Globalisation: maximising the benefits

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Protectionism carries enormous costs for consumers and producers alike. There are better ways to manage globalisation – to the benefit of the developing world in particular.
implications of free trade. Not all of these concerns or problems are a direct result of globalisation. They all have complex causes. But these concerns must be addressed if integration and multilateral free trade in particular is to gather and maintain necessary momentum. Answering these concerns in order to maintain momentum is what I mean by ‘shaping’ globalisation.

**Protectionism: measuring the costs**

Our starting point should be a clear understanding of the costs of protectionism and, conversely, the benefits, should protectionism be removed.

First, protectionism carries enormous costs for consumers. But consumers, because they are effectively everyone, do not speak with the united voice of well-focused vested interests which oppose liberalisation. In the 19th century, Ambrose Bierce, an American journalist, defined ‘tariff’ as “a tax on imports, designed to protect the domestic producer against the greed of his consumer.”

Let me offer just a few examples, from agriculture – a widely celebrated example:

- Prices of farm products in the European Union are on average 30 per cent higher than those on world markets due to trade-restricting agricultural policies, but prices for milk are twice as high and for sugar three times as high. And in the US, farm policy results in milk prices that are 60 per cent above those on world markets, while for sugar they are around three times world prices. Yet only a quarter of the inflation of these prices goes to raise farm incomes.
- In Japan, tariffs on rice imports result in significantly higher domestic prices. Farmers receive about US$165 per tonne in the US, while Japanese farmers get US$2,450 per tonne. So it is no coincidence that per capita consumption of rice has fallen dramatically in Japan over the past 30 years.
- Across OECD countries, the lion’s share of farm support is based on the amount of output produced – so it is primarily the biggest and the richest farms that benefit. The largest 25 per cent of farms in the US receive 97 per cent of all support, while in the EU they receive 70 per cent. These same farm households on average have incomes and own assets that are much higher than those of the consumers and taxpayers that support them.

Clearly, agricultural reform would benefit consumers, while opening OECD markets for farm goods from developing countries. Reform of OECD countries’ dairy policies alone would lead to US$0.5 billion gains in global welfare. But would reform really be so painful for farmers? No, because most farmers only receive a small fraction of price support, and the necessary adjustment costs would be relatively small if shared with other countries in a multilateral trade reform context.

Perhaps even more important than the impact of protectionism on the relatively wealthy OECD economies, is the impact on developing countries. An important OECD study demonstrated that international trade and investment act as a spur to development, in fact much more so than Official Development Aid. Of course a precondition in developing countries is good governance and a range of policies to provide a framework for attracting investment and stimulating sustained growth. It has been demonstrated that countries which have opened their markets have developed much faster than those which have not.

Conversely, the absence of open markets in the OECD countries retards development in poorer countries. This is not difficult to understand since, in the early stages of development, agricultural products and textiles and clothing are normally the most important products for export opportunities.

In this connection, agricultural support policies of OECD countries have certainly had important spill-over effects on international markets. Our trade barriers restrict imports, while the subsidised export of production surpluses distorts competition in world markets, and drives down world commodity prices. The OECD estimates that reducing support levels in OECD countries by 10 per cent would lead to an average increase of 2.2 per cent in the international price of crops, with substantial benefits for exporting countries. I could also refer to textiles, cars, international telephone calls, financial services, air transport, electronic products, steel, aluminium or softwood lumber.

In addition, protectionism creates ripple effects, so that protection in one industry adversely affects others. For example, a study of protection of the steel industry in the United States completed in 2001 before the more recent episode of tariffs (Robert W. Crandall, *The Futility of Steel Trade Protection*, January 2001) estimated that for each job saved in the steel industry, the tariff protection cost up to 13 jobs in steel-using industries.

As for services, a recent OECD study on the economy-wide effects of services trade barriers shows that gains from reform in trade services significantly exceed those from liberalisation in the agriculture or manufacturing sectors. This is true for developing as well as for OECD countries.
All of these examples serve to show that protectionism serves the interests of the few within the OECD countries, at the expense of Ambrose Bierce’s “greedy consumers”.

**Getting the policy mix right**

How can we shape globalisation to our mutual benefit and collective advantage? To begin, we must overcome two deficits: a communication deficit and a policy deficit.

The communication deficit represents a failure to explain clearly what international trade and investment can and cannot do and what liberalisation is and is not responsible for. For example, it is not well understood that the principal force that is displacing unskilled workers in modern economies is technology. It has been all too easy to blame the importation of cheap goods from developing countries with lower wage costs. But it is not competition from abroad that has replaced bank-tellers with ATM machines!

We know that trade, investment and technology interact in ways that raise the wages of high-skilled workers and depress the demand for the low skilled. The message that open markets lead to gains in aggregate welfare of little consolation to people whose lives may be adversely affected by change and who may need to uproot their families in search of alternative employment. Nor does it sit well with displaced workers whose new jobs may pay lower wages. And others witnessing this phenomenon see themselves as potential victims. Therefore, rapid adjustment through responsive policies is critical.

The OECD helps governments and their citizens to recognise that postponing adjustment through trade protection or restrictions on capital outflows is a blind alley. All protection can do is insulate economies from the market signals that point to the need for early adjustment; inflict damage on the most dynamic firms and most productive workers; and provide what is in most instances short-term and high-cost palliative relief to firms, workers and communities for whom delayed adjustment almost invariably translates into greater longer-term hardship. Protection also masks the market signals that point to new opportunities, while entrenching economies in outmoded production and products.

**Sharing analyses and best practice – across the board**

Shaping globalisation demands a better way, and there is one.

At the OECD, member countries analyse and compare their policies and experience to identify labour market policies that provide adequate income security, while facilitating the re-employment of displaced workers in expanding firms and sectors, which produce important equity and efficiency gains. More fundamentally, OECD studies illustrate that governments need to work on a whole range of policies, such as education, training, taxation, regulatory reform, competition, pension reform and the portability of health benefits (where that is an issue), which can help citizens and communities to adjust, not just to market opening, but to technology-driven change as well. With the proper mix of policies, governments can maximise the benefits and minimise the costs of trade and investment liberalisation. That is what ‘shaping’ is all about.

The immediacy of the pain for the relatively few losers when markets are opened or liberalised (compared to the longer time frame in which its benefits unfold for consumers and the economy as a whole), will always complicate our task, especially the task of politicians who operate on a tight electoral timetable.

Timing is not on the side of the reformers. Liberal trade and investment are – and must be seen as being – not only about greater freedom of choice but also about fairness. Fairness in ensuring that the general interest – concern for the welfare of all citizens – prevails over special interests; and in seeing to it that the dividends of liberalisation are distributed more equitably, both within and between countries. This is why the politics and exercise of leadership at both national and international levels are crucial.

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