



The Local Impact of Globalization: *Ohio Dialogue*



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“Welcome to today’s forum on ‘The Local Impact of Globalization: Ohio Dialogue.’”

This Forum is co-sponsored by the John Glenn Institute and the Carnegie Council on Ethics and International Affairs, located in New York. The Carnegie Council intends to take this theme of the local implications of globalization to other locations around the country, encouraging open discussion of this important issue.

Globalization is a reality in 2005. It is a theme crucial to an understanding of political life in this country and in countries around the world. There are economic, cultural and social dimensions to these inter-relationships among nations and their people. Globalization has important consequences for various population segments and for elements of the state and local economy.

Today’s format consists of two panels. The morning panel will examine the meaning of globalization and its implications.

The afternoon panel will be a moderated conversation considering: “Where Do We Go From Here? What Globalization Means For Ohio.” There will be five panelists who will respond to various questions from their unique perspectives.



**Senator
John Glenn**
—Keynote Speaker

“We in the United States are not in a position to continue our global economic leadership unless we get on the stick with regard to education and basic research.”

Debate and discussion are essential to good public policy. This is fundamental in a democracy like ours. With the support of the Ford Foundation and the Rockefeller Brothers Fund, the New York-based Carnegie Council on Ethics and International Affairs has launched the Global Policy Innovations Program to explore the range of social and economic policy alternatives for a more equitable globalization.

Our discussion today seeks to assist civil society, organizations, academics, journalists, development practitioners and policymakers in assessing the choices that can bring about balanced globalization. Is there a balanced globalization that reflects the interests of multinational firms, powerful states, labor, and the poor? We are in a time of great adjustment. If you are a worker who is

being displaced, others may talk about globalization as economic theory, but to you it is a matter of food on the table and being able to take care of your family. Globalization impacts your immediate well-being.

I hope we will address today the long-term aspects of globalization and how we cope with that in this country. We cannot just tighten our borders or “hunker down,” becoming a beleaguered nation among the nations of the world.

If I ask, “What made this country great?” someone would say, “We have great resources.” We do. But there are great resources in other places in the world as well. Other countries with resources didn’t develop the way we did. What were the factors that set this country apart, set Ohio apart?

I would nominate two. One is education. We provided more education in this country, for the average citizen, than any time in the history of this world. That was particularly true in math and science. Education was not just for the kids in the castle or the rich kids. Education was for everyone. We had the best generally educated citizens in the history of this world. That was necessary for a democracy.

A second factor that is very important in explaining why we leapfrogged ahead of the rest of the nations of the world in a tiny time period is we were engaged in basic fundamental research. Whether it was macro research, in expanding from the eastern Piedmont plains to the West Coast, or whether it was the micro research in the laboratories. We put together new materials and new medicines and pharmaceuticals and other aspects of a healthy and dynamic society.

With an educated citizenry and discovery of new things, we created businesses and jobs. We expanded so rapidly that the rest of the world was left behind within 150 years of our founding.

We like to think that we are still the best in the world in education. I don’t think we are, not in K-12. Dick Reilly, former Secretary of Education cites the TIMS Study, (Third International Math and Science Study) a three-year assessment done in forty-one nations around the world to judge how capable kids are in math and science.

Up to about the fourth grade, our kids were pretty much in the top two or three nations in the world in math and science. By the time our kids get out of high school, they are two or three from the bottom in math and science.

Indicative of this problem is that 25 percent of the math teachers in this country never had any training in teaching math themselves. They are teaching out of their field. Someone just a little bit ahead of the kids is teaching algebra. Twenty percent are teaching out of field in science. Even more startling, 30 percent of our teachers in both areas leave the profession within three years and 50 percent are gone within five years.

We do not have a K-12 education system in the United States. We have over 14,700 independent school boards, each one operating independently with a little direction from the state, but very little. There is very little money coming in to a school district from outside their own local sources — only about 7 percent of our educational funds for K-12 come from the federal government. We don’t really have a national system, and we are competing now with other

countries that do.

In the past, our leadership has been beneficial to the world, particularly in the areas of medicine and pharmaceuticals. We shared these benefits with the rest of the world. For the world to benefit from our leadership in these areas in the future, we must regain our leadership in research and public education.

We have had cutbacks in education and research. There are difficulties in funding for schools and in research. These are the difficulties we must now face to regain global leadership.

Thank you for being here at this important conference. I look forward to our discussions throughout the day.



Ethan Kapstein
*Senior Advisor, Carnegie
Council on Ethics and
International Affairs,
Center for Global
Development*

“It is important to discuss the rise of the global economy and what it means to try to pursue a fairer globalization.”

The rise of the global economy has had a substantial impact on businesses, workers and politicians. For businesses, globalization means intensified competition. It also means new markets. It means challenges in terms of the globalization of financial markets. What are the effects on capital allocation decisions in an era of bank mergers and buyouts?

For workers, globalization poses challenges because it means they need the time and money to constantly up-skill and re-skill. They need education and training. Where do they get the time and money to do that if they are hard-pressed workers? Senator Glenn said funds for education and training are in short supply. We need access to credit markets.

For politicians, globalization raises questions about democratic deliberation. How much voice do all of us have in what goes on at the International Monetary Fund, the World Bank, the World Trade Organization, these organizations that make consequential decisions for our economic future?

There are changes due to the rise of Globalization.

- 1) Technological change has reduced the cost of communication.
- 2) Organizational change has improved the capacity of multinational firms to divide and manage the value chain globally.
- 3) Political change has occurred as there has been growing recognition of the economic benefits of openness.

A Fairer Globalization

What do we mean by “a fairer globalization?” There are concerns about the equity of globalization. Who is winning and who is losing? While wealthy countries are seeing jobs move to developing countries, some wealth is also moving to those developing countries. That is one

of the reasons for a dispute or debate about globalization. To reach a fairer globalization we need to address some important questions. Can we make globalization fairer for all stakeholders, particularly for those most vulnerable to economic change? At the sub-national level (such as at the state level), what can be done to ensure that every citizen of a state benefits from the rapid economic changes that are occurring?

Possible Policy Responses

If you look around the world, one proxy measure we use for a government’s room to maneuver is tax burdens. Countries around the world impose very different tax levels on their citizens. In France, 50 percent of one’s income goes to tax. The United States has a much lower tax burden. Despite differing tax rates, it is interesting to see that many of these countries do well. Sweden does well with a very high tax burden. The United States does well with a low tax burden. This suggests that global pressures may not be as overwhelming as they are often portrayed.

People blame globalization for many different problems. However, globalization may have the potential to ease some problems. This is a perspective you see when you contrast Ireland, Ohio, and the entire United States. If you just look at the bottom lines, Ireland, which is a country with 4 million people, exports \$110 billion per year. The United States, which has about 280 million people, about seventy times bigger, exports only seven times more. And Ohio, which is a state with just over 11 million people, almost three times more than Ireland, exports just \$25 billion per year (less than one quarter of Ireland).

Ireland exports equal 75 percent of its gross domestic product (GDP), while the United States exports equal just 7 percent of its GDP. Ireland has changed itself dramatically by becoming an open economy. Ireland’s per capita levels of GDP are as high as those in America, and among the highest in Europe. The Irish people are convinced that it is largely because of the policies of openness that they adopted early in the 1970s and 1980s.

What are Some Policy Lessons for a Fairer Globalization?

- 1) Societies have room to maneuver but face difficult trade-offs, e.g. between social protection and unemployment.
- 2) Globalization is not eroding tax bases, but changing the burden, with more taxes being collected indirectly (e.g. consumption taxes).
- 3) Openness is strongly associated with growth, but it may also generate inequality as it rewards those with skills.
- 4) In order to thrive in a global economy, societies need policies of inclusion, making economic opportunities available to all citizens through education and training programs.



Ian Sheldon
*Professor, Department of
Agricultural, Environmental
and Development Economics,
The Ohio State University*

“Outsourcing, on balance, will have positive net benefits.”

Outsourcing is a microcosm for the issues that globalization possesses, both for the U.S. and for many other developed economies. There is a tension between the national gains that can come about through an activity such as outsourcing, and the fact that the local costs can be quite intense.

Economists have done a disservice in thinking primarily about the efficiency benefits of international trade with little thought about the equity and distributional implications. We are struggling with thinking about that now, particularly as we address policy issues in globalization.

What is outsourcing? Economists understand outsourcing to be the procuring of services or material inputs by a firm from a foreign source, often called off-shoring. This has to be distinguished from foreign direct investment, where a firm moves plants and capital overseas, produces overseas and then sends the foreign goods back to the home market. By outsourcing, a firm can stay in the markets it has always been close to, but it is able to get inputs from overseas. These inputs (services) are now easily available electronically through the internet. It's one of the reasons why firms are outsourcing.

There has been much focus in the U.S. on service outsourcing to low-wage countries, particularly India. Outsourcing is typically conducted between English-speaking countries. In absolute terms, it is mainly U.S. and British-based firms that are outsourcing services to English-speaking countries like India. But in relative terms, if you look at the proportion of the gross domestic product of those countries, these countries are not the largest outsourcers. In fact, many of the largest outsourcers are developing countries in Africa. So even though the U.S. and the U.K. outsource more services in absolute terms, as a proportion of GDP, it is actually very small. In fact, the value of in-sourced services into the U.S., is less than 0.2 percent of the U.S. GDP. In some sense, it is a relatively small phenomenon for the U.S. and Britain.

What causes outsourcing?

Outsourcing is largely driven by lower labor costs overseas. The available global labor force has increased. China and India are now so integrated into the world market that, in some sense, the world's capital-to-labor ratio has gone down because the amount of labor that is available has gone up. Consequently, global wages are being pushed down and countries that have relatively low wages are able to compete for many jobs.

Secondly, we have had a significant increase in educated workers overseas. As the so-called Leontief Paradox in international economics highlighted, it was false to assume that the U.S. would export capital-intensive goods in the 1950s. The U.S. was actually exporting human capital-intensive goods; in other words, goods that embodied the educational abilities and skills of the U.S. population.

Other countries have invested in their human capital through their education systems and are now able to compete — not just through the fact that they have lower wages, but also because they are better educated.

How many U.S. service jobs are gone?

It's actually not very many. By 2003, the U.S. had lost 315,000 service jobs. But three and a half million service jobs are expected to be lost by 2015, with a wage loss of \$151 billion.

An interesting counter to this projection is a recent paper by Mary Amiti and Shang-Jin Wei, both economists at the IMF, that shows more services are in-sourced by the U.S. than are outsourced. This means we provide more services to other countries than we import, i.e., the U.S. actually has a surplus in service exports.

When you calculate the relative losses due to outsourcing, the expected number of job losses is relatively small in terms of what we call "churning" in the macro economy. We lose millions of jobs each year; we gain millions of jobs each year. In other words, employment is largely a macroeconomic phenomenon; it's not something that is driven by international trade.

What is the economic impact of outsourcing?

International trade, broadly speaking, is not expected to reduce output or employment in the long run. Economists will tell you that losses of jobs due to trade are typically less than 10 percent of the overall turnover of jobs. Trade typically is not a major reason for changes in unemployment or employment. However, you have to recognize that a job loss is a job loss. Consequently, there are short-run effects of employment or unemployment.

Protection is a costly way to preserve U.S. jobs. Tariffs act as export taxes. Think about the anti-dumping duties in the steel industry that were introduced after the last election. Potentially, for every job gained in steel we could lose eight jobs elsewhere. It is well known in economics that protection is shortsighted and tends to lead to more harm than good.

Key Points-

- 1) Outsourcing, on balance, will have positive net benefits.
- 2) We need to improve, extend or rethink the Trade Adjustment Assistance program because the problem with losing your job is not that you can't find another job; you find another job that pays less. The problem with the Trade Adjustment Assistance program is that you get paid extra unemployment benefits, but you don't really get any on-the-job training.



Armand Pereira

*Representative, International Labor Organization to Multilateral Organizations,
Director, ILO Washington Office*

“There is worldwide concern about who benefits and who loses from globalization.”

In 2002, the Director-General of the International Labor Organization set up the World Commission on the Social Dimensions of Globalization. The report discussed the concern worldwide about the distribution effects and asymmetries of globalization - the fact that not enough countries, not enough people within countries, are benefiting enough from globalization.

Jobs do not necessarily move through plant relocations. They move through outsourcing. That may be good or bad. The net impact may even be very good. We are seeing more research on that. There are asymmetries in adjustment. There are traditional sectors that have

more difficulty adjusting in terms of workers.

Key Issues Magnified by Increased Globalization

- The real issue is not whether trade is good. At the end of the day, people want globalization to be good for them, in terms of the well-being of their families.
- There is a tremendous role for national policies because the speed and magnitude of trade opening can be partly negotiated. There is a certain amount of give and take in negotiating that we shouldn't lose sight of.
- What are the comparative effects of relocating plants versus outsourcing? To what extent it is possible, through special arrangements locally, to get plants to stay in their locations of origin, even though they may be outsourcing a lot more?
- Local stakeholders can play an important role. They can pressure their local representatives and national governments to take into account the adjustment process at the local level.

We cannot eliminate competition from foreign countries. It is their right to compete. But, there are things we can and should do in all countries to ensure minimum universally acceptable labor standards.

Ensuring minimum universally accepted labor standards can be achieved with policies, strategies or programs. You can have labor market policies that are more interventionist or less interventionist. You can have general employment policies or strategies that try to influence what is done in terms of incentives, in terms of integrated economic policies and social policies.

Policy Points

- 1) It may be important for countries, regions, or states that are faced with very high unemployment to focus on bringing integration into economic development policies, local development policies, and employment-optimizing policies.
- 2) A state like Ohio could start by exploring new market opportunities and export potential, innovations in institutional structures, credit marketing, and development of small business clusters.
- 3) Small firms tend to produce much more employment than the large capital-intensive firms. Focusing on small firms capable of taking advantage of market opportunities could optimize development strategies.



Peter Riggs
*Director, Forum on
Democracy and Trade*

Ten years ago, 1994-1995, the U.S. was engaged in two parallel negotiations. These were the Uruguay round of negotiations under the WTO, as well as negotiations with Canada and Mexico in concluding the North American Free Trade Agreement (NAFTA).

This was an emergence of the competitive liberalization strategy, whereby you could negotiate with the WTO (140 member states) or, if you preferred, you could negotiate regionally with two or more countries. If you were still unhappy, you could negotiate bilaterally with one country.

Brought within the purview of the WTO, as part of The Uruguay Round, were agreements on non-tariff trade barriers to services, agriculture and intellectual property. But, perhaps, the most important feature of the Uruguay Round and the establishment of the WTO was the inclusion of a dispute resolution system with real teeth. In the past, you could win a trade dispute with a country, and essentially the tools for retaliation were diplomatic in nature. Since the conclusion of the Uruguay Round, you have a much more formal contractual forum for the dispute resolution system, which includes 'cross-sectoral' retaliation. Cross-sectoral retaliation allows the WTO to rule against a country in a trade dispute affecting a particular trade sector, and sanction that country in a separate more vulnerable sector. That is, you win a case in agriculture, you can retaliate in services; you win a case in intellectual property, you can retaliate in manufacturing. It includes the language of diplomacy, but it also includes the discipline of contracts.

Soon after the launch of the WTO, the WTO Director-General at that time, Mr. Renato Ruggiero said, "We are writing a constitution for the global economy." Negotiations continue forward in many forms. Since that is the case, we should analyze whether the norms, both procedural and substantive, the ones that prevail at the global level, reflect the norms as found in our own U.S. Constitution. Contractual obligations and formal systems of reciprocity between states are at the heart of the WTO.

Since 1995, there have been attempts to provide a working international legal definition for the term "domestic regulation." It impacts essentially the regulatory scope of, not only national governments, but sub-federal units — namely, states in the United States, or, for example, Canadian provinces.

The U.S. has negotiated investment parameters in a variety of bilateral and regional agreements. One particularly controversial stipulation was in Chapter 11 of NAFTA whereby an investor-state dispute resolution process was created that gave Mexican and Canadian corporations the right to sue or to bring a case in an international trade tribunal against the United States. It gave a clear procedural right for foreign companies to bring a case through an international trade tribunal, while not granting the same procedural right to U.S. investors.

There are a number of categories of state law worth examining for potential conflicts with NAFTA and WTO agreements: access to courts; quality and safety standards; business licensing procedures; competition policies; consumer protection; economic development incentives; environmental health, and resource standards; labor and human rights standards; land use controls; and finally, taxation.

"There are a variety of areas of Ohio law that may conflict with NAFTA or WTO."

Particular Concerns for Ohio

- 1) Medicaid could fall within the purview of the U.S.-Australia Free Trade Agreement and other international trade rules regarding state administration of this “federal health care program.”
- 2) As part of the GATS (General Agreement on Trade and Services), a part of the U.S. offer on services, proposed changes in the U.S. schedule of commitments could impact state university programs on affirmative action.
- 3) NAFTA investment rules could conflict with a multi-state compact for the sustainable use of Great Lakes water. Ohio is a member of the compact.
- 4) Some legal services may be scrutinized. Ohio has a couple of laws regarding the licensing of foreign legal consultants and a requirement for an in-state office for the provision of legal services. (The European Union has explicitly targeted state laws of this type, saying, “These are discriminatory and we want to see them removed as part of the U.S. GATS commitment.”)
- 5) Finally there is now a binding dispute resolution system as part of the WTO. It is designed to inflict political pain on losers in a trade dispute. With Ohio being the classic electoral swing state, it will always be a target for retaliation aimed at the United States. Businesses, politicians and workers should be keenly aware of this aspect of the system – national-level disputes may rebound badly on this state for reasons extrinsic to the trade issue being discussed.

Discussant: Catherine A. Novelli

Partner, Mayer, Brown, Rowe & Maw LLP

Key Discussion Points

One of the things that is most difficult as a U.S. negotiator has been that the United States market, in terms of the trade rules, is relatively open. In terms of the level of tariffs that we charge for goods coming in and our openness to having services enter, the U.S. has made choices all along the way to have our market open. And from this position, how do we then convince others that they should be open?

We talked about trade adjustment assistance as something that is very important. From my perspective, this is a place where we really need to focus attention. What do we do with these folks who are displaced? What is a social safety net as globalization continues to grow? How does the government do that without intervening in the economy so that it distorts competition?

From talking with companies around the country about how the U.S. can enhance its ability to compete, folks say “We need to invest in research and not just scapegoat.” How do we make sure that our kids can compete? How do we make sure that we have the research skills to compete as other countries are ramping up? How do we engage ourselves to think globally? How do we start, at a very young age with our children, to think about the fact that we are in a global world and that we are going to have to compete?

Discussant: Mark Schweitzer

*Assistant Vice President and Economist, Research Department
Federal Reserve Bank of Cleveland*

Key Discussion Points

How can policy in your local community speak to globalization? We can look at how the city of Cleveland responded to globalization in 1982. The leaders of Cleveland funded a Rand report. The Report had tremendous influence in Cleveland and on how Cleveland would develop. It had a lot of positive benefits. “What was the primary recommendation of that document?” The primary recommendation was that Cleveland needed to maintain its manufacturing prowess.

In many ways, it worked. Cleveland lost manufacturing jobs, much like the nation did. Cleveland declined in manufacturing, but not much more than the nation as a whole. But the bottom line, when you look at the data, is that Cleveland did not perform so poorly in manufacturing, but that it didn’t gain in many of the service areas where Columbus and Cincinnati grew. So while Cleveland was focused on maintaining strength in one area, it lost something in the other areas.

Since 1982, we have changed our approach in a positive way. We are spending less time talking about how we are going to react or change policy to combat globalization. We are spending more time talking about how we adapt and gain from globalization.

Another key lesson of the last twenty years is in education. Ohio is a little bit above average in high school graduates. It is a bit below average in bachelor’s degrees and higher degrees. While there is a lot of agreement that it would be good if we could improve on this, there is skepticism that we can. Ohio’s urban districts have poor graduation rates. We can look at other states and data which show that other states have made progress in this dimension. It is possible. While this might be an area of gradual change, gradual change in this would be very meaningful.

There is a critical need to think about innovation and development of intellectual property. We have seen tremendous gains in the U.S. in pushing the technology frontier. As a state, Ohio is seventh or eighth in levels of patenting activity. On a per capita basis, that is not good. When we do research on what influences economic growth in different states, we see that the per capita measure of technology progress (patents) is a very important factor in relative state income growth. This is an arena where Ohio could do better. We have had a 30 percent increase in patenting activity in the state of Ohio over the last twenty years. In the meantime, the state of California, which was far and away the leader in first place, tripled its patents.

Questions and Answers with Guests

Q. Peter Swire, Law Professor, OSU: What does the term “decent work” imply? Does it imply a set of attributes that make a decent job?

A. Pereira: Basically, decent work is any kind of job, whether waged or self-employment, that complies with a set of universally acceptable labor standards that have to do with freedom of association and bargaining, child labor, forced labor, and discrimination in the workplace. Beyond that, there are other platforms of labor standards that are promoted, for example, by the ILO Tripartite Declaration on Multinational Social Policy, the OECD Guidelines, which go beyond that basic platform of universally acceptable labor standards.

The concept of decent work does not automatically embrace a

milieu of social protection across countries. The two things that are embraced in the concept of decent work are really the fundamental labor standards in any job, whether waged or self-employment; and the ability to deal with conflicts, whether of an individual or collective nature, through social dialogue, which is again a desirable aspect of labor relations.

Q. John Logue, Director of Ohio Employer Ownership Center: Would you address the issues of capital control and capital ownership in a global economy?

A. Kapstein: I think there is some concern with new banking regulations coming into play, because bank regulators, like the Federal Reserve Bank or the OCC, are very concerned about financial stability. In trying to meet requirements for financial stability, they bring in some regulations that may have some effects on capital allocation. There is a new set of bank regulations coming into play, called the Basel II Standards. There is some concern about the possible effects of this on lending to small and medium-sized enterprise. I think, in fairness, they are very aware of these issues and have tried to study them and have tried to balance their need for financial stability with the need to ensure that small and medium size enterprises still get the capital they need. It is still much easier to get capital in the U.S. than it is in Europe. It is unheard of to graduate from the most famous French business school, get a loan and start a business.

Q. Heather Grady, Realizing Rights in the Ethical Globalization Initiative: When jobs move overseas, it is not just that the wages are lower, but there aren't the same social protections that we desire. Can we look to institutions like the United Nations, the World Bank, the IMF or others, to really grapple better with these issues?

A. Pereira: In the early 1990s, there was an attempt to link trade to labor. It was very clear that the labor dimensions would have to be kept separate. There was a lot of resistance on the part of employers, but also on the part of workers' organizations and governments, in different parts of the world against this link. There is a need to promote more social protection, but there is still too much diversity on what that means.

Q. Larry Wolpert, Ohio House of Representatives: Is there a future for organized labor when you can't restrict the supply of labor?

A. Pereira: I think we still haven't seen the end of organized labor. There is probably going to be more organized labor in some countries and in some sectors. In the U.S., sectors which used to be very organized have lost importance through privatizations and restructuring.

Q. John Colm, President of the WIRE-Net in Cleveland: If protectionism is good enough for China, why isn't it good enough for Ohio? And if it's good enough for the interests of large, very powerful multinational corporations that are driving a protectionist managed trade policy protecting their interests, why isn't it good enough for 900 members of our coalition, mostly family-based, in northeast Ohio, employing 60,000 workers?

A. Kapstein: If the President of the United States were a platonic philosopher king who could just protect certain key industries, or subsidize certain key industries, over a short period of time to help them through a period of transition, then I might be more sympathetic

to the protectionist arguments. But the problem is no President is a philosopher king. Protection would lead to higher costs for your people and maybe less competitiveness at the end of the day.

The sorts of interventions that should be made are those that are much more directed towards the needs of your members. Ensuring that capital markets make it possible for your workers to get the training they need, the up-skilling they need, rather than closing off trade with the world, which would hurt everybody at the end of the day.

A. Riggs: I'm going to have to take issue with the notion that you can't be a little bit protectionist. Trade policy is not such a blunt instrument.

If you look at the General Agreement on Trade and Services, it is hundreds of pages long. The United States has a national security exemption under the GATS. That's protectionist. Should we eliminate it? Of course not.

AFTERNOON SESSION: "WHERE DO WE GO FROM HERE? WHAT GLOBALIZATION MEANS FOR OHIO"

Moderator: Dr. Golden Jackson-Mergler

*Associate Professor, Department of Consumer Sciences,
The Ohio State University*

This afternoon is a time for thinking about globalization from a range of perspectives, and for thinking about strategies local communities can use to deal with globalization in an effective way. We want to have a conversation. We have some questions for our panelists, then we will let attendees in the audience ask questions.

Discussants:

Bob Milbourne, *CEO and President, Columbus Partnership*

Tim Burga, *Legislative Director, Ohio AFL-CIO*

Constance Jackson, *Vice President, Agricultural Ecology, Ohio Farm Bureau Federation*

Bill LaFayette, *Vice President, Economic Analysis, Greater Columbus Chamber of Commerce*

Ed Malecki, *Professor, OSU Department of Geography*

In what ways is globalization, as opposed to other pressures like technology, influencing Ohio in terms of flow of trade, capital, people, and ideas?

Malecki: China and India are the big players in a global economy. There are more of them than there are of us, which means that their wages are going to be lower. I want to stress this — we don't want Chinese or Indian wages in the United States. We need to get past the idea that we should be making and selling everything that the Chinese are now making and selling. However, it is also important to be sure that we are not just playing a game without the rules necessary to keep us from a 'race to the bottom.'

LaFayette: I think the increasing globalization of idea flows is very, very important to us, and it's something that we can use as an opportunity. Richard Florida, whose specialty is the rise of the

creative class and the creative work force, makes the point that creativity thrives on diversity. Creativity can't happen unless there are a diverse set of ideas and experiences. To the extent that we can exchange ideas worldwide, instantaneously, and with tech-savvy folks here in Ohio, we can benefit from the ideas and experiences of people in other cultures.

C. Jackson: One of the biggest impacts on Ohio is that globalization establishes a new set of rules under which we have to operate. It changes who our customers are. It changes who our competitors are. It is going to require a lot of adaptation on the parts of our citizens and our businesses.

Burga: Globalization and a global connectivity can be a good thing. In practice, we are very concerned about the way in which it is being implemented. Professor Malecki touched on it a bit when he spoke of bringing down our economy. Is it "a race towards the bottom," with a "get all you can while you can" multinational corporate philosophy of finding and exploiting cheap labor?

During the NAFTA debate in the early 1990s, we were told that the agreement would raise the standard of living for Mexican workers; and therefore, they would be able to buy a Hoover vacuum cleaner made in Canton. Instead, Hoover is moving more of its operation to Mexico.

Milbourne: Certainly the evidence would indicate that globalization has affected Ohio in a very negative way. When you lose 20 percent of your manufacturing jobs in five years, it's hard to see much good about that.

What is Ohio's position? Do we have room to maneuver?

LaFayette: We need to educate our residents better. We can't compete with developing nations in labor cost, but we can compete very effectively with a lot of foreign countries in production efficiency. If we are more efficient, we can pay our workers more and still wind up being better off because we are producing more goods.

And we need to tell our story better than we have. We have to aggressively market Ohio on an international scale. We have to help Ohio companies export goods and services. We've had tremendous growth in exports over the past few years, and we need to continue that. We have to market our state as an outstanding location to establish a business, to expand a business, or to relocate a business.

C. Jackson: We have an incredible diversity within the state. We have a strong manufacturing base. We have a strong agricultural base. We have a strong services base. We have a strong educational base, and one of the best infrastructures from the perspective of roads and the ability to transport goods and people to any state in the country. Because of that diversity, we have the ability to weather changes and we have the ability to handle things that are thrown at us from different directions.

We have a very strong work force, but we have a greater exodus of college freshmen from the state of Ohio than most other states. We have a good higher education system that isn't a system. Every university does its own thing. Each follows whatever path or direction it desires. We should coordinate our research as well as education.

Burga: I am going to agree in the areas where we can be smarter, better, faster. But unless we have a serious conversation about

countries that are taking these jobs, and the corporations who are going to these other countries and are not living up to their international obligations as it relates to labor rights, human rights, the environment, and general standards regarding currency, I don't see Ohio benefiting from globalization.

Milbourne: I just read a newspaper article about NASA. Forty percent of NASA employees are over the age of fifty; 4 percent are under thirty. Now, apply that to Ohio. We are not producing scientists or engineers. If you look worldwide, Asian students in Asian universities are receiving 1.2 million of the bachelor degrees in the world, 1.2 million out of 2.8 million worldwide. The U.S. is producing just 400,000, out of 2.8 million. That's something we can do something about. There is no country in the world that has the competitive advantage of higher education that we possess, and we ought to take advantage of it.

How do we overcome job loss in Ohio?

Malecki: Economic development isn't about the past. It isn't about the present. It's about the future. Economic development is making an economy in which our children will want to stay and can prosper.

Bill Testa from the Chicago Fed put together some great data on the biotech industry in the Midwest and on commercialization of innovations in general from universities. He looked at eight states, kind of a broad interpretation of the Midwest, including Missouri. Only because Missouri was included, Ohio ranked, on average, seventh out of the eight states. If you take Missouri out, Ohio would be averaging dead last in biotech, which is one of these high-growth future industries.

It is too late for Ohio to be at the cutting edge of biotech. Maybe in nanotechnology there is still a chance. We always need to be looking at the future, not the past; look out for our grandchildren, not our grandparents.

Does anyone have comments on strategies that we might want to suggest today?

LaFayette: Education and training is absolutely *the* most essential thing. If you look at our educational attainment compared to that elsewhere, it's worrisome. Statewide, only 27 percent of adults over the age of twenty-four hold a college degree, and that is compared to 31 percent nationally. That's 700,000 additional people who would hold a college degree if Ohio was average. Our six largest metro areas are better off, but in Ohio's smaller metros and rural areas, fewer than 20 percent hold college degrees. This is a serious obstacle to development. Projects will gravitate to the larger metros, and the economic disparity between have and have-not regions in Ohio will grow.

C. Jackson: I would echo education is probably one of the most important elements, along with research, technology and the ability to adopt new technologies. Ohio is not well known as an entrepreneurial state. We don't foster an entrepreneurial spirit. Our ability to continue to compete depends on encouraging and offering opportunities for people to be entrepreneurial.

When we talk about the ability to compete with developing countries and the rest of the world, we also have to keep in mind what restrictions and constraints we put upon ourselves. We have to make

sure that people are good actors, but we do not want to needlessly hamstring and put our businesses at a competitive disadvantage.

Burga: I would like to mention one area of job development that the AFL-CIO has been working on in conjunction with the international office of the United Steel Workers. This relates to renewable energy sources, and Ohio having an opportunity to capture and create some of that new technology to reduce our dependence on foreign oil.

This Apollo Project has created a blue-green alliance in Ohio between the AFL-CIO and Ohio's environmental groups, to work on renewable energy sources. There is an opportunity to pursue renewable energy sources as a job development possibility in Ohio.

Milbourne: This is probably a good point to describe an initiative in Columbus, called Compete Columbus. This is an effort that the Columbus Partnership, the Chamber of Commerce, and other collaborators in our community, including Ohio State University, have been working on for the past year or so. Compete Columbus will focus on finding ways to grow those industries where we believe there are competitive advantages in Columbus, Ohio.

We have just finished a large project with Michael Porter looking at the competitive advantages of central Ohio. We identified about thirty-five clusters, industries that are operating in Columbus. Eight of them appear to have a competitive advantage — that is, they have a larger share of employment than those industries do elsewhere in the country and the level of employment is growing faster than other regions in the country.

These industries include: 1) the logistics/distribution center, 2) the automotive industry, 3) life sciences, and 4) personalized medicine. We have also identified Ohio State University as our number one economic asset.

Q. Attendee: We looked at manufacturers in Cleveland - which is a tough and struggling area. It turned out there are a lot of successful manufacturers in struggling industries. I think you should focus on where you are having success, without worrying so much about the industry. You ought to focus on the fundamentals and look at your successful firms.

A. Milbourne: Our view is that focusing on these competitive-advantage industries is a very smart thing to do, but it is not exclusive to another approach. For example, we ought to make better use of Ohio State as an asset in our regional economy. That cuts across all industry sectors. How do we connect Battelle - a global science and technology enterprise - and OSU in a deeper way? What do we do to create venture capital to support new companies?

There is room for different approaches. We have learned a lot through our work with Porter, but it is not the exclusive way to think about economic development.

Are there public-sector ideas that we wish would happen?

Burga: In Pennsylvania, Governor Rendell created an Office on Trade Policy. I am working with members on both sides of the aisle to look at creating a commission on trade policy to try to get a handle on what globalization means to Ohio. We ought to have that discussion in the public sphere. There should be some role for state government in dealing with the issues.

Milbourne: We have to fight the notion that the state has limited resources that are getting more limited as time goes by because our economy is in the tank.

The State of Ohio does invest money. Our taxes are in many ways invested. We should think about investing our state resources to grow the pot, rather than waiting for the pot to keep getting smaller.

Right now there seems to be this attitude in Ohio that you never want to borrow money and debt is a terrible thing. But there are times when borrowing money makes a lot of sense, especially in a period of low interest rates. Corporations all around the world love to borrow money when interest rates are low.

Senator John Glenn: Several years ago, California gave us a good example of how better education policy can make a state more competitive in the marketplace. California created a statewide education system. In California at that time, you would start out in kindergarten and you could stay in the same system to get your Ph.D. This was achieved at a remarkably low cost and returned great dividends to the state. All of the Silicon Valley companies didn't move to California for the palm trees. They went there because they had by far the best-educated work force. California began attracting high-tech and high-level jobs with high-level pay. It is an excellent example of what could be accomplished if we overhauled our system here in Ohio or in the nation.

Closing Statement: Ethan Kapstein

On behalf of Carnegie, I want to thank all of you who attended today's forum. Despite the diversity of views, there was remarkable convergence on the need to invest in your education system. I expect a continuing debate in Ohio about how to move forward.

The goal of this event was to inform, discuss, learn and provoke action to help make Ohio and the world a better place to live. An objective of the event was to create a greater understanding of the basic structures through which globalization is occurring and accelerating. Perhaps with this greater knowledge and understanding in hand, we will be able to better utilize our skills to make a positive difference. Hopefully, this event or report will expose research avenues for social scientists to investigate, or common ground for policy makers to limit the negatives and maximize the positives of globalization.

And finally we hope this event will help 'grease the wheels' of policy and political action, so that as a society we can move past the inertia created from a satisfaction with the past and move forward to a more positive future.



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