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ABSTRACT

This paper examines whether protectionist tendencies, in terms of both policy preferences and policy actions, in 'Northern' countries—looking in particular at the United States – seem to be an obstacle to the integration into the world economy of small, vulnerable 'Southern' countries. The paper makes three related points. First, current trade barriers in the North appear to cost Southern countries billions of dollars annually. Second, although some WTO-governed trade barriers in the North are declining, it appears that there is an increasing US resistance to further globalization via trade, investment, and immigration liberalization. Third, the paper speculates about what forces might be driving this rising Northern resistance to further liberalization, and what this resistance may imply for the integration prospects of small, vulnerable economies.

Keywords: Globalization, Policy Preferences, North-South Integration

JEL Classification: F13, F22, J31, J61

1. HOW MUCH DO NORTHERN TRADE BARRIERS COST SOUTHERN COUNTRIES?

Answering this question is rather difficult, both because general-equilibrium welfare estimates tend to require computable general-equilibrium (CGE) models, which are quite complicated, and because results from these CGE models tend to be sensitive to key modelling assumptions: e.g., returns to scale of production technology, elasticities of substitution in production and consumption, etc. That said, there have been some carefully executed studies of the welfare impacts of some of the most-egregious Northern trade barriers such as the Multi-Fiber Arrangement (MFA) covering world trade in textiles and apparel.

This section reviews several of these studies. One important message of these studies is that Southern countries in the aggregate are likely to gain from various Northern liberalizations. Studies indicate this to be the case even for largely non-tariff barriers such as the MFA: even though Southern countries lose quota-like rents from liberalization, these losses appear to be more than offset by pro-competitive gains from increased market access and output. A second important message is that even though Southern countries may gain in the aggregate, it need not follow from this that every individual country gains – the distribution of gains may be quite disparate within this group.

1.1 Elimination of the MFA

First is an analysis of the MFA. Restraints on global trade in textiles and apparel date back to at least the US-Asian Short Term Agreements on Cotton Textiles in 1962. The first phase of the MFA came into existence in 1974, and it evolved into an elaborate structure of tariffs and, especially, bilateral export quotas imposed mainly by Northern importers on Southern exporters. In the MFA importers granted exporting licenses to exporting-country governments, who in turn allocated the licenses among domestic producers. The 1994 Uruguay Round agreements called for a 10-year phasing out of the MFA under a new agreement called the Agreement on Textiles and Clothing (ATC). This phasing-out period consists both of raising quota levels and removing products from ATC coverage; by 1 January 2004, all ATC provisions are to be gone and this area will fall under normal WTO oversight.

What will MFA removal mean for the level and distribution of world welfare? Trela and Whalley (1990) offer a detailed estimates of the welfare effects, based on a CGE model of 'the world' simplified to three major importing regions (the United States, Canada, and the European Community), 34 exporting countries (mainly developing nations), and 14 MFA product groups. The model is calibrated to actual 1986 data on MFA barriers, production, and trade flows; this baseline is then used for simulations of a complete elimination of all MFA barriers.

Their baseline estimate (Table 3, pp. 1199) is that worldwide welfare would be raised annually by about US$ 23.4 billion. This gain would be distributed both between the three importing regions (about US$ 15.3 billion) and among the 34 exporting countries (about US$ 8.1 billion). Among the 34 exporting countries 29 are estimated to gain individually, with China the largest gainer at US$ 1.8 billion; four of the five losing countries lose less than US$ 30 million each, with Hong Kong the outlier at a loss of about US$ .5 billion. Sensitivity analyses which vary functional form or elasticity values find broadly similar results (Table 5, p. 1202).

Trela and Whalley emphasize that the exporting countries gain in the aggregate despite their loss in quota rents enjoyed by quota-holding countries: quota-rent losses are more than offset by improved import-market access and thus higher production. This is true even for countries holding a relatively large share of the quotas, such as South Korea and Taiwan. It is also notable that the analysis finds that MFA removal does not merely reshuffle import-market shares among exporting nations with no net gain for this group in market share. Instead, these exporting countries each gain market share, with a net increase for this group being accommodated by reduced production in the importing countries themselves.

Kathuria *et al.* (1999) discuss how the distribution of Southern gains from MFA removal needs to be approached carefully: the Trela and Whalley results from 1986 data need not apply to the actual MFA removal now and in the next four years. Whalley (1999) discusses a couple of important recent changes in the pattern of worldwide production in textiles and apparel. First, regional trade agreements for the United States and the European Union have shifted a lot of production into non-quota-constrained locations. US imports from Mexico have risen rapidly since the implementation of the North American Free Trade Agreement (NAFTA), and from Jamaica and the Dominican Republic with the Caribbean Basin Initiative (CBI). EU imports have risen rapidly from Central European countries such as Poland and Hungary. Second, within Asia production has shifted dramatically towards China, such that today it is estimated to account for over half of all Asian output in these sectors.

Kathuria *et al*., also emphasize the possibility of dynamic welfare gains from MFA removal, above and beyond the static resource-reallocation gains captured in CGE models like that of Trela and Whalley. Kathuria, *et al*., highlight that 'a key feature of an outward-oriented development process seems to be the identification of industries where relatively high levels of productivity can be achieved … the presence, or continued threat, of export quotas [like the MFA] reduces the opportunity for developing countries to use the relative ease of adopting new technology in the clothing sector as a first step on the ladder of economic development' (pp. 5-6). They cite the example of Bangladesh, which for the past 25 years has realized annualized growth rates of clothing exports of nearly 100 per cent. Similarly, many commentators have pointed out that recent growth successes like South Korea and Taiwan started industrialization decades ago in textiles and apparel. Quantifying these dynamic welfare gains is very difficult, but they underscore that estimates of static gains like those in Trela and Whalley might best be regarded as lower bounds.

Similar estimates to those of Trela and Whalley are found in Nguyen *et al.* (1993), who use CGE simulations to estimate welfare gains not just from the MFA removal but more generally from all liberalizations agreed to in the Uruguay Round. Their MFA estimates are qualitatively the same as in Trela and Whalley: somewhat larger gains for importing nations, but non-trivial gains for exporters as well. Annualized worldwide gains from all Uruguay Round liberalizations are estimated to be over US$ 200 billion. As with Trela and Whalley, this study considers only static resource-reallocation gains and assumes no scale economies in production.

1.2 Elimination of antidumping duties and countervailing duties

After the MFA, it seems that the Northern trade restriction most troublesome to many Southern nations is the class of non-tariff barriers known as antidumping duties and countervailing duties (AD/CVD). This is particularly so for the United States, where AD/CVD use has increased dramatically in recent decades. But Prusa (1999) and Tharakan (2000) document that AD use has risen in recent years not just among 'traditional users' (United States, the European Community, Australia, Canada, and New Zealand) but among 'new users' as well, such as Mexico, Argentina, Brazil, and South Africa – with many of these new users being involved in intra-South disagreements (Tharakan 2000). In fact, Martin and Winters (1996) report that many new users have patterned their new laws after their US counterparts. This all means that small, vulnerable countries face AD threats not just from many rich countries but increasingly from many middle-income countries as well.

How costly are AD and CVD barriers? I know of no study of their cost to the targeted countries. But Gallaway *et al.* (1999) report CGE estimates for the cost of these barriers imposed by the United States to the United States itself. Their framework is broadly similar to that of Trela and Whalley and others, but as many AD/CVD filings are made against narrow product categories in narrow industries, they use a CGE model with hundreds of product categories. They calibrate this model using data for AD and CVD restrictions in place in 1993, and estimate that removing these barriers would increase US welfare by approximately US$ 4 billion. Given the ongoing MFA phase-out, these estimates indicate that post-MFA the costliest barriers to trade for the United States will be this collection of AD/CVD restrictions.

What does the Gallaway, *et al*. estimate for US welfare suggest for the welfare of exporting nations targeted by these barriers? Gallaway *et al.* emphasize that the majority of the net US welfare loss stems from foreign suppliers raising their prices. Once an AD or CVD ruling is implemented in the United States, it is subject to subsequent review and modification based on subsequent market developments. Thus, an initial ruling against foreign firms for charging 'too low' a price in the United States can be partially or even entirely reversed if the ruled-against foreign suppliers subsequently raise their US prices. This peculiarity of US law which allows foreign firms to affect future margin determinations through their own pricing decisions de facto allows these firms to extract rents from the US economy, analogous to quota rents. Thus some of the estimated US$ 4 billion US welfare gain would come from the rent loss by foreign suppliers.

That said, Gallaway *et al.*, find pro-competitive trade-expansion effects from their simulated liberalization, effects which presumably would benefit supplier nations. Prusa's (1999) estimates of the trade-reducing impact of AD rulings suggests these pro-competitive effects can be quite large. He finds that AD duties reduce imports from targeted countries by 30 per cent to 50 per cent. Interestingly, he finds very similar trade reduction even in AD cases which are settled before duties go into effect – and he even finds trade reduction in AD cases which are rejected by the US government. AD/CVD cases severely restrict market access not just once duties are on the books but much more broadly through simple investigations which never lead to any duties being collected. Inferring from the MFA evidence of Trela and Whalley and others, the fact that AD/CVD barriers sharply restrict trade suggests that these barriers generate substantial welfare losses for the targeted countries. But again, it remains for actual research to demonstrate this.

2. IS THERE RISING OPPOSITION TO GLOBALIZATION IN THE NORTH? US POLICY ACTIONS

Today in the United States – and many other Northern countries as well – there appears to be rising opposition to policies aimed at further liberalization of international trade, foreign direct investment, and immigration. A large number of political events of the past decade suggest a marked turn away from liberalization, and many prominent trade-policy specialists have raised alarms about this shift. For example, Hufbauer (1999) scores these events as being decisively won by opponents of further globalization: 'By my score, the global Backlash forces, in the United States and elsewhere, have enjoyed seven victories since the WTO agreement was reached in Marrakesh in 1994 … Against this count, the Open Market forces have achieved three important victories since the WTO was established in 1994'.

Here is a brief summary of several of these events, mainly in the United States. Clearly, all these events may have involved issues beyond globalization – but opposition to globalization played a role in all of them. And it should be noted that many of these events have been concerned not just with liberalization in general, but liberalization with Southern countries, including many small and vulnerable ones.

China-US Trade Agreement. The most volatile US trade issue at the time of writing this paper was the just-passed House of Representatives vote over whether to grant permanent, normal trade relations to China. This plan is expected to pass in the Senate, but the House vote was widely regarded as too close to call in the preceding months. The American labour movement waged a massive opposition campaign, 'its biggest lobbying campaign ever on trade matters' according to the front-page story of the 14 May New York Times (Greenhouse 2000). For example, on 12 April, thousands of AFL-CIO members rallied on Capitol Hill and lobbied dozens of House members against the bill. Eventually it passed the House on 24 May by a 237-197 margin, but with many free-trade supporters concerned over the intensity of opposition.

The African Growth and Opportunity Act. This bill will liberalize trade with dozens of small, vulnerable countries in Africa; in particular, it proposes eliminating a 17 per cent ad valorem tariff on US imports of African clothing. Although this bill finally passed through Congress in May, it had been stalled for about five years, in the face of sharp opposition widely regarded as originating from the major US textile union UNITE (Union of Needleworkers, Industrial & Textile Trades Employees) and from the textile-manufacturers lobby ATMI. Friedman (2000) conjectures that the opposition stems from 'Sheer knee-jerk protectionism – even though the bill has tough measures to protect against any surge in imports from Africa, and restricts free-trade status to African countries moving toward democracy, economic reform, and real worker protection'. And the actual liberalization is modest, with tariff reductions accompanied by strict quotas: African duty-free clothing imports cannot exceed 1.5 per cent of all US textile imports in the first year of the law, with the cap rising to only 3.5 per cent after eight years.

CBI Parity. Similar to the Africa stalemate, the current Congress has stalled negotiations over extending North American Free Trade Agreement (NAFTA) parity to member countries of the Caribbean Basin Initiative (CBI). Many of these CBI countries are small, vulnerable economies. Labour unions are widely regarded to be strong opponents of granting CBI parity.

Public Protests Over the 1999 WTO Ministerial Meetings in Seattle and Over the 2000 IMF/World Bank Annual Meetings in Washington. At both these meetings, tens of thousands of protestors representing labour unions, environmentalists, and many other interest groups severely disrupted official proceedings (much more so in Seattle). Trade was the central issue in Seattle; at the Washington IMF/Bank meetings, trade was a major theme of the protests, but so, too, were issues related to international finance such as external-debt relief for highly indebted Southern countries and conditionality of IMF/Bank loans. Many commentators have credited the size and severity of the Seattle protests with contributing to the failure of the WTO delegates to initiate a new round of trade negotiations. At least 30,000 AFL-CIO members marched in various protest rallies aimed against freer trade.

The US delegation is reported to have generated strong animosity among developing-country negotiators on at least three fronts: insisting that labour standards somehow enter the WTO agenda; refusing to accelerate MFA phase-outs; and refusing to countenance restrictions on US AD/CVD filings. President Clinton was widely regarded as having contributed heavily to the animosity by stating in a mid-meetings radio interview both that labour standards should be placed into trade accords and that trade sanctions are a legitimate tool for addressing labour-standards violations.

All this discussion of labour standards and trade policy surrounded Seattle, despite a large body of empirical evidence indicating that developing countries do not generate any tangible edge in international markets from having labour standards different from those in the North. The OECD's (1996: 105) comprehensive labour-standards study concludes, 'empirical findings confirm the analytical analysis that core labour standards do not play a significant role in shaping trade performance. The view which argues that low-standards countries will enjoy gains in export market shares to the detriment of high-standards countries appears to lack solid empirical support … patterns of specialization are mainly governed by the relative abundance of factors of production and technology differences'. Similarly, there appears to be no clear connection between labour standards and foreign direct investment (FDI) decisions by North-headquartered companies. '[A]ggregate FDI data suggest that core labour standards are not primary factors in the majority of investment decisions of OECD companies … According to reports by MNEs from OECD countries, core labour standards are not considered a factor in assessing investment opportunities in a potential host country' (pp. 123-124).

Break-Up of the Advisory Committee for Trade Policy and Negotiations. The Clinton administration formed this committee to provide advice on a wide range of trade issues such as the expanding US current-account deficit. Committee members were drawn from business, labour, and academia. But on 24 February 2000, three key labour members resigned: AFL-CIO president John Sweeney, UNITE president Jay Mazur, and Retail, Wholesale, and Department Store Union president emeritus Lenore Miller. These labour-union leaders claimed that business interests predominated committee discussions and, in the words of Sweeney, 'contributed to a corresponding imbalance in US trade policy'.

Death of the Multilateral Agreement on Investment. In December, 1998 the OECD halted its efforts to ratify among its members a new FDI treaty aimed at ensuring that host governments treat equally domestic and foreign-owned firms. It is widely believed that a major force behind the collapse of this agreement was intense lobbying efforts of nongovernmental organizations, whose tactics included posting on the Internet a smuggled draft of the treaty. After three years, negotiations halted in April 1998 for a 'time out' for additional discussion among all concerned parties. But the negotiations never fully resumed, and in December efforts ceased.

Inability to Renew Fast-Track Negotiating Authority. The Trade Act of 1974 granted the President the ability to negotiate trade agreements with Congressional oversight limited to a 'yes or no' vote, without the option of amending any particular element of any agreement, within 60 days of receiving any agreement from the President. Congress renewed this Act in 1979, 1988, 1991, and 1993. But in 1997 President Clinton asked House Speaker Newt Gingrich to kill House consideration of fast-track renewal; this request came after the White House realized it did not have enough votes to win renewal. In 1998 fast-track renewal was again considered in the House; this time it came to a vote, but it was defeated 243 to 180, with over 80 per cent of the President's own party voting against renewal. Since these two defeats the Clinton administration has not requested renewal.

Pat Buchanan's 1996 Presidential Bid. In the 1996 Republican Presidential primaries, Pat Buchanan mounted an early challenge to eventual winner Bob Dole based largely on his opposition to trade, in particular trade with developing nations. A key plank of Buchanan's platform included sweeping 'social tariffs' on trade with a large number of developing nations deemed to be trading unfairly due to low wages and low labour standards. Buchanan stunned Dole in the opening primary election in New Hampshire, where much of his time was spent at old abandoned textile mills railing against free trade.

Debate Surrounding the 1993 Congressional NAFTA Vote. The summer and fall of 1993 brought an intense national debate over whether the US should extend the Canadian-US free-trade agreement to include Mexico. Destler (1995: 217) called these discussions 'the most prominent and contentious domestic debate on trade since the Smoot-Hawley Tariff Act of 1930'. NAFTA opposition was led by Ross Perot, who as an independent candidate received 19.1 per cent of the popular vote in the 1992 Presidential election. The debate reached a rhetorical peak with a nationally televised prime-time face-off between Perot and Vice President Al Gore on Larry King Live just days before the House vote, on 9 November. Gore was widely perceived as the 'winner' of this event; this, plus intense White

House lobbying, helped the House pass the NAFTA on 17 November by a margin of 234 to 200.

Increased Use of AD/CVD Barriers. Despite the negotiation and ongoing implementation of the Uruguay Round trade liberalizations, a large number of countries are implementing AD/CVD barriers more frequently. As stated above, Prusa (1999) documents that AD use has risen in recent years not just among 'traditional users' (United States, the European Community, Australia, Canada, and New Zealand) but among 'new users' as well, such as Mexico, Argentina, Brazil, and South Africa. From 1987 through 1989 there were an average of 113 AD filings worldwide each year; from 1990 through 1997 this annual average more than doubled, to 232. And Tharakan (2000) reports that from 1987 to 1997, fully two-thirds of AD cases filed against small, vulnerable economies were filed by middle-income countries, i.e., new users.

New Immigration Restrictions. As for immigration, border enforcement policies have toughened considerably in recent years. In 1994 California voters approved Proposition 187, which denied public services such as public education and health care to illegal immigrants. Since 1997 legislation has barred the use of federal money to cover Medicaid costs for poor legal immigrants during their first five years of residence.

3. IS THERE RISING OPPOSITION TO GLOBALIZATION IN THE NORTH? US POLICY OPINIONS

The previous section documented a number of policy actions – laws, votes, nonvotes, political protests – which collectively suggest a rising opposition in Northern countries to further liberalization of trade, investment, and immigration. But does this shift in policy actions reflect a shift in people's policy opinions about globalization?

Not necessarily. As Rodrik (1995) has emphasized, policy actions are the endogenous outcomes of the interaction between policy (and possibly other) preferences and political institutions. Policy preferences and institutions together determine policy actions, so the mapping from preferences to actions is not unambiguous. Rodrik (1995: 1459) makes this distinction between preferences and actions when arguing that a complete political-economy model of trade policy 'must contain a description of how these individual [trade-policy] preferences are aggregated and channelled, through pressure groups, political parties, or grass-roots movements, into 'political demands' for a particular policy'.

So this raises the question about policy opinions about globalization: are people in the United States and elsewhere opposed to this process? Answering this requires some kind of polling data, and a lot of recent polling evidence suggests the answer is 'Yes'.

Some of the most recent and high-profile evidence comes from the US News and World Report (2000) cover story 'Backlash: Behind the Anxiety Over Globalization'. The new poll supporting this story finds that only 10 per cent of Americans characterize their preferences as being a 'free trader'. In contrast, 51 per cent of respondents characterize themselves as 'fair traders', and 37 per cent as 'protectionists'. So for every one American who supports free trade there are almost nine who support some form of interventionist trade policies.

The widespread opposition to freer trade is paralleled by widespread opposition to freer immigration, too. A December, 1998 Wall Street Journal poll reported that 58 per cent of Americans think international trade is bad for the US economy because imports hurt wages and cut jobs, versus only 32 per cent who think trade is good because it stimulates demand for US products and thereby helps create jobs. Even more starkly, 72 per cent think current levels of legal immigration into the United States should not be raised because immigrants cost US jobs and increase unemployment, versus only 20 per cent who think immigration levels should be raised because immigrants fill jobs find troublesome to fill. Slaughter and Scheve (2000a, 2000b) report similar anti-globalization majorities in recent National Election Studies (NES) surveys. In the 1992 NES survey, of respondents expressing a preference over US trade policy, 67 per cent favoured new restrictions on US imports to help protect American jobs, versus 33 per cent who oppose such restrictions because they raise US consumer prices and hurt US exports. In the NES surveys of 1992, 1994, and 1996, only about 10 per cent of respondents stated the US should increase legal-immigration levels by any amount. In contrast, each year large majorities wanted to reduce immigration levels.

And this opposition has persisted for at least as long as the recent rise in protectionist actions. A good example of this comes from the Los Angeles Times, which every year since 1983 has asked 1000-2000 randomly chosen Americans the following question (or something very similar to this): 'Do you think it should be the policy of the US to restrict foreign imports into this country in order to protect American industry and American jobs, or do think there should be no restrictions on the sale of foreign products in the US in order to permit the widest choice and the lowest prices for the American consumer?' Every year somewhere between 63 per cent and 73 per cent of respondents have answered 'restrict imports'.

So underpinning the rising policy actions in the United States against globalization appear to be a persistent preference among the majority of Americans for less global integration – more trade restrictions, fewer immigrants. What accounts for this public sentiment against globalization? The following section offers a potential explanation.

4. WHY ARE NORTHERN OPINIONS SO SET AGAINST GLOBALIZATION? THE SKILLS-PREFERENCES HYPOTHESIS

In this last section I offer a hypothesis about what drives this US sentiment set against globalization: US preferences about globalization cleave mainly across skills, and for about 25 years less-skilled US workers – who still constitute the majority of the overall labour force – have experienced poor relative and real-wage performance. Let me address each part of this hypothesis in turn.

4.1 The skills-preferences cleavage in the United States: theory and evidence[1]

Standard economic models offer lots of rich predictions for what underlying economic forces should drive US preferences over trade and immigration liberalization. Start with the standard assumption that preferences depend on how policy affects income for factors of production, as current factor income is a major determinant of individual economic welfare. For trade, it is well known from standard trade theory that trade's effect on current factor income depends crucially on the degree of intersectoral factor mobility, i.e., on the degree of factor specificity.

In a Ricardo-Viner (RV) framework where some or all factors cannot move to other sectors, factor incomes tend to vary by industry of employment. This immobility is usually assumed to be caused by some transaction costs to moving. For example, industry-specific human capital gained through on-the-job experience can make workers reluctant to switch sectors. In this model immobile (i.e., specific) factors need not earn the same return in all sectors. Instead, the income of specific factors is linked much more to their sector of employment. In particular, trade-liberalization-induced changes in relative product prices redistribute income across sectors rather than factors. Sectors whose product prices fall – presumably comparative-disadvantage sectors – realize income losses for their specific factors while sectors whose product prices rise – presumably comparative-advantage sectors – realize income gains for their specific factors. As a result, trade-policy preferences are determined by sector of employment. Factors employed in sectors with product prices elevated (lowered) by trade protection oppose (support) trade liberalization.[2]

In contrast, in a Heckscher-Ohlin (HO) framework where factors move costlessly across sectors, factor incomes tend to vary by factor type. Perfect intersectoral factor mobility implies that economy-wide, each factor earns the same return in all sectors. Trade liberalization which changes relative product prices changes relative (and possibly real) factor prices according to the Stolper-Samuelson theorem: returns tend to rise (fall) for the factors employed relatively intensively in the sectors whose relative product price rises (falls). In this model it is usually assumed that protection is received by the sectors which employ relatively intensively the factors with which the country is poorly endowed relative to the rest of the world, because in opening from autarky to free trade these factors suffer income declines. In contrast, the factors with which the country is relatively well endowed relative to the rest of the world enjoy income gains in opening from autarky to free trade. Thus a country's abundant factors support freer trade while its scarce factors oppose it – regardless of the sector of employment for any of these factors.

To summarize, in HO models factors evaluate trade policy based on their factor type while in RV models factors evaluate trade policy based on their industry of employment. What do these two models predict about trade-policy preferences in the United States? Many studies (e.g., Leamer (1984)) have documented that the United States is well endowed with more-skilled labour relative to the rest of the world. According to the HO model, then, in the United States more-skilled workers should support freer trade while less-skilled workers should oppose it. In contrast, the RV model predicts that US workers employed in comparative-advantage sectors should support freer trade while those in comparative-disadvantage sectors should oppose it. Note that both models may lead to the same policy outcome –

US tariffs on unskill-intensive industries – but what is crucial is the different underlying preference cleavages.[3]

What about immigration-policy preferences? Well, these will depend on the skill-mix of immigrants relative to that of natives. It is reasonable to assume US citizens think that current immigrant inflows increase the relative supply of less-skilled workers. This assumption clearly reflects the facts about US immigration in recent decades. Borjas *et al.* (1997: 6) report that 'on average, immigrants have fewer years of schooling than natives – a difference that has grown over the past two decades, as the mean years of schooling of the immigration population increased less rapidly than the mean years of schooling of natives. As a result, the immigrant contribution to the supply of skills has become increasingly concentrated in the lower educational categories'.[4]

Given this, a wide range of standard trade and labour models predict that less-skilled (more-skilled) Americans should oppose (favour) higher US immigration levels. For example, in the standard HO framework, large-enough immigration shocks induce a country to make a different set of products, which in turn entails different wages thanks to a different set of world prices and technology parameters facing that country's firms. For the US case, more immigrants tend to boost output in industries which employ less-skilled workers relatively intensively, and this process pressures less-skilled wages downward. Alternatively, the standard one-sector model commonly used by labour economists makes the same wage prediction: less-skilled immigrants can price themselves into employment only by accepting lower relative wages.

So standard economic models applied to the current US experience suggest that preferences over both trade and immigration policy may very well cleave across skill groups: more-skilled workers (less-skilled) workers will be more inclined to support (oppose) liberalizing policies.[5]

Do the data bear out this prediction? Yes. Scheve and Slaughter (2000a, 2000b) find a strong skills-preferences correlation in their analysis of stated policy preferences from the 1992, 1994, and 1996 NES surveys. Tables 1 and 2 summarize their findings on this issue. These tables show simulation results based on parameter estimates of individual policy preferences (either trade or immigration) on a number of potential explanatory forces, including individual skill levels measured either in terms of educational attainment (Education Years) or the national average wage in that individual's occupation (Occupation Wage).

TABLE 1
ESTIMATED EFFECT OF INCREASING SKILL LEVELS
ON THE PROBABILITY OF SUPPORTING INTERNATIONAL-TRADE RESTRICTIONS

For each of the eight estimated models, we estimated using multiple imputation with a logit specification the effect of factor and industry exposure to international trade on individuals' trade policy opinions. The parameter estimates from this analysis are reported in the appendix (Scheve and Slaughter (2000a). Here we interpret those results by presenting the impact of a one standard deviation increase in each independent variable, holding other variables constant, on the probability that the respondent supports trade restrictions. For each of these changes, we report the mean effect, the standard error of that estimate, and a 90 per cent confidence interval.

CHANGE IN PROBABILITY OF SUPPORTING TRADE RESTRICTIONS AS A RESULT OF A ONE STANDARD DEVIATION INCREASE IN THE INDEPENDENT VARIABLE FOR EACH MODEL[1]

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Occupational	-0.074				-0.074	-0.074		
Wage	(0.012)				(0.012)	(0.013)		
	[-0.095, -0.053]				[-0.094, -0.055]	[-0.097, -0.054]		
Education		-0.132					-0.132	-0.133
Years		(0.015)					(0.016)	(0.016)
		[-0.158, -0.107]					[-0.158, -0.106]	[-0.161, -0.106]
Sector			0.012		0.011		-0.001	
Tariff			(0.012)		(0.013)		(0.012)	
			[-0.010, 0.032]		[-0.011, 0.032]		[-0.021, 0.019]	
Sector Net				-0.014		-0.014		0.000
Export Share				(0.013)		(0.013)		(0.013)
				[-0.035, 0.008]		[-0.035, 0.008]		[-0.021, 0.021]

Notes: [1] Each triple of entries in the table begins with the mean effect from 1000 simulations of the change in probability of supporting trade restrictions due to an increase of one standard deviation from the independent variable's mean, holding all other variables constant at their means. The standard error of this estimate is reported in parentheses. Finally, a 90 per cent confidence interval for the probability change is presented in brackets.

Source: Scheve and Slaughter (2000a, Table 2).

TABLE 2
ESTIMATED EFFECT OF INCREASING SKILL LEVELS
ON THE PROBABILITY OF SUPPORTING IMMIGRATION RESTRICTIONS

Increase skill measure from mean maximum	Year	Change in probability of supporting immigration restrictions
Occupation wage	1992	-0.086
		(0.031)
		[-0.138,-0.036]
Education years		-0.126
		(0.029)
		[-0.174,-0.081]
Occupation wage	1994	-0.337
		(0.050)
		[-0.416,-0.252]
Education years		-0.112
		(0.019)
		[-0.143,-0.081]
Occupation wage	1996	-0.201
		(0.047)
		[-0.274,-0.120]
Education years		-0.085
		(0.017)
		[-0.113,-0.057]

Notes: Using the estimates obtained from regressing stated policy preferences on a number of possible correlates including skill levels, this table simulates the consequences of changing each skill measure from its mean to its maximum on the probability of supporting immigration restrictions. The mean effect is reported first, with the standard error of this estimate in parentheses followed by a 90 per cent confidence interval.

Source: Scheve and Slaughter (2000b, Table 3).

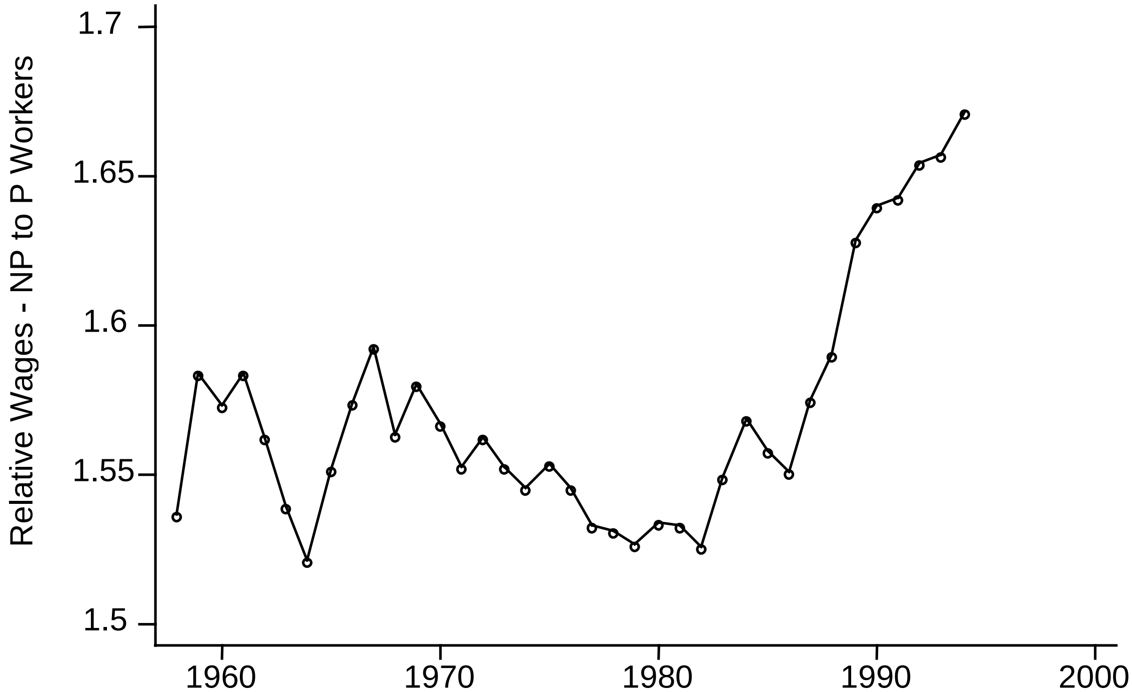
Table 1 strongly supports the hypothesis that individuals' skill levels determine trade-policy preferences, while little evidence is found consistent with the hypothesis that industry of employment influences policy preferences. Across all models in Table 1, higher skills measured either in terms of higher occupational wage or more education is strongly correlated with lower probabilities of supporting trade restrictions. The mean estimates of probability changes are much larger (in absolute value) than those for the industry measures, which show much more ambiguous effects. These mean estimates are virtually identical whether the specification includes just a skill measure or a skill measure and an industry measure. Moreover, they all are precisely estimated: all have 90 per cent confidence intervals strictly less than zero.

Table 2 shows similarly strong results for the hypothesis that individuals' skill levels also determine immigration-policy preferences. All simulations in Table 2 show more skills to be highly correlated with lower probabilities of supporting immigration restrictions. As before, all simulated effects are precisely estimated, with 90 per cent confidence intervals strictly less than zero.

4.2 Putting the skills-preferences cleavage in context: poor recent US wage performances

Tables 1 and 2 show that less-skilled workers are much more likely to oppose US liberalization. Figure 1 puts this fact into the context of the recent labour-market problems of these less-skilled US workers. This figure shows rising US wage inequality in terms of job classification. It shows for US manufacturing the average annual wage of a nonproduction worker to the average annual wage of a production worker. This 'skill premium' generally declined from 1958 until around 1979; since then it has risen almost continuously by about 10 per cent. This rise in the US skill premium rise has been going on since the late 1970s across all skill measures such as education, experience, and job classification. For example, in 1979 male college-educated workers earned on average 30 per cent more than male high-school-educated workers. By 1995 this premium for college-educated workers had risen to about 70 per cent. Looking at the overall wage distribution reveals a similar picture of rising inequality. Between 1979 and 1994 the ratio of the earnings of a male worker at the ninth decile compared with one at the median rose from 1.73 to 2.04. At the same time the

FIGURE 1
WAGE INEQUALITY IN US MANUFACTURING, 1958-1994



Notes: Skill premium is measured as the ratio of average annual wages of non-production workers to average annual wages of production workers in US manufacturing.

Source: National Bureau of Economic Research Manufacturing Productivity Database.

earnings of that median male worker rose from 1.84 to 2.13 times the earnings of a worker at the first decile.[6]

And in addition to relative-wage changes, average real-wage growth in the United States has been very sluggish since the early 1970s (exact timing depends on exact real-wage measure used). Blanchflower and Slaughter (1999) report that from 1873 to 1973, US real average hourly earnings increased by about 1.9 per cent per year. But since 1973, CPI-deflated US real wages have fallen by about 0.4 per cent per year. Combined with the fact of rising wage inequality, this slow growth of average real wages has meant that less-skilled US workers have had close to zero or even negative real-wage growth for about 25 years. This real-wage stagnation differs sharply from earlier decades when real-wage growth was both faster and enjoyed across all groups.

And when we talk about less-skilled US workers, it is very important to remember that this category, as typically defined by labour economists, constitutes the majority of the US labour force. Table 3, from Johnson (1997), shows this quite clearly. Yes, the US labour force has been skill upgrading for decades. But that is a statement about the relative skill mix of the US labour force. In absolute terms, even into the 1990s college graduates – the group typically defined as more-skilled workers – account for only about one in four US workers. The median US worker, even after 50 years of skill upgrading, is still relatively less-skilled – and this median worker has experienced poor wage performance in both real and relative terms for some 25 years.

Taken together, the evidence presented in this suggestion offer a coherent picture for the strong US sentiment against globalization. Survey evidence in the United States indicates that preferences over trade and immigration policies cleave strongly across skill groups. And the labour-market performance of the largest of these skill groups, relatively less-skilled workers who constitute the majority of the labour force, has been quite poor for at least two decades. Overall, it is not surprising that the median US voter wants more trade barriers and fewer immigrants.

TABLE 3
THE SKILL MIX OF THE US LABOUR FORCE
IN RECENT DECADES

Year	High-school dropouts	High-school graduates	Some college	College graduates	Relative supply
1940	76	14	5	5	0.105
1950	66	21	7	6	0.137
1963	52	30	9	9	0.185
1970	45	34	10	11	0.217
1979	32	37	15	16	0.333
1989	23	39	17	21	0.435
1993	20	35	23	22	0.496

Notes: Each cell reports the share of the total US labour force accounted by that labour group in that year. The last column entitled 'relative supply' is a summary statistic of the US skill mix across all labour types.

Source: Johnson (1997).

5. CONCLUSIONS, AND DISCUSSION OF IMPLICATIONS FOR SMALL, VULNERABLE ECONOMIES

The paper has made three related points. First, current trade barriers in the North appear to cost Southern countries billions of dollars annually. Second, although some trade barriers in the North are declining under the guidance of the World Trade Organization (WTO), it appears that there is an increasing US resistance to further globalization via trade, investment, and immigration liberalization. Third, this resistance may stem from the fact that less-skilled workers, who constitute the majority of the US labour force and who have been experiencing real and relative wage shortfalls for over 20 years, are much more likely to prefer less globalization.

What messages do these points carry for the integration prospects of small, vulnerable economies? If the conjecture about what drives US anti-globalization preferences is correct, one message would be that US resistance to liberalization with the South might diminish if the recent strong US economic performance continues. This resistance might also diminish if US policy discussions were to focus more on the wage problems of the less skilled.

A second, less-hopeful message is that continued US liberalizations with small, vulnerable economies are likely to impart further wage pressures on the US economy. On the immigration side, Borjas (1999) examines how less-skilled US wages are likely to be pressured further if current US immigration policy is not altered to increase the skill mix of arriving immigrants. On the trade side, Haskel and Slaughter (2000) have documented that the US tariffs remaining at the end of the Tokyo round were highest in the unskill-intensive sectors – in particular, textiles, apparel, and footwear. This suggests there may be scope for future trade liberalizations – in particular, the MFA phase-outs – to pressure US unskilled wages.

A third message is that the world has been here before. Murshed (1999) discusses recent research by Jeff Williamson and others highlighting that the world's protectionist outbreak from 1914 to 1945 was preceded by decades of shifting relative wages both in the United States and Europe. After decades of shifting relative incomes, quite plausibly linked to globalization, many countries turned to trade and immigration restrictions. In principle, this kind of protectionist backlash could hit again.

NOTES

1 This subsection draws heavily from Scheve and Slaughter (2000a, 2000b). See these studies for more-complete discussions.

2 If some factors remain mobile across sectors in a Ricardo-Viner model, their factor prices are not so clearly linked to product-price changes. Changes in real factor prices for these mobile factors are ambiguous: the direction of change depends on the consumption basket of these mobile factors. The above discussion focuses only on the specific factors.

3 Of course, preferences may be consistent with both models, not just one. The RV model can be characterized as a short-run version of the more long-run HO model. For example, Mayer (1974) and Mussa (1974) compare wage changes in the two models, and Mussa (1978) formalizes how with intersectoral mobility costs an RV short-run gradually becomes an HO long-run. In reality, each model might be relevant over different time horizons. If individuals evaluate both short-run and long-run effects of trade liberalization, then trade-policy preferences might depend on both factor type and industry of employment.

4 This skills gap between immigrants and natives does not address other interesting facts about the distribution of skills among immigrants. For example, Borjas *et al.* (1997: 7) show that the skill distribution of US immigration has been somewhat bimodal at both the high-skill and low-skill ends of the distribution.

5 It is important to note that the foregoing theory discussion has assumed full employment. In models without perfectly-competitive labour markets, equilibrium unemployment may give rise to policy cleavages across the employment/unemployment margin. For example, it may be the less-skilled unemployed workers demanding new trade barriers. This cleavage may be much more relevant in many European countries which have recently had much higher unemployment rates than the United States.

6 These basic facts on relative earnings come from the 1997 *Economic Report of the President*, which devotes two chapters to labour markets and inequality. Inequality has risen across education, experience and occupational groups as well as within these groups. The exact timing and magnitude of the changes vary somewhat with the measures used, but all standard measures show dramatic changes. For additional discussion see Blanchflower and Slaughter (1999).

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