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Book reviews

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The Evolution of the Trade Regime: Politics, Law, and Economics of the GATT and the WTO by John H. Barton, Judith L. Goldstein, Timothy E. Josling, and Richard H. Steinberg . . . . . Craig VanGrasstek

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Globalization and Its Enemies

By Daniel Cohen
Cambridge, MA: MIT Press, 2006

Suppose one was asked to identify an economist in his early fifties, holding a chair in one of his country's elite academic institutions as well as being an op-ed columnist for the country's leading newspaper. American readers would instantly think of Paul Krugman, but French readers of the author of this book, Daniel Cohen, Professor of Economics at the *Ecole Normale Superieure* and columnist for *Le Monde*. Nor do the similarities end there. Both hold strongly liberal values and both are noted for writing short books on economic topics addressed to the general reader that are not only lucid and persuasive statements of their viewpoints to that audience but challenging and provocative to their professional colleagues as well. MIT Press is indeed fortunate to have both these remarkable authors on its lists. Cohen's current book joins three other translations of his works from the French that MIT Press has published since 1991.

What exactly is meant by 'globalization' and who are its enemies? The first two of the seven chapters give a concise historical background on the emergence of the world economy, starting with the 'first globalization' of the European voyages of discovery and the conquest of the New World at the close of the fifteenth century. Cohen, following Jared Diamond, relies on 'guns, germs and steel' to explain why the *conquistadors* were so successful, despite their vast numerical inferiority and why the consequences of the encounter for the indigenous populations were so profoundly tragic. The 'second globalization' is identified with the British and other European imperial ventures of the nineteenth century, using the technology of the Industrial Revolution to overthrow not just tribal societies in the New World, Oceania, and Africa but also dominating the long-standing Eurasian empires of India, China, and the Middle East, as well as the peopling of the hitherto empty, or perhaps more accurately 'emptied', lands of the Americas and Australia by European settlers. Here Cohen relies on the works of economic historians such as Paul Bairoch, Greg Clark, Kevin O'Rourke, and Jeff Williamson. The third chapter on 'the new world economy' is concerned with the third and current phase of the globalization process, marked by the revolution in information technology and its ramifications. The fourth chapter is on the 'clash of civilizations' and 'what went wrong' in the Islamic world. Here he argues

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that Islam is not a drag on economic growth since Pakistan has about the same income per capita as its Hindu neighbor India and Malaysia as its Buddhist neighbor Thailand. What, however, about Israel and the rest of the Middle East? Surely, the key question with regard to the Arab world is why it has declined for so long relative to Europe after its early golden age and why the Mughal, Safavid, and Ottoman Empires also failed to maintain parity with Europe past the seventeenth century. The fifth chapter examines the problems of growth in the developing countries in the context of the current world economic order, while the sixth considers the role of the US as a hegemonic 'empire', a view with which he disagrees, seeing the primacy of the US as based more on its technological rather than military prowess. The seventh and final chapter considers debt relief and AIDS, two Third World problems that have aroused considerable sympathy and concern in the advanced countries and the engagement of celebrities to organize lobbying and charitable efforts aimed at their alleviation.

How does Cohen view the 'close encounter' between Europeans and other societies in the course of colonization? It seems that the outcome is always unfavorable to the latter, since the native population either implodes towards zero as in the case of the Americas, or explodes to result in per capita incomes at Malthusian subsistence levels, as in the Algerian case that Cohen cites on page 2. Why cannot there be an outcome in which the natives adopt superior European technology and raise their living standards as a result? In a well-known paper by Greg Clark, a huge disparity in productivity between Indian and English workers in cotton textile factories in the late nineteenth century is reported, despite use of the identical English machinery in both cases. Why was this so? Clark's somewhat circular answer was simply that the Indian labor was not of the same 'quality' as the English, while Cohen's appears to be that it is the racism of the colonizer that is inherent in the colonial enterprise by its very nature, as argued in a 1957 book on Tunisia by Albert Memmi that he cites. He argues that the Indian workers would have had English productivity levels if only they were paid English wages, refusing to man four looms instead of only one at their traditional wage levels. I find it surprising that as sophisticated an economist as Cohen does not immediately see that this outcome would be impossible if there was even a single employer willing to raise wages to enhance profits, if this was feasible. His explanation of why Indian entrepreneurs such as the Tatas had the same mindset as the British colonials in refusing to adopt the 'economy of high wages' is the unconvincing one that they internalized the same 'spirit of colonialism' as their British rulers.

Turning now to current trends in the world economy Cohen elaborates on the apparent paradox that reductions in the costs of transportation and communication may not have the benign consequences of more closely integrating economic systems and raising real incomes all round. The reason is that economies of scale at the existing production centers in already developed regions extend the market areas of these centers as a result of such cost reductions, driving out of business their smaller competitors in less developed areas, in the manner of large stars cannibalizing smaller ones in the formation of galaxies, so that global income inequality may be enhanced instead of narrowed as a consequence. This is the view that agglomeration effects are so strong that growth always results in increasing industrial and regional concentration, impoverishing the neighboring regions and reducing their inhabitants to the status of 'hewers of wood and drawers of water' through the outsourcing of routine functions,

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while all the creative and interesting activities take place at the top of the hierarchy. He thus cautions that the recent success of developing countries such as India in performing more of these tasks will not lead to true development unless they can eventually create such centers themselves. While this view may be a useful antidote to the opposite one propagated by the *New York Times* columnist Thomas Friedman that outsourcing in a 'flat world' increasingly threatens the livelihood of even highly skilled workers at the center, I think that both views are alarmist and wrong. What both contradictory views have in common is the denial of the possibility of mutual benefit through international trade. Friedman at least has the excuse that he is not a professional economist, and so can be forgiven for failing to comprehend what Paul Krugman has called 'Ricardo's Dangerous Idea' by analogy with the title of Daniel Dennett's book on Darwin and evolution. Cohen of course must understand the idea in a formal sense but he seems to regard it as somehow inapplicable or irrelevant to the contemporary 'new world economy' characterized by economies of scale and intra-industry trade as described by the 'new trade theory' (page 49), or even pernicious as in its application to the Anglo-Indian cotton textile trade in the nineteenth century (page 30). Heckscher and Ohlin are completely ignored, despite the obvious relevance of their factor proportions theory of comparative advantage to the explanation of the surge of labor-intensive manufactured exports that has powered the rise of the four 'tiger' economies of East Asia and of China, India, and Southeast Asia today. Cohen is clearly not a protectionist, and he strongly endorses the recent research on the positive correlation between growth and openness, but he seems surprisingly detached from acknowledging the crucial significance of inter-industry international trade based on differences in relative factor endowments and technological capabilities between North and South for workers and consumers in both regions, not only historically but also in the world of today.

The question of whether the dynamism of the center would be transmitted positively or negatively to the periphery was examined long ago by Gunnar Myrdal in the context of his 'principle of circular and cumulative causation' with its associated positive 'spread' and negative 'backwash' effects. The combined effect could cause either a 'virtual' or a 'vicious' cycle depending upon which predominated. Cohen stresses the negative impact due to his economies of scale argument but does not explain why, if this is true, that the positive correlations of growth with openness that he cites approvingly should hold so strongly.

Surprisingly, the work on trade theory that he spends the most space discussing (p. 31–37) is *Unequal Exchange* by the Marxist Arghiri Emmanuel, which claimed that trade between two countries with unequal real wages was exploitative of the workers in the country with the lower wage. The twist that Emmanuel added was that it was not the capitalists of the North who exploited the workers in the South, since thy earned the same rate of profit in both regions because of competition, but the workers of the North, whose higher wages came at the expense of their lower-paid brethren in the South, causing him to be stigmatized as 'petit-bourgeois' by the more orthodox in the Marxist camp. Why were wages higher in the North? Labor militancy and success in the internal class struggle according to Emmanuel; Cohen disagrees, putting it down to the willingness to tolerate a faster work pace than in the South (page 42); in other words, paradoxically, a greater willingness to be exploited as compared with

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the Indian workers in the cotton textile industry mentioned earlier. Despite this disagreement Cohen says (page 35) 'at the heart of Emmanuel's intuition is a diamond not to be thrown out', which is that 'the classical centrifugal forces of diffusion have yielded place to the centripetal forces of suction and attraction towards the poles of growth'. Cohen cites Bairoch to show that colonial exploitation could not have been the cause of European prosperity since the imperialist powers had slower growth rates than those without colonies, with decolonization generally raising the growth rates of the former as well.

This brings us to what is apparently Cohen's main point, that globalization is neither a prop nor a threat to the living standards of the North or the South. Its reality according to him is more of the 'virtual' sort, with images of a glamorous 'modern' life-style transmitted to the South by films and television, where it is consumed vicariously, with images of deprivation and squalor traveling in the opposite direction, arousing sympathy and calls for alleviation of the burdens of debt and AIDS (chapter 7). He says that 'the poverty of the poor is gratuitous and useless' rather than being 'the necessary countercondition of the rich countries' wealth' (page 163), as maintained by left-wing intellectuals who presumably are the 'enemies' of globalization referred to in the title. This flow of images can produce beneficial outcomes, as in the reduction of fertility rates because young Chinese women imitate the life-styles of young Japanese women (curiously no mention of the one-child policy of the state), or negative ones, as in the case of the provocation of terrorism in response or the riots that erupted in the French suburbs inhabited by poor Muslim immigrants that occurred shortly after the original edition of this book was published in 2004. Cohen rightly deplores the lack of sufficient provision of global public goods in the present system in his last chapter, a subject on which I wish he had elaborated more.

What policy prescriptions for the world economy are implied by Cohen's view of globalization? On trade and capital flows he seems rightly to be against restrictions on either. The intervention that he does call for is poverty alleviation through redistributive measures such as debt relief and reduction in the prices of medicines for AIDS and other diseases, arguing strongly against the claims of the pharmaceutical companies in this regard. On the whole he seems to feel that globalization, even if more virtual than real, requires the emergence of a true 'global welfare state' to provide an appropriate safety net for the world's poor. This plea to give globalization a 'human face' is a laudable aim and a welcome contribution of this book. Where it falls regrettably short, in my opinion, is in the surprising failure to appreciate the vital contribution of trade and capital mobility and the associated transfer of technology to the raising of living standards that we have experienced in both North and South. Workers in China and India are not just passive spectators of prosperous western life-styles. They contribute significantly to it with the goods and services that they export and the imports that they purchase in return, not to speak of the lower interest rates that their holdings of dollars and euros sustain. They do not enjoy the same levels of per capita income and consumption as in the North but these variables have been generally rising at a faster rate, so that convergence is occurring even if it still has a long way to go. While rightly absolving the North of guilt towards the South in the enjoyment of its own higher living standards, he fails to point out the mutual self-interest that both have in maintaining the free flow of goods and capital, not to speak of a freer flow of

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immigration from South to North, another subject that he unfortunately chose to ignore despite the fact that it is the true answer to the problem of unequal exchange to which he has given so much attention in this all too short book.

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The Evolution of the Trade Regime: Politics, Law, and Economics of the GATT and the WTO

By John H. Barton, Judith L. Goldstein, Timothy E. Josling, and Richard H. Steinberg
Princeton, NJ: Princeton University Press, 2006

The title of *The Evolution of the Trade Regime* provides an implicit answer to an unasked question: Is this regime the product of evolution or intelligent design? The question is neither as flippant nor as unprecedented as it might sound. Dean Acheson quite deliberately entitled his memoirs *Present at the Creation* (New York: Norton, 1969), immodestly asserting that the post-war challenge was 'just a bit less formidable than that described in the first chapter of Genesis' (preface). The United States played an indispensable, if not omnipotent, role in the establishment of global order and the creation of international institutions. While these bodies had many distinct objectives, from mutual security to economic development and trade liberalization, they were all part of the same grand design. Like Acheson, the authors of hegemonic stability theory saw an intelligence, and a power, behind the design of the post-war trade regime. This core concept of political economy holds that an open trading system is a public good that will be underprovided unless a single country has both the motive (economic efficiency) and the means (political power) to provide it. Great Britain had played this role in the nineteenth century, and the United States took it up in the twentieth.

The theory of hegemonic stability provides the point of departure for this book, which examines the prospects for the trade regime in a post-hegemonic period. Even if the regime needed a higher power for its creation, might it be capable of meeting new challenges when that hegemon is in relative decline? Here the authors adopt an evolutionary perspective. 'The challenge for any institution', they argue, 'is to devise, ex ante, a mechanism that allows the organization to respond to environmental changes, ex post' (page 9). They see the transition from GATT to WTO as an adaptive response that has thus far proven to be successful, if problematic. The question now is whether the process of institutional mutation can continue, and thus allow the WTO to survive internal and external challenges.

If the title suggests the main theme, the eclectic methodology is signaled by the subtitle: *Politics, Law, and Economics of the GATT and the WTO*. In contrast to the typical 'big picture' book, in which we see the regime from the perspective of a single discipline, this book seeks to blend views from each of the Big Three into a unified text. The writers include one economist (Josling), one political scientist (Goldstein), one lawyer (Barton), and yet another author with one foot in each of the latter two professions (Steinberg); no biologists, theologians, or non-Americans made the squad. In place of the usual hallmarks of a collaborative venture, such as a single editor and a series of chapters under separate bylines, they have instead opted for

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