

Emotion and confusion have unfortunately tainted the globalization debate both in the United States and abroad, and the focus is often on anecdotal successes or failures. Anxieties and economies may ebb and flow in the short run, but the responsibility to manage these progressive evolutions and revolutions—with worldwide human prosperity as the goal—should be our consistent aim in both government and the marketplace. ●

Notes

Many of the issues and arguments presented here in abbreviated form are examined at greater length in my book, *Money Changes Everything: How Global Prosperity Is Reshaping Out Needs, Values, and Lifestyles* (Upper Saddle River, NJ: FT Prentice Hall, 2003).

1. See Angus Maddison, *Monitoring the World Economy: 1820–1992* (Paris: OECD, 1995).

2. Jeffrey A. Frankel and David Romer, "Does Trade Growth Cause Growth?" *American Economic Review*, vol. 89 (June 1999), pp. 379–99.

3. W. Michael Cox and Richard Alm, *Time Well Spent: The Declining Real Cost of Living in America*, annual report (Dallas: Federal Reserve Bank, 1997), p. 4.

4. Based on average U.S. industrial wages of approximately $15 per hour in 2000.

5. W. Michael Cox and Richard Alm, *These Are the Good Old Days: A Report on US Living Standards*, annual report (Dallas: Federal Reserve Bank, 1994), p. 7.

6. Robert William Fogel, *The Fourth Great Awakening and the Future of Egalitarianism* (Chicago: University of Chicago Press, 2000), p. 185.

7. Ibid., p. 186.

8. Ibid., pp. 184–90.

9. See Marber, *Money Changes Everything.* For more on specific shifts in attitudes and values relative to economic development, the University of Michigan's Ron Inglehart's seminal Human Values Surveys are an invaluable resource.

10. For a balanced study of this subject, see Arne Mechoir, Kjetil Telle, and Henrik Wiig, *Globalisation and Inequality: World Income and Living Standards, 1960–1998*, Norwegian Ministry of Foreign Affairs, Report 6B:2000, October 2000, available at http://odin.dep.no/archive/udvedlegg/01/01/rev-_016.pdf.

11. Ibid., p. 14.

12. James Wolfensohn, "How Rich Countries Keep the Rest of the World in Poverty," *Irish Independent*, September 30, 2002.

13. Ibid.

14. See Michael Teitelbaum, "Are North/South Population Growth Differentials a Prelude to Conflict?" at http://www.csis.org/gai/Graying/speeches/teitelbaum.html.