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*Globalization and Well-Being*, John F. Helliwell, UBC Press, Vancouver, 2002.

Reviewed by

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John Helliwell is a distinguished economist, not just a Canadian distinguished economist, who is well recognized internationally. But his heart still belongs to Canada. The title “Globalization and Well Being” might suggest that the world is his oyster, but much of the analysis is based on unique Canadian data on inter-provincial versus international trade and migration—although he projects some of the analysis on to a wider world canvas. In May 2003, the book won the prestigious Donner Prize awarded annually by the Donner Foundation for a book on Canadian public policy.

The book itself is non technical without graphs or tables much less equations. Nevertheless, Chapter 1 is a closely argued summary of the results of a decade or more of technical articles by him and close associates, who used large data bases to test hypotheses on how truly globalized trade has become. He finds that trade and migration now are much less purely global than all the hype in the popular press and the fears of nationalist politicians would suggest. National borders and just plain distance tend to limit the ambit of exchange among firms or households more than what most economists (including this one) had thought was intuitively plausible. Reading this opening chapter is excellent for bringing one up to date on bourgeoning technical literature on the surprising insularity of trade flows

Helliwell also comes down on the side of the Feldstein-Horioka hypothesis that capital markets are primarily national in scope: saving and investment were (are) not correlated across Canadian provinces but they are correlated across countries. Another manifestation of this international segmentation of capital markets is, in his view, the well known result that open interest parity between any pair of currency regimes generally fails. That is, short term interest differentials across countries generally fail to predict subsequent short-term movements in exchange rates.

Building on his empirical observations (again heavily dependent on Canadian data) of the continued economic insularity of nation states, Helliwell then reaches out for explanations. He stresses the importance of localized net works of individuals and firms who thrive on face-to-face contacts in the pursuit of mutually beneficial commerce. The importance of good local government institutions—including law enforcement—is also cited.

“Thus it seems plausible, in the absence of demonstrated welfare benefits from trade densities beyond those already available in the industrial countries, to infer that the extra density of national over international net works may reflect a desirable state of affairs. If local net works have their own value, and are not foreclosing highly advantageous trading opportunities, then the fact that the resulting least-cost trading patterns have a high local and national content may well be just what the doctor ordered.” (Page 34)

Chapter 2 on examining national well being based on various United Nations (UNDP) scales seems inherently last satisfactory. Basically, these indexes are based on questionnaires asking people on a scale of 1 to 10 to evaluate their general life satisfaction. Despite their somewhat lower per capita income, Canadians always pride themselves on scoring higher than Americans, but are chagrined that they do not score as high as in the Scandinavian countries.

However, I don't think that Americans should lose any sleep over this. The “apples and oranges” problem is overwhelming—and even more so when one tries to evaluate the quality of government and other social institutions across countries in contributing to this feeling of national well being. There could be other characteristics of populations that dominate the scaling results.

For example, among the citizenry (not including guest workers), each Scandinavian country is remarkably homogeneous ethnically and culturally—providing social support and administrative sustainability for detailed and intrusive welfare states. However, for countries with more polyglot populations such as the United States, such social intrusion is less likely to be sustainable and attempts to provide elaborate welfare benefits are more likely to prove ultimately counter productive—particularly when targeted toward minority groups.

Thus in responding to the UNDP pollster in a country with a diverse population, people in at least some large minority (or majority?) group are more likely to score low on “their general life satisfaction”. Canada is between Scandinavia and the US in ethnic diversity, but with continued immigration of people from diverse backgrounds, one of these years Canada may also be relegated to the second division in the UNDP poll.

Helliwell is clearly uneasy about globalization, which he sees potentially to be a two-edged sword in achieving national well-being

“It is important for governments, which have an essential role in so many aspects of the social fabric, to avoid needless or heedless damage to these institutions in pursuit of what is called international competitiveness, often sought for its presumed ability to deliver sustained growth in material standards of living.”  
(page 53)

His third and last chapter on global well being, and what Canada's role should be as a global player, is written in such a nuanced way—with so many “on the other

hands”—so as not to admit many firm conclusions. However, Helliwell intuitively rejects the idea of Canada giving up its national monetary sovereignty by fixing its exchange rate to the US dollar. This fits into his general theme that local or national governance is to be preferred to international governance in the absence of compelling evidence to the contrary.

For such a useful and short book successfully written to be accessible to the general reader, it is a bit unfair to bring up more wide ranging technical considerations. However, I think the use of the gravity model to show that national borders matter and that trade is more local than most economists presume, is a bit deceptive. After all, the regressions that Helliwell (and McCallum before him) use deal only with trade residuals after the heavy weight of the huge American economy is taken out. The uninformed reader would never guess from Chapter 1 that Ontario and Quebec each export much more to the United States than to the other Canadian provinces combined.

A second consideration is that local institutions, both government and private, often work better when international rules and competitive pressure are imposed on them. Canadian provinces have been protectionist in trade with each other—but the Canadian-American Free trade agreement forced some dismantling of inter provincial protectionism as well as international protectionism. The European Union (EU) has forced dismantling of unwise industrial subsidies within the old European nation states. Now China sees one of the big gains to its joining the WTO as the generation of international pressure to force Chinese provinces and counties to relax trade barriers against each other. In a remarkable book, *The Rise and Decline of Nations* (1982), the late Mancur Olson showed how nation states (and local governments and institutions) can all too easily become ossified by political lobbies, trade unions, and other industrial or agricultural special interests opposing change.

Helliwell did not really have the space for dealing with problems of financial and exchange rate instability in the world economy more generally. But Canada with its well developed internal bond markets denominated in Canadian dollars can relatively easily allow its currency to float, and have that float be “gentle”. But most developing countries, with poorly developed domestic financial markets and having borrowed heavily in US dollars or euros, can’t be so sanguine.

In conclusion, this book was stimulating, and the opening review of the literature on the importance of national borders for international trade was superb.