

INSIDE THE VAULT

An Economic Education Newsletter from the Federal Reserve Bank of St. Louis

Crossing Borders: The Globalization Debate

LESSON PLAN



Crossing Borders: The Globalization Debate

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Globalization can be defined as a phenomenon of increased economic integration among nations, characterized by the movement of people, ideas, social customs and products across borders. This phenomenon has a long history, dating back to the trade routes developed during the Roman Empire, as well as those pioneered by Marco Polo or ocean voyagers like Columbus and Magellan.

Globalization has been crucial for economic growth over time. In his influential study “The World Economy: A Millennial Perspective,” the noted economic historian Angus Maddison argued that economic advancement across time was sustained by three interactive processes:

- the conquest or settlement of relatively empty areas that had fertile land, new biological resources or a potential to accommodate transfers of population, crops and livestock;
- international trade and capital movements; and
- technological and institutional innovations.

As Maddison and others have noted, technological innovations have played a key role in spurring previous globalization episodes. Transfers of technology from Asia and Egypt—such as silk, spices, textiles, glass blowing and rice—helped Venice and its colonies play a key role in the development of Europe. As economic integration spread across continents, political and financial institutions evolved to enhance and regulate the global marketplace.

The current globalization period, which more or less began in the late 1960s, contains many of the same aspects of earlier episodes. Reduced transportation costs, the opening of new

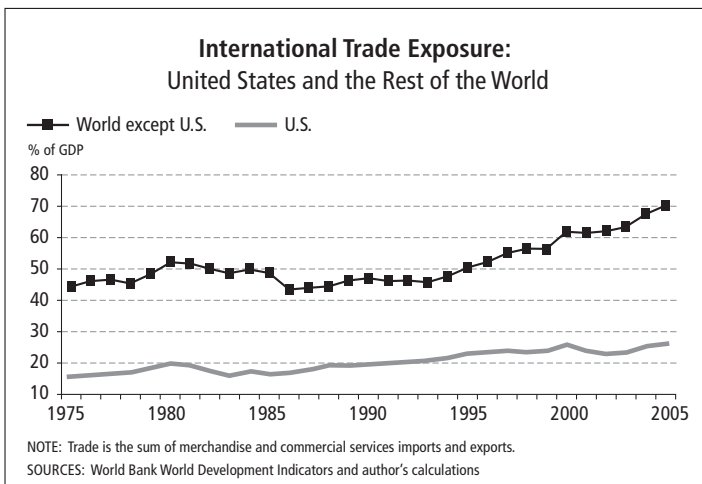


markets (such as Asia, Eastern Europe and South America), and the general lowering of tariffs worldwide have helped boost international trade as a share of domestic economic activity. A key development behind the current globalization wave is the revolution in information and communication technologies (ICT). Although shipping merchandise goods is still the dominant form of trade between countries, trade in services that takes place across transoceanic cables or by satellite is of increasing importance.

The increased openness of the United States and the rest of the world to international trade can be seen in the figure on this page, which shows the sum of imports and exports of goods and services as a share of all goods and services produced annually in the United States—a figure known as Gross Domestic Product (GDP). Whereas the U.S. share of trade is a little more than a quarter of GDP, the rest of the world’s exposure to international trade is much larger: 70 percent.

The Benefits of Globalization

The benefits of globalization are essentially based on the benefits of free trade. International trade is beneficial because



of the principle of comparative advantage, which allows a country to specialize in the activities that it does best, given its labor, natural resources and technology. The estimated net benefits that flow from free trade are substantial. According to a study by economists Bradford, Grieco and Hufbauer, international trade has increased real household income by between \$7,000 and \$13,000. Removing all existing barriers to trade, they argue, would produce an additional real income gain of between \$4,000 and \$12,000.

In addition to the fact that people and nations can produce more goods and services when they specialize, thereby increasing the total amount of goods and services produced worldwide, free trade also increases the variety of goods and services available to consumers. Without trade, coffee drinkers in the United States would pay much higher prices because the nation's supply would depend solely on Hawaiian or Puerto Rican sources. Scarce resources would need to be redirected to produce more coffee, leaving fewer resources to produce other goods and services.

Similarly, Honda or BMW drivers would be forced to drive Chevrolets or Fords. Given that technological innovation in the automotive industry, as well as other industries, often arise from competition, the quality of cars might also be much lower for all car manufacturers.

The competitive forces of globalization have also been important factors in boosting U.S. labor productivity growth in recent years. This growth can occur in a couple of ways. First, increased competition spurs domestic firms to invest in equipment and software embodied with the latest technology. Second, moving less-skilled labor to low-wage countries increases the relative demand for higher-skilled, higher-productivity labor.

Proponents of globalization argue that increased economic integration benefits workers in relatively poor countries by providing them access to new ideas and new technologies; this exposure increases their productivity and real wages. According to Harvard professor Xavier Sala-i-Martin, this has helped to reduce world income inequality over the past 20 years.

The Downside of Globalization

Although free trade benefits society because it increases the world output of goods and services, it also creates losers in certain industries which cannot compete with foreign manufacturers. The biggest losers are both the workers and the owners (shareholders) in these industries, such as the U.S. television manufacturing industry which could not compete with foreign competition. If producers can substitute a cheaper foreign source of labor relative to the domestic wage rate, many will choose to move their production overseas, creating increased unemployment.

The largest unemployment effects are probably among less-skilled workers employed in ordinary production processes

that can be done much cheaper overseas, such as making products like T-shirts or baseballs or reading service manuals at call centers. Since high-skilled workers are paid a premium for their labor, moving lower-skilled work offshore increases the domestic demand for higher-skilled workers relative to lower-skilled workers. Only one-third of the current U.S. labor force has graduated from college, however, and increasing that percentage will take time. At the end of WWII, the college-educated share of the labor force was 6 percent. At that rate, economists predict that reaching 50 percent of the labor force will not come about until 2047.

One potential consequence of this is rising income inequality between low-skilled and high-skilled workers. According to the Organisation for Economic Cooperation and Development (OECD), increases in income inequality have been most pronounced in the United States, the United Kingdom and some smaller European countries. Increases in the demand for skilled labor are clear market-based incentives for workers to boost their education levels and, perhaps, for firms to increase their workforce training. The demand for high-skilled workers over the long run can also be boosted by research and development, which is often the genesis of new ideas that boost economic growth and living standards over time.

A key difference between the current globalization episode and those from the past is the sheer magnitude of the number of workers who have entered the labor pool. The rise of China and India as important exporters of goods and services means that many of their workers are now directly competing with workers in countries like the United States, Japan or Mexico. Economically, an increase in the supply of labor puts downward pressure on wages assuming no change in labor demand.

Conclusion

As global competition has increased, so have the voices of protectionism. Ultimately, policymakers must decide whether the costs of maintaining relatively free trade—by expanding public programs to compensate the losers of trade, or those who perceive themselves as losers—is a small price to pay for maintaining a global economic system that has produced large benefits for most parts of the world.

This article was adapted from Trading Barbs: A Primer on Globalization, which was written by Kevin Kliesen, an economist at the Federal Reserve Bank of St. Louis, and was published in the October 2007 issue of The Regional Economist, a St. Louis Fed publication.

Lesson Description

Students will consider both sides of the globalization debate—the benefits and the costs—by reading and discussing the article “Crossing Borders: The Globalization Debate” from the Spring 2008 issue of *Inside the Vault*. Working in groups, students will analyze statements regarding the benefits and costs of globalization, categorize the statements and discuss them.

Concepts

Benefits
Costs
Globalization

Objectives

Students will:

- Define the terms globalization, benefits and costs.
- Identify the benefits of globalization.
- Identify the costs of globalization.

Content Standards

National Standards in Economics

- **Standard 2:** Effective decision-making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are all-or-nothing decisions.

Time Required

60 minutes

Materials Required

- A copy of Visuals 1, 2, and 3, with each visual taped on a different wall around the classroom
- Copies of Handout 1, cut apart and shuffled to provide one card per pair of students
- A copy of Handout 1 that is not cut apart to serve as the answer guide for student discussion
- Copies of Handout 2 and 3 for each student
- One copy of the Handout 2 answer key for the teacher
- Copies for each student of the article “Crossing Borders: The Globalization Debate” from the Spring 2008 issue of *Inside the Vault*
- Tape
- Scissors

Procedures

1. Define **globalization** as a phenomenon of increased economic integration among nations, characterized by the movement of people, ideas, social customs and products across borders. Discuss the following:
 - What does the term “integration” mean? (*Answers will vary but may include the bringing together of diverse individuals or groups, a blending into a functioning or unified whole, a uniting*)
 - Economic integration is a blending of economies in production processes, inputs, outputs and trade across borders.
 - There is a long history of globalization going back to historic Roman trade routes.
 - Globalization has been crucial for economic growth over time.
2. Divide students into two groups—a benefits group and a costs group. Define a **benefit** as something that is favorable to a decision-maker. Define a **cost** as something unfavorable to a decision-maker. Tell students to read the article “Crossing Borders: The Globalization Debate” from the Spring 2008 issue of *Inside the Vault*.

Direct the benefits group to highlight or underline arguments identifying the benefits of globalization mentioned in the article, and direct the costs group to highlight or underline arguments identifying the costs of globalization. After students have read the article, ask the following:

- Have you ever traded part of your lunch for some of your friend's lunch? Why? (*Answers may include: "I got something I liked better."*)
 - Conclude that an individual traded because it benefited him/her.
3. Point out that globalization has been occurring for many centuries, and benefits to society have come about because of globalization. Remind students that a benefit is something that is favorable to a decision-maker.
4. Write the following on the board: *faster ships, new trade routes, new goods, new products, new tools, new technology*. Ask the following:
- Based on the article "Crossing Borders," what do the phrases on the board have in common? (*Answers may vary but may include the fact that all of these changes resulted in new and better goods and services that society would not have had were it not for trade, a better standard of living, etc.*)
5. Remind students that a cost is something that is unfavorable to the decision-maker. Ask students what some of the costs of trading their lunch were—e.g., what they had to give up. (*Answers may include the part of the student's lunch that he had to give up for the trade, the time and effort involved in making the trade, the risk that the student would not like the lunch he traded for more than what he brought, etc.*)

Point out that there were also societal costs when globalization occurred. Discuss the following:

- What might be some costs that society incurred as a result of globalization? (*Answers may vary but might include spread of disease, exposure to new religions and cultures, increase in the gap between more educated/higher-income people and less educated/lower-income people, loss of jobs to those who can't compete with foreign labor and the risk that a foreign competitor will "build a better mousetrap."*)
6. Pair each student from the original benefits group with one student from the original costs group. Assign one student to be the reader and the other to be the reporter for the pair. Give each pair a card from *Handout 1: Benefits and Costs of Globalization Statements*.

Point out that there are three signs on different walls in the classroom—"Benefits," "Costs" and "Undecided." Tell the student pairs to read their cards, discuss the information on the cards and, using their highlighted article as a reference, decide if the information the card describes is a cost or a benefit of globalization. Once they have decided as a pair, the students should take their card and stand by the sign

that they think is the best representation of their statement. If they aren't certain whether their card describes a benefit or a cost, they should stand by the "Undecided" sign. (*Note: If you have more cards than pairs of students, give some pairs two cards.*)

7. Beginning with a pair standing in the "Benefits" group, have the reader for the pair read the card and the reporter explain why the card describes a benefit. Ask the rest of the class if they agree with the pair's decision. Refer to a copy of Handout 1 to check student responses. After all pairs in the "Benefits" group have participated, move to a pair standing in the "Costs" group and repeat the process. Continue until all pairs in the "Costs" groups have participated.
8. Conduct the same process with students in the "Undecided" group. Have the class decide whether the pair should move to the "Benefits" group, move to the "Costs" group or remain in the "Undecided" group (if the class agrees that the statement might be a cost to some and a benefit to others).

Note: Although a statement may be listed on Handout 1 as a benefit or a cost, students may correctly explain the statement is a cost to some and a benefit to others. For example, the statement, "Services such as voice mail or data entry can be moved offshore to countries where the average wage is much lower" may be interpreted as a cost to those individuals who lose jobs to the foreign provider and to consumers who perceive the service to be of lower quality due to language barriers. On the other hand, the statement may be interpreted as a benefit to those service companies and their shareholders because their costs of production are reduced.

Closure

9. Review the definitions of globalization, benefits and costs:
 - Globalization is a phenomenon of increased economic integration among nations, characterized by the movement of people, ideas, social customs and products across borders.
 - A benefit is something favorable to a decision-maker.
 - A cost is something that is unfavorable to a decision-maker.
10. Remind students that the article pointed out benefits such as innovations and technologies that have come about because of globalization. Ask students to identify some benefits of globalization today. (*Answers may include that there are more goods and services available to society due to globalization, that there is a greater variety of goods and services available, that global competition may have enhanced the quality of goods and services or that globalization creates economic integration, which may lead to better international relations.*)

11. Remind students that the article described how navigation technology fostered globalization in historical times. Ask students to identify how current technology such as the computer, the internet and instant messaging fosters globalization in the same way that navigation technology fostered globalization in historical times. *(Answers may vary but may include the fact that these technologies increase communication and provide relatively inexpensive ways to transport information.)*
12. Ask students to identify some costs of globalization today. *(Answers may include increased environmental concerns such as pollution or global warming, dependence on foreign producers, or the risk that a foreign competitor can replace a domestic supplier of goods or services.)*

Assessment:

13. Distribute a copy of *Handout 2: Benefits and Costs of Globalization—Assessment*. Allow time for students to work individually or in their original pairs. Review their answers by using *Handout 2: Answer Key*.
14. Distribute a copy of *Handout 3: Joseph Conrad vs. John Donne*. Direct students to follow the instructions on the handout.

Handout 1: Benefits and Costs of Globalization Statements

Benefit Statements

<p>International trade is beneficial because it allows a country to specialize in activities it does best, given its endowments of labor, natural resources and technology.</p>	<p>International trade has increased real household income by between \$7,000 and \$13,000 since the end of WWII.</p>
<p>Innovations in software and the development of the internet have allowed firms to more easily import services that they used to produce themselves.</p>	<p>Trade increases the variety of goods and services available to consumers.</p>
<p>The quality of today's automobiles is the result of technological advances due to competition in the international marketplace.</p>	<p>Services such as voice mail or data entry can be moved offshore to countries where the average wage is much lower.</p>
<p>Economic efficiency is increased when resources are allowed to flow to their most productive uses.</p>	<p>Globalization helps workers in relatively poor countries by providing them access to new ideas and technologies, which increases their productivity and real wages.</p>

Handout 1: Benefits and Costs of Globalization Statements—Continued

Cost Statements

<p>Losers in globalization can be owners of capital (shareholders) in industries that cannot compete with foreign manufacturers.</p>	<p>Faced with unemployment, workers in declining industries will need temporary assistance (unemployment benefits) and longer-term assistance (education)—additional costs that the worker and society may bear.</p>
<p>Increased economic uncertainty among workers may spur legislation to limit the import of goods and services (rising protectionism).</p>	<p>A rise in the domestic wage rate will cause a much larger decline in the quantity of domestic labor demanded because firms can now substitute a cheaper foreign source of labor.</p>
<p>One potential consequence of the development of high-skilled labor is the rising income inequality between low-skilled and high-skilled workers.</p>	<p>Sometimes achieving an efficient outcome requires the winners of free trade to compensate the losers.</p>
<p>Because many public policymakers and workers evidently associate rising inequality with globalization, some economists argue that additional steps are needed to prevent further erosion in the public's support for international trade.</p>	<p>Traditional responses to economic dislocation caused by international trade are job retraining, wage insurance or temporary income assistance.</p>

Handout 2: Benefits and Costs of Globalization—Assessment

For each statement below, identify whether a benefit or a cost is being described and circle the appropriate term. An example is below.

Example: Most economists have stressed the long-term reward of increased education, which seems to be a necessary ingredient for the creation of new ideas.

Benefit

Cost

1. Low-skilled workers may face rising income inequality compared with high-skilled workers.

Benefit

Cost

2. Moving less-skilled labor to low-wage countries increases the relative demand for higher-skilled, higher-productivity labor.

Benefit

Cost

3. Without competition from international trade, automobile quality would probably not be as good as it is today.

Benefit

Cost

4. Increases in the demand for skilled labor are clear market-based incentives to workers to boost their education levels.

Benefit

Cost

5. The quality of today's computers is due to technological advances caused by competition in the international marketplace.

Benefit

Cost

6. Chief among the losers of globalization are owners of capital (shareholders) in industries that cannot compete with foreign manufacturers.

Benefit

Cost

7. Faced with unemployment, workers in declining industries will need temporary assistance (unemployment benefits) and longer-term assistance (education)—additional costs that the worker and society must bear.

Benefit

Cost

8. Relaxing restrictions on the mobility of labor across borders would produce an additional real income gain of between \$4,000 and \$12,000 per household.

Benefit

Cost

9. Traditional responses to economic dislocation caused by international trade include job retraining, wage insurance or temporary income assistance, such as that offered through the Trade Adjustment Act.

Benefit

Cost

10. People and nations can produce more goods and services when they specialize.

Benefit

Cost

Handout 2: Benefits and Costs of Globalization—Assessment—Answer Key

The correct answers are circled.

1. Low-skilled workers may face rising income inequality compared with high-skilled workers.

Benefit

Cost

2. Moving less-skilled labor to low-wage countries increases the relative demand for higher-skilled, higher-productivity labor.

Benefit

Cost

3. Without competition from international trade, automobile quality would probably not be as good as it is today.

Benefit

Cost

4. Increases in the demand for skilled labor are clear market-based incentives to workers to boost their education levels.

Benefit

Cost

5. The quality of today's computers is due to technological advances caused by competition in the international marketplace.

Benefit

Cost

6. Chief among the losers of globalization are owners of capital (shareholders) in industries that cannot compete with foreign manufacturers.

Benefit

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7. Faced with unemployment, workers in declining industries will need temporary assistance (unemployment benefits) and longer-term assistance (education)—additional costs that the worker and society must bear.

Benefit

Cost

8. Relaxing restrictions on the mobility of labor across borders would produce an additional real income gain of between \$4,000 and \$12,000 per household.

Benefit

Cost

9. Traditional responses to economic dislocation caused by international trade include job retraining, wage insurance or temporary income assistance, such as that offered through the Trade Adjustment Act.

Benefit

Cost

10. People and nations can produce more goods and services when they specialize.

Benefit

Cost

Handout 3: Joseph Conrad vs. John Donne

Instructions: Choose the quotation below which best describes your opinion of globalization. Write one paragraph that includes:

- the quotation you chose,
- your position regarding whether the effect of globalization is a benefit or a cost to society and
- reasons for your position.

You may include direct quotes from the article "Crossing Borders." If you do, be sure to use quotation marks.

This quote from Joseph Conrad opens *The Human Factor*, by Graham Greene:

"I only know that he who forms a tie is lost. The germ of corruption has entered into his soul."

This quote from John Donne (1572-1631) appears in *Devotions Upon Emergent Occasions, Meditation XVII*:

"No man is an island, entire of itself ... every man is a piece of the continent, a part of the main ... "

Visual 1: Benefits



Benefits

Visual 2: Costs



Costs

Visual 3: Undecided



Undecided