

# Naomi Klein and the Anti-Globalization Movement

by

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**Abstract:** How should economists be responding to the arguments made by anti-globalization activists? This paper examines the writings of Naomi Klein, one of the leaders in the anti-globalization movement. The contents of her influential book *No Logo* are summarized and some problems with her analysis of globalization are discussed. Among the topics covered are the facts about poverty and income inequality, the facts about trade liberalization and economic growth, the experience of Mexico following trade liberalization, and the implication of protest rallies for farmers in developing countries.

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## 1. Introduction

Naomi Klein is an award-winning journalist and bestselling author. She was born in Montreal in 1970 and currently lives in Toronto. Her articles have appeared in numerous publications including the *Nation*, *New Statesman*, *Newsweek International*, *Village Voice*, *New York Times*, and *Globe & Mail*. Following several years of research, she completed a book *No Logo* in 2000 that criticizes the business practices of large multinational corporations as well as the policies of international organizations like the World Trade Organization (WTO). The timing of this book was perfect as it was published shortly after the 1999 WTO summit in Seattle, where a mass protest rally by anti-globalization activists turned into a riot. *No Logo* expresses powerfully the anger that anti-globalization protesters feel about what is going on in the world. This book immediately became a bestseller and it has been very influential. As a consequence, Naomi Klein has emerged as an intellectual leader in the anti-globalization movement.<sup>1</sup>

As a professor of economics at the Stockholm School of Economics, I teach on a regular basis an introductory undergraduate course on international trade. In this course, I talk at length about international trade policies: what are the effects of restricting trade using tariffs, import quotas, voluntary export restraints, etc. I present the costs and benefits of these trade restrictions and show that the costs typically exceed the benefits using standard cost-benefit analysis. I also present various sophisticated arguments that have been advanced for why countries should restrict international trade: the terms of trade argument for a tariff, the infant industry argument for developing countries, the strategic trade policy argument for developed countries, and various domestic market failure arguments for protectionism. In each case, I show that the arguments for why countries benefit by restricting trade are logically correct but of limited practical relevance. Because there is a strong case for free trade and there are serious problems with all of the above-mentioned arguments for protectionism, I conclude that countries benefit from adopting free trade policies and embracing globalization.<sup>2</sup>

In presenting this case for free trade and globalization, I am not just expressing my own personal view but the dominant view in the economics profession today. All of the material that I cover in this course is standard and contained in all the leading textbooks on international economics. But something important is missing from my course and indeed, from all the leading textbooks on international economics: We economists are not responding effectively to the arguments of anti-globalization activists today. We are only really responding to old arguments that have been advanced for protectionist trade policies, arguments that were popular in the 1990s, 1980s and before. My impression is that most economists, including international trade economists, have never read Naomi Klein's book *No Logo* (myself included until recently). Economists are not responding effectively to the arguments advanced

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<sup>1</sup> In *Fences and Windows* (2002, p.4), Naomi Klein states that this movement is not against globalization but against the particular form that globalization has taken. Nevertheless, I will stick with the label "anti-globalization" to describe the movement since it is commonly used and is informative in a relative sense.

<sup>2</sup> See Irwin (2002) for an excellent nontechnical exposition of the case for free trade.

by anti-globalization activists, arguments that resonate with many people, because we do not know what the arguments are.<sup>3</sup> The purpose of this paper is to take a step at bridging this knowledge divide.

In the paper, I present a summary of the contents in Naomi Klein's book *No Logo*, quoting liberally from the book to give the reader a feel for the anger that is expressed. This book is well written and thought provoking. It is easy to understand why it has become so influential. Although I find much to disagree with in *No Logo*, Naomi Klein deserves credit for having developed interesting new arguments against globalization. It is clear that economists need to do a better job of responding to these new arguments. After summarizing Naomi Klein's book, I discuss some problems with her analysis. The book *No Logo* is 502 pages long and raises many issues. Since it would take too much space to respond to all of them, I have chosen to be quite selective and just point out some problems with Naomi Klein's analysis.<sup>4</sup> I have focused on problems that are directly related to international trade and development economics.

## **2. A Summary of *No Logo***

The book *No Logo* represents a bible for anti-corporate, anti-globalization activism. The basic perspective is that multinational corporations have become so big that they have superceded governments and have become the ruling political bodies of our era. Unlike governments, multinational corporations are accountable only to their shareholders and there are no mechanisms in place to make them "put people before profits". According to Naomi Klein, corporate rule has been associated with an assault on the three social pillars of civic space, civil liberties and employment. The first part of the book, "No Space," examines the corporate assault on civic space: the surrender of culture and education to marketing. The second part of the book, "No Choice," examines the corporate assault on civil liberties: how the forces of predatory franchising and mergers have reduced cultural choice. The third part of the book, "No Jobs," examines the corporate assault on employment: how multinationals have been freeing themselves from the burden of having employees. Finally, the fourth part of the book, "No Logo," documents the activism that is emerging in response to this corporate rule.

### **2.1 No Space**

How has corporate rule assaulted civic space? According to Naomi Klein, the cultural influence of multinational corporations has increased significantly over the last 15 years due to the corporate emphasis on primarily producing brands instead of products. It used to be that corporations focused on making things. But now the focus

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<sup>3</sup> The Krugman and Obstfeld (2003) international economics textbook does contain a section about the anti-globalization movement (pages 283-290). However this section does not contain any response, for example, to Naomi Klein's argument that developing countries like Mexico experienced declining real wages following trade liberalization.

<sup>4</sup> In discussing the arguments in *No Logo*, I will quote from Naomi Klein's more recent book *Fences and Windows* in cases where her views are spelled out more clearly there.

of successful corporations is not on manufacturing but on marketing. Corporations try as much as possible to contract out the production side of their business, preferably to firms in third world countries where wages are very low and instead focus on developing their brand images (Tommy Hilfiger is a classic example; the company does not manufacture any clothes at all and is run entirely through licensing agreements). Advertising expenditures by corporations have exploded in the 1990s as companies have come to realize that their stock market value is largely tied to their advertising budget (“the more they spend, the more they are worth”). So companies like Nike promote their brands, for example, by signing star athletes to colossal sponsorship deals. And since consumers are like roaches (“you spray them and spray them and they get immune after a while”), companies have looked for more creative and intrusive ways of promoting their brand images, for example, by using ads on benches in national parks, ads on library cards in public libraries, and ads on television in public school classrooms.

According to Naomi Klein, the above-mentioned developments would not have been possible without the deregulation and privatization policies of the last three decades. In the US under President Ronald Reagan in the 1980s, for example, corporate taxes were dramatically lowered, a move that eroded the tax base and gradually reduced the size of the public sector. Schools, museums and broadcasters were increasingly forced to turn to private corporations for financial support. These sponsoring arrangements can be mutually beneficial with the cultural institution receiving much-needed funds and the sponsoring corporation being compensated with some modest form of public acknowledgement. But over time, as dependency on sponsorship revenue increased in the cultural industries, many corporations have become more ambitious in their demands for grander acknowledgements and control. To give one of many examples, Nike not only sponsored the 1998 Winter Olympics in Japan, it had CBS TV commentators report on the games in jackets adorned with bold Nike logos and even funded the training of two Kenyan runners for cross-country skiing events. Naomi Klein writes, “By equating the company with athletes and athleticism at such a primal level, Nike ceased to merely clothe the game and started to play it.”

The increasing importance of branding is of particular relevance for Generation X. As one clothing retailer put it, teenage shoppers today “run in packs. If you sell to one, you sell to everyone in their class and everyone in their school.” Corporations have responded by focusing their marketing on kids and positioning their brands so they are viewed as “being cool”. Nike has been particularly successful at this. One Nike designer described his experience in giving Nike shoes away in inner-city neighborhoods as follows: “The kids go nuts. That is when you realize the importance of Nike. Having kids tell you that Nike is the number one thing in their life – number two is their girlfriend.” Brands have also moved into the classroom, for a long time, “a major unbranded youth space”. In the US, Channel One now has a presence in 12,000 schools and reaches an estimated eight million students with in class advertisements (teachers are not able to adjust the volume when ads are aired). And outside the classroom, one study found that 85 percent of middle class teens watched MTV (“an all-news bulletin for creating brand-images”) every day.

Brands have made major inroads into university life as well. The more obvious examples are things like Barnes & Noble replacing campus-owned bookstores, Taco Bells and Pizza Huts replacing university cafeterias, and Coke or Pepsi being granted

campus-wide exclusive vending rights. But the influence of brands in universities goes much deeper. Nike pays college coaches (not the players) as much as \$1.5 million in sponsorship fees at top sport universities and university research has become heavily dependent on corporate sponsors. In the process, universities have offered “their research facilities and priceless academic credibility for the brands to use as they please”. Nowadays, universities are used for everything from designing new Nike skates to developing more efficient oil extraction techniques for Shell to measuring the relative merits of a brand-name drug compared with a generic one (and one should not expect this research to be unbiased).

According to Naomi Klein, left-wing student activists have failed to take proper notice of the effects of branding until recently. Instead, the focus for a long time was on the political correctness battle (better representation for women and minorities, same-sex spousal rights, etc.). Student radicals thought that they were challenging the establishment with this agenda but multinational corporations were not at all threatened. What their marketing experts discovered is that diversity is the defining issue for Generation Xers and that by incorporating an emphasis on diversity into their brands, they could enhance their market shares. Furthermore, “diversity” marketing made global expansion less costly. “Rather than creating different advertising campaigns for different markets, campaigns could sell diversity itself, to all markets at once.” While “CEOs dreamed of Big Macs in Russia, Benetton in Shanghai and logos projected on the moon”, the PC warriors were focused on small issues like getting a handful of women and minorities into positions of power, things that “posed no real threat to the guiding profit-making principles of Wall Street”. But left-wing student activists have now awakened to the global economic implications of branding. The world has changed in a big way. Over the last decade, there has been a massive redistribution of the world’s resources, with “everyone except those in the very highest tier of the corporate elite...getting less”.

### *Problem #1: The Facts About Poverty and Income Inequality*

Much of what Naomi Klein writes about the marketing behavior of large corporations is true. But I want to focus on her reason for being concerned. According to Naomi Klein (NL, p.122), “over the last decade [the 1990s], there has been a massive redistribution of the world’s resources, with everyone except those in the very highest tier of the corporate elite...getting less.”

There appears to be a general consensus among anti-globalization activists that the world we live in is characterized by disturbing increases in poverty and income inequality. But is this really the case? Economists have devoted a lot of energy to measuring poverty and income inequality in the world. I want to discuss at length the influential recent paper “The Disturbing “Rise” of Global Income Inequality” by Xavier Sala-i-Martin (2002), an economist at Columbia University.

Sala-i-Martin (2002) uses aggregate Gross Domestic Product data and within-country income shares for the period 1970-1998 to assign a level of income to each person in the world. All income data used are purchasing-power-parity-adjusted since people tend to buy goods where they live and one wants to compare incomes across people who live in different countries. Also all income levels are converted to 1996 constant US dollars and are thus corrected for inflation. Sala-i-Martin estimates a density

function for the world distribution of income. The implications for poverty and income inequality are surprising.

Sala-i-Martin finds that the percentage of people in the world with incomes below \$1 per day (one commonly used measure of poverty) has fallen from 16% in 1970 to 5% in 1998 and the percentage of people in the world with incomes below \$2 per day (another commonly used measure of poverty) has fallen from 44% in 1970 to 19% in 1998. The recent period of globalization has been associated with a substantial decrease in the fraction of the world population living in poverty (using either measure). Indeed, the entire distribution of income in the world has shifted significantly to the right (see Sala-i-Martin's Figure 4).<sup>5</sup>

Turning to income inequality, Sala-i-Martin uses seven different popular indexes to measure income inequality. All indexes show a reduction in global income inequality between 1980 and 1998. Within-country income inequality has increased slightly during the sample period but not enough to offset the substantial reduction in across-country disparities.<sup>6</sup> The reduction in global income inequality is driven by China, where 1.2 billion people (20% of the world population) have benefited from high economic growth rates since 1978. If one removes China from the data, then global income inequality would be roughly constant over time.

As Bhagwati (2004, p.67) has eloquently put it, these findings “raise a massive discordant note in the chorus singing from a libretto lamenting increasing inequality in the age of globalization.” Naomi Klein is simply wrong about the facts when she states that “over the last decade [the 1990s], there has been a massive redistribution of the world's resources, with everyone except those in the very highest tier of the corporate elite...getting less.”<sup>7</sup>

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<sup>5</sup> One criticism that can be raised is that economists like Sala-i-Martin measure poverty by focusing exclusively on income and ignore other important considerations. This is certainly a legitimate criticism but it is important to keep in mind that there have also been significant improvements in literacy rates, life-expectancy and infant mortality over the last 25 years. It is not just incomes that have been going up. Other measures of well-being are strongly correlated with income.

<sup>6</sup> My own theoretical research with Elias Dinopoulos provides an explanation for these findings. We show that trade liberalization between developed countries increases the wage premium for acquiring skills (Dinopoulos and Segerstrom, 1999) whereas trade liberalization by developing countries decreases the North-South wage gap (Dinopoulos and Segerstrom, 2003). In other words, trade liberalization between developed countries increases within-country income inequality whereas trade liberalization by developing countries decreases across-country income inequality.

<sup>7</sup> Within the economics profession, there is an ongoing controversy about what has happened to global income inequality. For example, whereas Sala-i-Martin (2002) finds that inequality has fallen over time using national accounts data, Milanovic (2002) finds that inequality has increased slightly using household survey data. However, there is a consensus that global poverty has fallen over time and even studies like Milanovic (2002) do not provide support for Naomi Klein's extreme claim that globalization has made most people worse off.

## **2.2 No Choice**

According to Naomi Klein, while the branded multinationals talk diversity, what they really want is “an army of teenage clones marching in uniform... into the global mall. Despite the embrace of polyethnic imagery, market-driven globalization does not want diversity; quite the opposite. Its enemies are national habits, local brands and distinctive regional tastes.” For example, when Wal-Mart sets up one of its big-box discount stores on the edge of a town and exploits economy of scale by setting prices sufficiently low so that no small retailer can compete, small communities find that their lively downtown streets die. When Starbucks enters a community, it sets up so many stores that each store largely cannibalizes the clientele at other Starbuck stores. Independently run coffee shops and restaurants cannot compete with Starbuck’s expansion strategy of clustering stores in existing markets. As of 1999, Starbucks had 1900 stores with outlets in 12 countries and Wal-Mart had 2435 big-box discount stores in 9 countries. With the aggressive expansion of these “Pac-Man chains”, the world becomes significantly more homogenous and there is a loss of meaningful choice.

Another way that real choice has diminished over time is through the mergers of large firms. Over the last 20 years, we have seen Disney buy ABC, Times Warner buy Turner Broadcasting and Bertelsmann buy Random House, to name a few of the high-profile mergers. All of these mergers have been motivated by the potential benefits from exploiting synergies but they have left consumers with no protection against monopolistic schemes. Many of these mergers would have been illegal before President Ronald Reagan engaged in an all-out attack on US anti-trust laws in the early 1980s.

According to Naomi Klein, resentment at invasive advertising, the corporate takeover of public space, predatory retail schemes and monopolistic business practices is not deep or widespread enough to spark a real backlash against the power of the brands. The main force contributing to the rise in anti-corporate activism is the slashing of good jobs by these brand-name multinationals, a subject to which I now turn.

## **2.3 No Jobs**

As was mentioned earlier, the emphasis of multinational corporations has shifted over the last 15 years from producing products to producing brands. It used to be that corporations focused on making things. But now the focus of successful corporations is not on manufacturing but on marketing. Corporations try as much as possible to contract out the production side of their business and instead focus on developing their brand image. As Nike’s CEO Phil Knight has put it, “There is no value in making things any more. The value is added by careful research, by innovation and by marketing.” Many of the branded multinationals have followed Nike’s example. For example, Levi Strauss has shifted a significant portion of their manufacturing from the US and Canada to contractors throughout the world so they could focus their efforts on brand promotion. Between November 1997 and February 1999, Levi Strauss shut down 22 plants and laid off 13,000 North American workers.

When manufacturing is so highly devalued, it follows that the people doing the production work become highly devalued as well. The shift in corporate priorities has

left factory workers and craftspeople in a precarious position. “The lavish spending in the 1990s on marketing, mergers and brand extensions has been matched by a never-before-seen resistance to investing in production facilities and labor.” Multinationals search the globe for factories that can make their products as cheaply as possible. And by contracting out the manufacturing work, the multinationals can shed all responsibility for the working conditions inside these factories. The contracting allows multinationals to “refocus on the needs of their brands, as opposed to the needs of their workers.” While Levi Strauss was laying off thousands of workers, it was launching a “particularly funky international ad campaign rumored to have cost \$90 million.”

So where has the production work gone? The answer is to free-trade zones (alternatively referred to as export processing zones or EPZs) in Indonesia, China, Mexico, Vietnam, the Philippines and other developing countries. These free-trade zones have emerged as leading producers of garments, toys, shoes, electronics, machinery and even cars. One representative example that Naomi Klein has visited and describes at length is the Cavite EPZ in the Philippines. Here, in the middle of the town of Rosario, is a 700-acre walled-in industrial area housing 200 factories that produce goods strictly for the export market. Inside the guarded gates of Cavite, factory workers assemble Nike running shoes, Gap pajamas and IBM computer screens, among the other branded products. The vast majority of the workers are young women who have migrated long distances to work inside Cavite. They work 12 hour-long days for military-style supervisors that are often abusive, at wages that are typically below the legal minimum wage of \$6 per day. The shed-like factories are cheaply constructed and exude a sense of temporariness. To entice companies to set up production in the free-trade zone, they are offered a 5-year “tax holiday” during which they pay no income taxes and no property taxes. There are also no import or export duties, lax regulations and the formation of labor unions is forcefully suppressed.

The WTO estimates that around \$225 billion worth of trade flows through EPZs and it has been estimated that roughly 27 million workers are employed by EPZs in roughly 70 countries. According to Naomi Klein, when only a few countries like South Korea and Taiwan has EPZs, the wages of workers rose and taxes were gradually increased. But now, with so many countries competing with each other by using EPZs to attract foreign investors, “wages and standards are being held hostage to the threat of departure” and “entire countries are being turned into industrial slums.” With zone wages that are so low that workers spend most of their pay on shared dorm rooms and transportation, EPZs no longer offer any promise as a road to economic development.

Moving back to the advanced countries, brand-name multinationals have not only been gradually outsourcing jobs in manufacturing, they have been rushing to free themselves from the burden of employees in everything from human resources to computer systems. The offering of good jobs – “the steady kind, with benefits, holiday pay, a measure of security and maybe even union representation” – has become less and less common. Companies are increasingly using part-timers, temps and freelancers to keep costs down. In the rapidly growing service sector, many of the jobs offered by brand-name companies are notoriously unstable, low paying and part-time. These firms defend what they are doing by claiming that they are offering



“hobby jobs for kids”; summer jobs for students on the road to more satisfying careers but many of these jobs are filled with older workers (people with multiple university degrees, laid-off nurses and teachers, downsized middle managers, etc.).

But what about all the great new jobs in the growing high-tech world? What about companies like Microsoft where scores of young workers have become millionaires from their lavish stock options? Naomi Klein responds that even Microsoft is playing the same game by having a two-tier workforce. On the inner circle, there is a group of very happy employees with permanent full-time jobs, pension benefits, generous stock options and \$220,000 average salaries (not including the top executives). Orbiting around this inner circle are around 5000 temporary workers, many of which work side by side with members of the inner circle and perform many of the same jobs, but do not have the stock option benefits or high salaries, are not even officially employed by Microsoft (they have been outsourced to other companies so Microsoft is legally protected from having to offer them the same benefits as other employees).

At the top of the pyramid in the corporate world though, people are definitely benefiting from globalization. This is the realm of the “free-agent executives”, who are offered exorbitant salaries and bonuses to provide them with economic incentives to make difficult management decisions, like laying off workers. A nice example is provided by Eastman Kodak CEO George Fisher, who cut 20,000 jobs in 1997 and was rewarded with an option grant worth \$60 million.

#### *Problem #2: The Facts About Trade Liberalization and Economic Growth*

In responding to Naomi Klein’s arguments about “No Jobs”, let me begin with what I think is the central issue: Are developing countries benefiting from embracing free trade and globalization? Is trade liberalization a promising path to economic development? Or are the developing country governments “selling out their people” as Naomi Klein claims by allowing free trade zones where multinational corporations have their products manufactured under sweatshop conditions? Economists have studied this issue in considerable depth in the empirical literature on the relationship between trade liberalization and economic growth. I want to discuss at length the recent paper “Trade Liberalization and Growth: New Evidence” by Romain Wacziarg and Karen Welch (2003), two economists at Stanford University, that represents the latest word on this issue.<sup>8</sup>

Wacziarg and Welch study 140 countries (essentially all the countries in the world) during the time period from 1950 to 2000. In each of these years, each country is categorized as “open” or “closed”. A country is categorized as open if its average tariff rate is less than 40 percent, nontariff barriers cover less than 40 percent of trade, its black market exchange rate premium is less than 20 percent, there is no state monopoly on major exports and there is no socialist economic system (where the

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<sup>8</sup> The empirical literature on trade and growth using cross sectional data has been heavily criticized in an influential paper by Rodriguez and Rodrik (2000). However, Wacziarg and Welch (2003) use panel data and look at the within-country growth effects of trade liberalization, something that had not been done in the earlier literature. See also Warner (2003) who exposes some serious problems with the Rodriguez-Rodrik critique.

communist party maintains undivided power). If any of these five conditions is not satisfied, a country is categorized as closed.<sup>9</sup> Using this criterion, the fraction of countries that are open has increased dramatically over time, from 16% in 1960 to 73% in 2000. This is strong evidence that globalization has occurred. Furthermore, during the time period from 1950 to 2000, there were unique dates of trade liberalization for many countries, years when specific countries switched from being closed to being open. For example, the United Kingdom and the United States were already open in 1950, Sweden became open in 1960, Japan became open in 1964, Chile became open in 1976, Mexico became open in 1986, and both China and India were still closed in 2000.<sup>10</sup>

Since dates of trade liberalization can be identified for many countries in the world, it is conceptually straightforward to ask the question, do countries tend to experience faster or slower economic growth rates after trade liberalization? Using standard statistical techniques for analyzing panel data, Wacziarg and Welch provide an answer to this question. They find that trade-centered reform has, on average, robust positive effects on economic growth rates within countries. For the typical country that switches from being closed to being open, the growth rate of real per capita Gross Domestic Product (income per person) increases by 1.4% [see Table 11 in Wacziarg and Welch (2003) and the regression with both country and year fixed effects]. This estimate of 1.4% is both highly statistically significant and economically significant. It means that for a typical country growing at an average annual rate of 1.1% before trade liberalization, its average annual growth rate jumps up to  $1.1\% + 1.4\% = 2.5\%$  after trade liberalization.<sup>11</sup>

To appreciate the significance of a higher rate of economic growth maintained over a long period of time, it is helpful to consider the growth experiences of two countries, India and South Korea. Between 1950 and 1994, real income per person in India grew at an average annual rate of 1.7% whereas the corresponding economic growth rate in South Korea was 5.7%. To obtain from these growth rates the number of years it takes for incomes to double, we divide the natural logarithm of 2 by a country's growth

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<sup>9</sup> There is good reason for not using the average tariff rate alone to determine how open a country is to international trade: countries use a variety of methods to restrict trade. For example, administrative restrictions on obtaining foreign currency to buy imports can be every bit as effective at restricting trade as high tariffs. If one just looks at tariff evidence, Algeria looks like a relatively open country in the 1980s, with an average tariff rate of only 13%. But as any expert on Africa knows, Algeria was (and still is) a very protectionist country. The black market exchange rate premium was an incredible 388% in 1985! See Warner (2003) for more details.

<sup>10</sup> China is still categorized as closed in 2000 because of its high black market exchange rate premium (35%) and communist party dictatorship. India is still categorized as closed in 2000 because of its high average tariff rate (48%) and nontariff barriers that cover 93% of trade.

<sup>11</sup> It is probably a mistake to attribute all of the 1.4% increase in economic growth to trade liberalization. When countries lower their trade barriers, they typically make other policy changes that could be growth-promoting. Good policy choices tend to be combined with other good policy choices. This is the reason why I use the term "trade-centered reform."

rate.<sup>12</sup> Then these numbers suggest that Indian incomes have been doubling every 40 years whereas Korean incomes have been doubling every 12 years. A typical Indian is twice as well off as his grandfather; a typical Korean 10 times. Thinking about these calculations led Robert Lucas (1988, p.5) to write: "I do not see how one can look at figures like these without seeing them as representing *possibilities*. Is there some action a government of India could take that would lead the Indian economy to grow like [South Korea's]? If so, *what*, exactly?... The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else."<sup>13</sup>

In defending her position, one point that Naomi Klein makes is that Mexico has done poorly since opening up to international trade. She writes (F&W, p.50), "The North American Free Trade Agreement came into force on January 1, 1994, and seven years later, three-quarters of the population of Mexico lives in poverty, real wages are lower than they were in 1994 and unemployment is rising." But Wacziarg and Welch (2002) take into account Mexico's poor growth performance since trade liberalization in their regression analysis. What they show is that Mexico is an outlier, an exception to the general rule that countries grow faster following trade liberalization (see their Figure 9). Wacziarg and Welch do not claim that every country that opens up to international trade experiences a 1.4% higher average annual economic growth rate, just that this is true for the average country. (Reasons why Mexico is an exception are discussed in the next subsection).

Another point that Naomi Klein makes is that trade liberalization benefited countries like South Korea and Taiwan when only a few countries were experimenting with trade liberalization, but with so many countries now embracing free trade, the increased competition between these countries implies that they will not benefit. Naomi Klein writes (NL, p.208), "Today, with seventy countries competing for the export-processing-zone dollar, the incentives to lure investors are increasing and the wages and standards are being held hostage to the threat of departure." I think that one should be skeptical about this "increased competition" argument. It is sort of like saying that it made sense to get a university education when only a few people had university degrees, but now with so many people attending universities, it no longer makes sense to do so (this is the "increased competition" argument applied to educational choice). Furthermore, Wacziarg and Welch (2003) study the issue and they find that countries that opened up to international trade in the 1990s actually

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<sup>12</sup> To verify this claim mathematically, we let  $Y(t)$  denote income at time  $t$  and let  $g$  denote the economic growth rate (with a 2% growth rate corresponding to  $g = 0.02$ ). Then  $Y(t) = Y(0)\exp(gt) = 2Y(0)$  implies that  $t = (\ln 2)/g$ .

<sup>13</sup> It turns out that there is a close connection empirically between economic growth and poverty reduction. Dollar and Kraay (2000) show that growth reduces poverty exactly one for one: a one-percentage point increase in aggregate income growth raises the income growth rate of the poor by one percentage point. Simply stated, economic growth is good for the poor.

experienced larger increases in economic growth rates than countries that opened up to international trade in the 1980s.<sup>14</sup>

A third point that Naomi Klein makes in defense of her position is that the case for trade liberalization has been discredited by the 1997 Asian currency crisis. She writes (NL, p.228), “The no-pain-no-gain defense of sweatshops, however, took a severe beating when the currencies of those very countries supposedly benefiting most from this development model began crashing like cheap plates...by early 1998 there were no more shining Asian Tigers to point to, and those corporations and economists that had mounted such a singular defense of sweatshops had had their arguments entirely discredited.” But the downturn in the Asian countries up through the year 1998 is taken into account in Wacziarg and Welch’s regression analysis. And one should not be too surprised that this downturn does not change Wacziarg and Welch’s conclusion that countries benefit from opening up to international trade. The Asian Tigers experienced “miracle” growth rates for several decades and a few bad years hardly negates all the progress that had previously occurred.<sup>15</sup>

The Wacziarg and Welch (2003) paper establishes empirically that there is something that governments can do to increase significantly their economic growth rates: open up their countries to international trade (and make the other policy changes that countries typically make when they open up to trade). Naomi Klein is simply wrong about the facts when she states that trade liberalization (of the form that has occurred) is not a promising road to economic development.<sup>16</sup>

### *Problem #3: The Experience of Mexico*

As was mentioned above, Naomi Klein presents Mexico as an example of why it is a mistake for developing countries to embrace free trade. This type of argument (country A lowered its trade barriers, country A then experienced slower economic growth, therefore it was a mistake for country A to lower its trade barriers) is conceptually flawed in principle.

For one thing, all countries in the world experience ups and downs, what economists call business cycles or economic fluctuations. This is just a fact of economics.

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<sup>14</sup> Let me suggest a possible explanation for this finding: when more countries have become open, there are greater benefits from opening up since a country gains access to a larger market.

<sup>15</sup> Gross domestic product per worker in the “tiger” economies (Hong Kong, Taiwan, South Korea and Singapore) grew at an average annual rate of 5 to 6 percent from 1960 to 1997. This compares with a 1.3 percent average annual growth rate in the United States and Sweden (see Jones, 2002, p.216). The East Asian experience truly deserves to be called a “growth miracle”. Never before in human history have so many people seen their standards of living rise so rapidly.

<sup>16</sup> When economists look at the data and find that trade liberalization increases economic growth rates, they are finding exactly what they expected to find based on economic theory. In my own theoretical research with Elias Dinopoulos, we have shown that trade liberalization between developed countries promotes technological change (Dinopoulos and Segerstrom, 1999) as does trade liberalization by developing countries (Dinopoulos and Segerstrom, 2003).

Countries are periodically hit by negative shocks and experience recessions (periods with declining national output) even if they are adopting good policies. For example, if a small country is a major exporter of copper and the world price of copper falls, then the country is likely to experience a fall in living standards even if it is implementing positive policy reforms (I am thinking of Chile's experience in the 1970s). Because the country is small, its policy choices have negligible effect on the world price of copper and the fall in the world price of copper just represents bad luck. There is an element of randomness in economic fluctuations. Countries can adopt policies to reduce economic fluctuations but they will never be able to eliminate them completely.

A second reason why the argument is conceptually flawed is that countries make public policy choices along many dimensions and their trade policy choice just represents one dimension. Countries make policy choices about government spending and taxes (fiscal policy), interest rates and money supply growth (monetary policy), the mix of public versus private provision of goods and services (like education and medical care), anti-trust policy, exchange rate policy and banking regulation, to give some examples. Thus, it is a mistake to conclude that because a country lowered its trade barriers and then experienced low economic growth, that the trade policy change was a mistake. It could be that the beneficial effect of trade liberalization was more than offset by bad policy choices on other dimensions. What this means is that there is no substitute for doing a detailed case study that look at all the policy choices that a country makes (not just its trade policy) if one wants to understand the growth experience of a particular country.

Naomi Klein does not carefully analyze Mexico's growth experience but this has been done in a recent paper by the economists Bergoing, Kehoe, Kehoe and Soto (2002). They actually compare the economic growth paths of Chile and Mexico, two countries that substantially liberalized trade (in the 1970s and 1980s, respectively), experienced deep recessions in the early 1980s due to the world debt crisis and were forced to nationalize their banking sectors in response. But Chile recovered from the debt crisis and experienced strong economic growth in the late 1980s and 1990s, whereas Mexico's growth performance since 1985 has been disappointing, to put it mildly. Their conclusion is worth quoting: "The crucial differences between Chile and Mexico were in banking systems and bankruptcy laws: Chile was willing to pay the costs of reforming its banking system and of letting inefficient firms go bankrupt; Mexico was not. This is not to say that the reforms in Mexican trade policy, fiscal policy and privatization were not important. The long period of crisis and stagnation that afflicted Mexico from 1982 through 1995 would have been far worse without them." The government of Mexico nationalized all banks in the early 1980s, which meant that loans were made for political reasons instead of sound economic reasons, and kept an obsolete and unwieldy bankruptcy law from 1943 in place until 2000. Chile also nationalized its banks in response to the debt crisis but quickly returned its banks to private control. According to Bergoing, Kehoe, Kehoe and Soto (2002), the Mexican policy mistakes more than offset the beneficial effects of trade liberalization.<sup>17</sup>

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<sup>17</sup> In a related paper, Hanson (2002) shows that wage gains in the 1990s were much stronger in Mexican regions with higher levels of foreign direct investment, greater exposure to foreign trade and higher rates of migration to the United States. Thus,

#### *Problem #4: Putting Sweatshops in Perspective*

In *No Logo*, Naomi Klein discusses at length the harsh working conditions in the factories located in developing countries like the Philippines where products sold by multinational corporations are manufactured. Twelve hour long work days are common and some managers are brutal in the way they house workers in firetraps, expose children to dangerous chemicals, deny bathroom breaks and demand sexual favors. It is not a pretty picture and there clearly is a need for policy measures to be taken to improve the working conditions inside sweatshop factories in developing countries. On this point Naomi Klein and I agree.

However, what is missing from Naomi Klein's analysis is any effort to put things in perspective. One would not know from reading *No Logo* that as of 1970, 44% of the world's population was living on less than \$2 per day (see Sala-i-Martin, 2002). One would not know from reading *No Logo* that these sweatshop factories that produce products for multinationals actually pay significantly above average wages in the countries where they are located.<sup>18</sup> By choosing to work in sweatshop factories, workers in developing countries are revealing that these jobs are the best options that they have. The fact that many people migrate long distances to work in the sweatshop factories is a powerful statement about how tough life is for non-factory workers (farmers) in developing countries. All of these facts should be taken into account in designing policies to help people in developing countries.

#### **2.4 No Logo**

This brings me to the final part of the book, "No Logo", where Naomi Klein discusses what anti-globalization activists can and are doing to counter the above-mentioned trends. One option is "culture jamming"; altering billboard advertisements in ways that drastically change the messages that brand name multinational are trying to send. Another option is staging protest rallies at WTO meetings and in so doing make it more difficult for companies to negotiate free trade deals that do not include enforcement of basic labor laws and environmental codes. One group of anti-globalization activists has taken to throwing cream pies in the faces of appropriate targets like Microsoft CEO Bill Gates, WTO director Renato Ruggiero and economist Milton Friedman ("the architect of global free trade"). Still another option is to organize boycotts of brand-name products unless the multinationals agree to improve conditions in the third world sweatshops where their products are manufactured. Naomi Klein concludes that the task of eliminating the inequalities at the heart of

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although real wage levels in Mexico declined during the 1990s, Hanson concludes that "these real wage declines do not appear to be associated with NAFTA" and "if anything, globalization has contributed to wage growth in Mexico."

<sup>18</sup> See Brown, Deardorff and Stern (2003) for evidence about multinational firms paying higher wages than domestic firms in developing countries. For example, one study found that in Indonesia, foreign-owned firms paid 33 percent more for blue-collar workers and 70 percent more for white-collar workers than locally-owned firms. Another study found that workers in foreign-owned apparel and footwear factories in Vietnam rank in the top 20 percent of the population by household expenditure.

free-market globalization is daunting but much can be accomplished by appropriately targeted protest activities.

*Problem #5: The Implications of Protest Rallies for Farmers in Developing Countries*

In *No Logo*, Naomi Klein does not write anything about farmers in developing countries. That is a problem! The majority of people in developing countries are farmers and these are often the poorest people, so if one wants to reduce poverty in the world, it is important to focus on the effects of policies on farmers in developing countries.

The best way to help people is not to give them handouts but to give them jobs (help them to help themselves). The best way to help farmers in developing countries is not to give them foreign aid but to buy the agricultural products that they produce. So what do rich countries do? The European Union (EU), for example, imposes prohibitively high tariffs on agricultural products coming from developing countries. Third-world farmers are not able to sell their products to EU consumers. And even worse, the EU subsidizes exports of agricultural products. The EU's Common Agricultural Policy (CAP) not only hurts European consumers (by artificially driving up the prices of agricultural products inside the EU) and hurts European taxpayers (the CAP represents 50% of EU government expenditure); it also hurts third-world farmers by driving down the prices of agricultural products in the rest of the world (outside the EU).<sup>19</sup>

When anti-globalization activists hold violent protest rallies outside WTO meetings, it has an effect on what happens inside. Less progress is made at these meetings on lowering agricultural trade barriers between rich and poor countries. As a result, trade liberalization that would provide big-time benefits for poor farmers in developing countries gets postponed.<sup>20</sup> Naomi Klein clearly indicates where her sympathy lies on this issue. She mentions with approval the French farmer and leading CAP-advocate José Bové (F&W, p.67, 195-6, 237; NL, p.438).

### **3. Conclusions**

In reading *No Logo* and thinking about the arguments that are presented against globalization, what I find most striking are the similarities between Naomi Klein and Karl Marx. Naomi Klein is a radical left-wing journalist and author. Karl Marx was a radical left-wing journalist and author. Naomi Klein's writings seethe with anger against multinational corporations and globalization. Karl Marx's writings seethe with anger against capitalists and the bourgeoisie. Naomi Klein favors violent protest

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<sup>19</sup> See Krugman and Obstfeld (2003, p.197-199) for an explanation of how export subsidies work. The United States is also guilty of heavily subsidizing its agricultural sector at the expense of farmers in developing countries. In 2002, President Bush signed into law a new farm bill worth \$180 billion that funds US agricultural subsidies for the next 10 years (see Akande, 2003).

<sup>20</sup> According to Akande (2003), "The developing world faces trade barriers costing them \$200 billion per annum – twice as much as they receive in aid. Industrialized nations currently spend about \$350 billion a year assisting their farmers, more than the economic output for all of Africa."

activities to working through the democratic process.<sup>21</sup> Karl Marx recommended a communist revolution to overthrow the existing capitalist power structure. Naomi Klein describes the sweatshop conditions in factories located in places like Rosario in the Philippines. Karl Marx described even worse sweatshop conditions in factories located in places like Manchester, England around 1850.

Karl Marx predicted that the wages of workers in capitalist countries would gradually fall down to subsistence levels (due to increased competition between capitalists). He could not have been more wrong. There has been dramatic growth in the real wages of workers since 1850 and today England (the country that Karl Marx studied) is one of the richest countries in the world. The countries that had Marxist revolutions like Russia and China are struggling today to catch up. It strikes me that Naomi Klein is repeating the same type of mistake that Karl Marx made. Naomi Klein predicts that wages will fall for developing countries that embrace free trade today (due to increased competition between developing countries). She writes (NL, p. 208), “Today, with seventy countries competing for the export-processing-zone dollar, the incentives to lure investors are increasing and the wages and standards are being held hostage to the threat of departure. The upshot is that entire countries are being turned into industrial slums and low-wage ghettos, with no end in sight.” This prediction goes against the strong empirical evidence that trade liberalization promotes economic growth and reduces poverty. On the central issue of whether or not globalization is benefiting developing countries, Naomi Klein could not be more wrong.

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<sup>21</sup> Naomi Klein does not explicitly advocate violence at anti-globalization protest rallies but she does not condemn this violence either, in spite of ample opportunity to do so. An implicit approval of the violence is clearly communicated in her writings.



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