Comments at the CBG Conference Honoring Raymond Vernon

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Ray Vernon was a great intellect, an iconoclast for whom scholarly fashions never held much attraction. That is of course what made him a visionary: his pioneering studies of the multinational enterprise, comparative political economy, and what we today call globalization anticipated the flourishing academic work in these areas by a decade or two. And his intellect and scholarly curiosity were matched by a distinguished career in the real world, spanning both the private and public sectors.

Nuanced analysis, attention to cultural and historical context, skepticism of grand theories, and distrust of statistical evidence were the hallmarks of Ray's scholarly approach. For a conventional economist, this could be frustrating at times. I remember many occasions when I tried to convince him of some new econometric finding or the relevance of a theoretical model, only to encounter his bemused, skeptical smile. Invariably, time proved kinder to his skepticism than to my gullibility.

Ray was a charming man, but he could also be intimidating. I know this all too well, as my own initial foray into research took place under his auspices. In 1977, I was a shy undergraduate at Harvard, looking for a more rewarding part-time job than washing dishes for the Harvard football team. I thought doing research for a professor could be a way out. Fate steered me towards him. At the time, Ray had a large research operation based at the Harvard Business School. After I was successfully screened by his other research assistants, I had my first meeting with him. He asked me how much international economics I had studied. I mumbled about how I knew something about multinational companies. What he told me then continues to ring in my ear to this day: "You think you know!" His point of course, I now understand better, was not to put me down. He was warning me against overconfidence and teaching me an important lesson about the kind of scholar he was. No matter what the theories of the day say, our tendency is to think we know more than we really do.

I worked hard as an undergraduate RA for Ray, because he seemed so hard to impress and I was desperate to please him. I remember many evenings spent at Widener Library in search of an obscure reference. His passion for revising his papers meant that I would have new versions in my hands as soon as I was done with the current one. I could not have had a better introduction to scholarship than watching him work.

When I returned to Harvard as an assistant professor at the Kennedy School—an appointment with which I can safely assume he had a great deal to do—the very first course I taught was a joint course with him on "Economics and Enterprise in International Affairs." The thought of co-teaching with him was frightening. He did not make matters easy for me: he attended each of my lectures, and after a couple of classes, began to openly disagree with some of the things I was saying. My anxiety, however, soon gave way to enjoyment, as we developed a pattern of friendly debate. Students, I was told, were having a great time watching the two of us argue. Ray held strong opinions, but he was not closed-minded. What made arguing with him fun was the ever-present chance that you could actually change his mind.

This paper by André Sapir is very much in the tradition of Ray Vernon, focusing as it does on the differences between the U.S. and Europe (a question of long-standing interest to

Ray) and on the political economy of international trade and immigration. Let me pick up a few of the questions stimulated by it.

First, is there a significant difference in popular attitudes towards globalization in these two advanced regions of the world? To answer this question, I turned to a recent survey, the results of which are summarized in Table 1. On balance, Americans tend to have a more favorable view of globalization than Britons, Frenchmen, and Germans (but not Italians). On the other hand, they are less positive on foreign investment and tend to ascribe greater responsibility to trade for job loss. The latter is remarkable in view of the much smaller ratio in the U.S. of imports-to-GDP.

Second, do Europe's and U.S.' trade differ in their adjustment/distributional costs? Sapir points to the greater share of developing countries in U.S. trade. He also suggests that the intra-industry nature of much of intra-European trade (the major source of trade expansion in Europe) is responsible for the "painless" nature of trade liberalization in Europe. On the first point, the argument has to be qualified by noting that what matters for the relative magnitude of adjustment costs is not the share of LDC trade in total trade, but its share in the overall activity in the economy (i.e., GDP). Table 2 shows the relevant figures. Measured against GDP, trade with developing countries has increased somewhat more rapidly in Europe during the 1990s, and actually stands at a higher level than in the U.S. (11.0 versus 9.3 percent).

It is also not necessarily the case that adjustment costs are lower with intra-industry trade (IIT). In the standard models, what IIT does is to shift resources (labor and capital) across plants/firms rather than sectors. We know that workers who are displaced incur hefty wage losses, even when they are re-employed in similar occupations in the same industry. The most likely reason is that job-specific skills account for a substantial part of compensation. Under these conditions, one should not read too much into the share of IIT as an indicator of adjustment costs.

So how does Europe differ? I would place emphasis on the following. First, there seems to be much greater sensitivity to environmental and biosafety issues in Europe. It would be interesting to explore why. Second, there is considerably less opposition to trade from labor unions in Europe. As Sapir discusses, European-style social protection, much more ambitious and effective than the trade-adjustment assistance in the U.S., probably has something to do with this.

To me, the most interesting question posed by European integration is the following: How did Europe manage to integrate economically to such an extent without running into domestic political trouble? As I have indicated, the standard answer based on IIT does not provide a satisfactory account. I think the story needs to be augmented by at least three other features of the European landscape:

- relative uniformity in social protection, around a high level;
- the existence of compensation through cross-border transfers to under-performing regions (structural and social funds);
- an over-arching legal system that enforced market integration (ECJ).

None of these would have been possible in the absence of institutional and legal harmonization alongside trade liberalization. This provides an important lesson about globalization: economic integration can go far only if it is accompanied by institutional convergence. The international reach of markets is limited by jurisdictional boundaries and/or diversity of institutions.

In conclusion, let me make four quick points. First, it is not clear that globalization is in more trouble in the U.S. than it is in Europe. Second, the greater opposition by labor in the U.S.

has less to do with the nature of trade than with the absence in the U.S. of a coherent strategy of social protection (against employment, health, and income risks). Third, the European 'model' of integration--with its uniformly high system of social protection--has enabled greater economic integration within Europe than might have been possible otherwise. Fourth, immigration (from non-EU countries) and capital mobility (within EU) both pose dangers to the existing EU model, insofar as they undermine the financing base of social protection.

I believe Ray would have been in agreement with these points, although I am sure he would dispute the manner in which I arrived at them.

Table 1: Survey results on globalization:

	U.S.	Britain	France	Germany	Italy
A good thing	53%	49%	49%	42%	54%

… on foreign investment:

	U.S.	Britain	France	Germany	Italy
Necessary/positive	43%	51%	53%	59%	59%

… on job loss due to imports:

	U.S.	Britain	France	Germany	Italy
Many jobs lost	38%	34%	34%	30%	16%
Only a few jobs lost	50%	47%	45%	37%	37%
No jobs lost	9%	12%	16%	19%	35%

… on immigration

	U.S.	Britain	France	Germany	Italy
Generally bad for the economy	31%	16%	n.a.	34%	7%

Source: PIPA and USIA (http://www.pipa.org/OnlineReports/Globalization/appendixc/appendixc.html); World Values Survey.

Table 2: Do Europe's and U.S.' trade differ in their distributional/adjustment costs?

Trade (export plus imports) with developing countries

… as a share of total trade

	U.S.	E.U. (incl. intra-EU trade)
1992	41.9%	18.0%
1998	45.2%	20.9%

… as a share of income

	U.S.	E.U. (incl. intra-EU trade)
1992	6.7%	7.9%
1998	9.3%	11.0%