

## Why Globalization Is in Trouble – Part I

Job loss and worry about identity make the West reconsider the value of trade and immigration

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WASHINGTON: Historically, the dominant power tends to support globalization as a way to increase the ambit of its influence, expand trade and gain economic advantage, co-opt new citizens and possibly show the advantages of its own pax. This was the case with the Roman, British and now American-led globalizations. But recently, the rich West – which saw globalization as a prelude to “the end of history” – is having second thoughts.

Two fears drive this unease with globalization: The first is a fear of job loss due to competition from low-wage countries. The second is the fear of ethnic and cultural dilution due to increased immigration.

The cause of the first fear is a fast reemergence on the world stage of China and India. For students of history, the rise of China and India is not a surprise. The two countries are just recapturing the ground lost during the 19th and most of the 20th century. Before the Industrial Revolution, China’s and India’s combined output accounted for one half of the world’s total. Now, after a quarter-century of China’s spectacular growth, and more than a decade of India’s growth acceleration, the two countries contribute less than a fifth of total world output. Although their share is, in the long-term historical sense, still below what it used to be, it has nevertheless increased dramatically compared to where it was 30 years ago. The rise of the two Asian giants, reflected in their dynamic trade, large Chinese export surpluses and India’s role as an outsourcing center and a potential leader in information technology, has made the West wonder whether it can compete with such hardworking, cheap, plentiful and yet relatively skilled labor.

While the fear of job loss is driven by fast economic growth of the two giants, the fear of immigration is, ironically, caused by the slow economic growth of the rest of the developing world. The people who try



Falling income, rising migration: Increasing number of illegal Mexican immigrants are rounded up at the US-Mexico border

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**Two fears drive unease with globalization: job loss due to competition from low-wage countries and ethnic dilution due to increased immigration.**

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to reach the shores of Europe or cross from Mexico into the US come from the countries that have disastrously fallen behind Western Europe and the US during the last quarter century. In 1980, Mexico's real per-capita income, adjusted for the differential price level between Mexico and the US, was a third of that in the US. Today, the ratio is almost 4.5 to 1. The poor Africans who land daily on beaches of the Spanish Canary Islands come from the countries that have seen no economic growth in 50 years. Take Ghana, a country often touted as an African success case: Around its independence, in 1957, its income was one half of Spain's; today, it is one tenth.

Immigration puts a similar pressure on low- or medium-skilled jobs in the West as do cheap imports from China and outsourcing to India. And indeed, wages of low- and medium-skilled workers in the rich countries have failed to keep pace with incomes of educated workers at the top of the pyramid. While the median US real wage has not risen in real terms over the last 25 years, real wages of the top 1 percent have more than doubled. The richest 1 percent of Americans today controls almost 20 percent of total US income, a proportion higher than at any time since the Roaring Twenties. The U-turn of inequality – a sharp increase that started during the Thatcher-Reagan era, after a long decline – has affected, to a varying extent, all Western countries.

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But at stake is something more profound than a threat to jobs and stagnant wages in a few “exposed” sectors. After all, the West is no stranger to structural change. Ricardo in his “Principles” written in 1815 discusses labor dislocation “occasioned” by the introduction of machinery. The Western countries handled the decline of powerful industries like coal, textile and steel. Economists have never been sympathetic to the protection arguments of sunset industries: In an expanding economy, structural change is necessary and inevitable; jobs lost in one industry will reappear as new jobs in another industry.

The difference now is that the twin challenge undermines the consensus upon which the West's welfare state was built since World War II. To understand why, recall that the Western welfare states rest on two building blocks: those of ethnic and social solidarity. The first building block implies that one is willing to be taxed if certain that aid will flow to somebody who is ethnically or culturally similar. But once large stocks of immigrants with different, and not easily adaptable, social norms, arrive, that certainly is no longer. More immigrants will strain the already-tattered solidarity among citizens of rich European countries.

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**Economic inequality translates into a cultural divide: The elites are culturally different from their own poorer ethnic brethren.**

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The second building block of the welfare state is class solidarity. For it to exist, there must be relatively similar economic conditions between classes so that one can reasonably expect that for social transfers paid out of his pocket today, he may be compensated – if the need arose – by a similar benefit in the future. If, for example, unemployment rates are relatively equal across skill levels, then the highly skilled

will pay for unemployment benefits; but if unemployment rates are different, the highly skilled may opt out. As the income divide widens in the West between the rich and the highly educated who have done well, and the middle classes and the unskilled who are merely scraping by, the second building block on which welfare capitalism was built crumbles. Economic inequality also translates into a cultural divide. “Ethnic” migrants who fill the rungs of low-paid workers are not the only ones economically and culturally different from today’s Western elites; the elites are also growing more different from their own poorer ethnic brethren.

So far reaching, these developments require an entirely new social contract, a redefinition of capitalism no less. Such fundamental changes are not easy to come by when the threat is subtle, continuous, incremental and far from dramatic in a daily sense. Difficult decisions can be postponed, and neither politicians nor the electorate have an appetite for change. A battle of attrition regarding who would bear the costs of adjustment ensues, and this is at the heart of Europe’s present immobilism.

Why is the development of “new capitalism” and rethinking of the old social contract so much more difficult for Europe than for the US?

First, for an obvious reason, because Europe’s welfare state is much more extensive, more embedded in ordinary life, and its dismantlement is more socially disruptive. Second, because a low population growth – or in many countries, a decline – necessitates continuing large immigration. But, and this is the crux of the matter,

Europe struggles more in absorbing immigrants than the US. Historically, of course, Europe was not a society of immigrants. Europeans were happy to receive foreign workers as long as they would do low-paying jobs and stay out of the way. This quasi-apartheid solution preserved immigrants’ culture, which then, most famously in the Netherlands, was found to clash with some European values. Immigrants, more so their daughters and sons, were not happy to remain in subaltern jobs. And while Europe was good about welcoming them to its soccer and basketball teams, it was more stingy when it came allowing them to direct operating rooms or boardrooms.

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**Europe is good about welcoming immigrants to its soccer teams, but more stingy about allowing them into boardrooms.**

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The bottom line is that Europe needs no less than a social revolution: replacement of its welfare state, and acceptance that Germans, French or Italians of tomorrow will be much darker in their skin color, composed of individuals of various religions, and in many respects indeed a different people. As fusion of Frankish ethnicity and Latin culture created France, a similar Christiano-Islamic and Afro-European fusion may create new European nations, perhaps with a different outlook on life and social norms. No society can accomplish such epochal transformation quickly and painlessly.

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