

7-1-2003

Towards an Analytic Framework for Political Globalisation Economy of the Diminishing Tyranny of Distance

Brian Easton

New Zealand Centre for Globalisation Studies Wellington, New Zealand

Follow this and additional works at: <http://epubs.scu.edu.au/jesp>

Recommended Citation

Easton, Brian (2003) "Towards an Analytic Framework for Political Globalisation Economy of the Diminishing Tyranny of Distance," *Journal of Economic and Social Policy*: Vol. 8 : Iss. 1 , Article 5.
Available at: <http://epubs.scu.edu.au/jesp/vol8/iss1/5>

ePublications@SCU is an electronic repository administered by Southern Cross University Library. Its goal is to capture and preserve the intellectual output of Southern Cross University authors and researchers, and to increase visibility and impact through open access to researchers around the world. For further information please contact epubs@scu.edu.au.

Towards an Analytic Framework for Political Globalisation Economy of
the Diminishing Tyranny of Distance

Towards an Analytic Framework for Globalisation: The Political Economy of the Diminishing Tyranny of Distance

Brian Easton*
New Zealand Centre for Globalisation Studies
Wellington, New Zealand
www.nzglobalisation.ac.nz

Abstract

Globalisation can be treated as a consequence of the falling costs of distance, and its problems as arising from different sorts of distances reducing at different rates. The paper is written from the perspective of Australasia, which has suffered more and benefited more from the 'tyranny of distance', and will be ultimately impacted more by its falling costs.

Introduction

In Geoffrey Blainey's memorable phrase 'the tyranny of distance' shaped Australia (Blainey 1966). He could have added New Zealand, for while internal distances were not nearly as great – although further than the map portrays, given the ruggedness of the country – it might claim to be even further from the rest of the world. But if isolation was a defining feature of Australasia's early history, the distance – measured in resource costs – has been since diminishing.

The magnitudes of these reductions are astonishing. One hundred and fifty years ago it took at least three months to sail from Australasia to Britain. That applied for goods, passengers and mail. Today it takes about three weeks, so the distance has effectively decreased by three quarters for many goods. If the goods are high value for weight, or it is people who are travelling, the effective

* Economic and Social Trust on New Zealand, 18 Talavera Tce, Wellington, New Zealand; www.eastonbh.ac.nz. I am grateful to Sayeeda Bano, Rob Bowie, Bill Rosenberg, Ron Sandrey, Frank Stillwell and two anonymous referees for comments on earlier versions.

distance is even closer, since the flight to Europe is about a day – a 98 percent reduction. Today's information moves even faster, zipping around the world in microseconds and almost costlessly: a nineteenth century equivalent might be the line of sight.

The falling costs of distance have been crucial to the evolution of the two countries. Until the 1880s the effective distance for transporting fresh meat to Britain was near enough to infinite. Refrigeration, coupled with steamships and telegraph, reduced that distance cost to a fraction of meat production costs. The very existence of pastoral New Zealand and those parts of Australia which developed around meat and dairying are due to these falling costs.

But as Blainey rightly argues, as costs come down the nature of the two countries will change. How to think about this systematically? This paper will argue that we can use the standard economists' theory of international trade, which actually provides more interesting insights than its application to tariffs. Trade models usually look at only questions of before and after full protection. However the costs of distance fall for different products and services at different rates, so the results from trade models with partial reductions in some tariffs are relevant. They have not attracted economists' attention as much because the conclusions do not have the elegance of the zero tariff application.

The analytic transposition is to treat the costs of distance as if it were a tariff, and a reduction in the costs of distance as if it was a bilateral reduction in tariff levels between the two destinations. There are differences, but they do not seem important.

A curiosity of economics is how little attention economists usually give to transport costs. For instance, the major US international trade text by Krugman and Obstfeld (2002) devotes just over a page to transport costs in 750 pages, all the more surprising because Krugman was a pioneer on the theory of intra-industry trade (discussed below) which is so dependent on low and falling transport costs and the revival of economic geography. This is partly because the United States has not been tyrannised by distance in the same way Australasia has been – although it has been influential – but it also reflects the inherent policy interest in tariffs and other forms of border protection. Economists' passion for policy questions has obscured the relevance of policy-exogenous productivity changes, which in the long run may have a greater impact on output, growth, and welfare than the policies economists focus on. The history of the world economy is much more about reducing costs of distance than it is of lower tariffs.

While the introduction of this paper focussed on the peculiarities of the Australasian experience, much of this analysis applies to the whole world. Indeed we might analyse *globalisation as the consequences of the reductions in the costs of distance*. The term 'costs of distance' is wider than transport costs, also encompassing inventory and additional production costs, the costs of time, and reliability and security, and the difficulties of responding to changing circumstances in markets distant from headquarters. All of these have changed substantially over the years, and usually they have diminished.

Defining Globalisation

The definition of globalisation is problematic. Many writers avoid defining it analytically, instead characterising it by a series of particular phenomenon such as increasing trade, or capital flows, or logos, or international inequality; or to particular international institutions such as the World Trade Organisation or the International Monetary Fund and the World Bank or the European Union, or multinational corporations; or to particular policies such as free trade, liberalised capital movements, and so on. The London *Economist* described globalisation as 'international capitalism': many anti-globalisers might agree, perhaps adding 'together with US hegemony'.

Stanley Fischer, one-time chief economist at the International Monetary Fund (IMF), describes globalisation as 'the ongoing process of greater interdependence among countries and their citizens' (2003, p. 2). Joseph Stiglitz, who held a similar position at the World Bank, defines globalisation as 'the closer integration of countries of the world as a result of lowering transportation and communication costs, and the removal of artificial man-made barriers.' (2003, p. x). Both are focussed on contemporary phenomenon. Nineteenth century globalisation was also about the integration of regions which created modern nation states. Stiglitz also mixes a phenomenon and a mechanism. As already mentioned, this paper agrees that reductions in the costs of distance, more widely defined than by Stiglitz, had a central role. But in contrast, the approach here is to see the removal of man-made barriers as responses to the opportunities that the reductions in the costs of distance make.

This last point illustrates the weakness of the Stiglitz definition, because others may wish to discuss the same general phenomenon, but to argue for a different causal process. In the end a simple phenomenon based definition like Fischer's, may be the most fruitful. We follow Stiglitz, albeit also covering the

nineteenth century, with *globalisation is the closer integration of nations and regions*.

Even so, this paper agrees with Stiglitz that reductions in the costs of distance provide a foundation for an analytic understanding of globalisation. Of course the term 'consequences' leaves a lot of analysis to be developed. Nor is it entirely clear that the costs of distance can be treated quite as exogenously as the analysis to be developed here assumes. Technical change and the implementation of its applications is influenced by the political economy and it is possible that globalisation biases the change in a particular direction, while it seems likely that it is also influential on the rate of introduction and dissemination. In the interim, let us get the analysis underway, and a feedback loop to make the falling costs of distance partially dependent on the political economy of globalisation can be added if required.

One merit of this approach is that it provides a framework which incorporates the scholarly literature which treats globalisation as a nineteenth century phenomenon, as well as a late twentieth century one. Some even argue that globalisation was then a more powerful force than it is today, partly because labour – European labour anyway – was more freely mobile. Their accounts of globalisation make frequent reference to distance: how in the nineteenth century railways, steamships, telegraph and a host of other technological changes, made the world smaller, increasing the flows of labour, capital goods and technology. A not unexpected outcome was an increasing convergence of prices of goods and returns to factors in different locations. As transport costs fell, the price levels of transportable goods in different locations became more similar. The correlation between them also increased, indicating that the regional markets were integrating (O'Rourke & Williamson 1999).

The Standard Model: Costs of Distance as an Analogue of a Tariff

The standard general equilibrium neo-classical model of an economy used by most economists, which underpins trade theory, involves a number of economic actors who have a certain amount of labour and capital resources and production technologies available to them. In its simplest static form the model concludes that if each actor uses their resources to maximise their own ends, the 'efficient' outcome will be a market equilibrium in which prices equate to the relative marginal utilities of consumption and the relative

marginal costs of production. The equilibrium is 'Pareto' efficient insofar as one actor's welfare can only be improved at the expense of reducing (at least) one other's. In summary, a market system generates a Pareto optimum if it is allowed to operate without interventions. But, of course, the theorem requires a number of key assumptions to be valid, some of the most important of which are explored below.

A crucial, if policy limiting, generalisation of this analysis was identified by Lipsey and Lancaster (1956). Their pseudonymous theorem, also known as, 'the general theory of the second best', says that if something prevents equality between marginal cost and marginal utility in one market, it may not be optimal to apply pure market solutions in the rest of the economy. The theorem does not have any policy conclusion which can be simply advocated, for despite a lot of theoretical effort it has not normally been possible to get any clear cut applications.

There is an extraordinary exception. Suppose an economy is split into two (or more) parts between which the factors are prohibited from migrating. That would mean the same factor could be paid at different rates in the different parts of the economy. That is the sort of restriction on factor mobility the second best theorem appears pessimistic about. Yet there is a very well established theoretical conclusion, that under some particular assumptions both parts of the economy benefit from free trade in goods and services between them. Treating the parts as of a world economy – that there is factor immobility between countries – the policy prescription is that free trade gives the optimal outcome for both countries (caveats to be added). In particular, tariffs or other protective devices reduce the welfare of the inhabitants of both countries and the elimination of this protection raises welfare in both countries. In the swamp of second best analysis the free trade result is extraordinary, and possibly unique, for the clarity of its conclusions, even if they are heavily dependent upon other assumptions which may not reflect actual circumstances (Krugman & Obstfeld 2000).

It might seem then that a reduction in the costs of distance, analogous to a reduction in a tariff which moves the economies closer to the pure free trading position, ought to be a benefit. Why then is there so much dissent? We skip over the assumption of rapid redeployment of released resources which concerns anti-globalisers, merely noting that, as in the case of all economic shocks, there is an adaption problem and those required to adapt most greatly usually suffer in the process.

Economies of Scale

'Economies of scale' matter. They may exist for a particular production process, for an industry, or for an economy as a whole. The optimality of free trade – indeed of every market solution – may fail if economies of scale exist to any significant practical extent.

Recent developments in trade theory suggest that a world of significant economies of scale has multiple equilibria, unlike that which occurs in standard international trade theory (Gomory & Baumol 2000). New Trade Theory is not some interesting theoretical blind alley. Rather it responds to a growing anomaly in the old trade theory, which predicts inter-industry trade but has little explanatory power on the causes of intra-industry trade, where two countries trade the same products, rather than each specialising in different products (Helpman & Krugman 1985).

New Trade Theory emphasises the role of economies of scale (together with specialisation of products). But they are not reaped if the costs of distance are onerous. The effect of transport and other distance costs protect smaller scale producers from being undercut by larger producers reaping the lower costs of economies of scale. As distance costs fall, the smaller producers lose this natural protection, and production gets concentrated in fewer locations. Growing intra-industry trade is thus a response to reductions in the costs of distance.

The exact configuration of the resulting economies – which firms or industries locate where – may be the result of history or accident. (Or even – anti-globalisers might emphasise this – the result of political or military outcomes.) Most of the theoretical analyses involve models with two countries of similar size, so how a small country functions and what options it has is unclear. However the experience of Nokia in Finland suggests that small countries may possess large manufacturing businesses with strong economies of scale, although it is less clear how such activities may be fostered.

Intra-industry trade represents a challenge to the standard approach to international trade which has underpinned Australasian international trading policy. That comes from the Ricardian notion of trade based upon 'comparative advantage' in which countries exchange different products. In particular, Australasia had the 'peripheral' (or colonial) role in the world

economy of exporting primary commodities (such as minerals, wool, grain, dairy products, and meat) to 'central' (or imperial) economies, and importing their manufactures.

Whatever the merits of this strategy it is becoming obsolete. Intra-industry trade, based on 'competitive advantage', is the rapidly growing component of world trade, now making up a quarter of traded goods. (As a rough rule is today a quarter is oil, a quarter is other primary commodities, a quarter is manufactures traded on a comparative advantage basis, with the remaining intra-industry quarter growing the more rapidly)

Yet Australasia – like many other developing countries – is trapped in the comparative advantage trading relations. The only 'mature' intra-industry trading relation New Zealand has is with Australia – and conversely (Bano 2002; Easton 1997, pp. 144-7).¹ While the comparative advantage strategy of supplying primary commodities to the world fostered both countries in the past, their role in international trade is limited (not least because of international protection and other interventions by centre economies), while dependence on them limits the internal development of each nation.

Differential Diminishing of Distance

Additionally, the free trade theorem does not say that a reduction in a tariff rate necessarily increases economic welfare. That gain only certainly occurs (subject to the various assumptions) when all border protection is eliminated. James Meade finishes his chapter on the second best options under a partial freeing of trade with the gloomy 'it is very difficult to reach any general conclusions on the subject' (Meade 1955, pp. 224-5). The parallel is that it seems likely that a reduction in the costs of distance may not be necessarily beneficial to an economy, if the other costs of distance do not reduce.

Just as we cannot be sure that a partial reduction in tariffs is a benefit, we cannot be sure that a partial reduction in the costs of distance will be beneficial either. While this is analytically disappointing, there is some comfort because

¹ The Australian trade discourse often focuses on Elaborately Traded Manufacturers, which might be treated as a proxy for intra-industry trade. However they do not cover trading in services (an increasingly important phenomenon in a globalised world) and they are not always sold into the tough markets of other sophisticated manufacturers.

the conclusion provides a rigorous underpinning to the problem of globalisation: *if globalisation is the consequence of reductions in the costs of distance, the problem of globalisation arises because distances diminish at different rates for different products and for different places.* If all costs of distances were to diminish in the same proportion – if the world were just to shrink – then most globalisation problems would be much less important. But the world has shrunk more for information than for individual travel, and more for travel than for goods, and least for the complex networks which make up our human cultures. The second best theorems suggest that the reduction in some of the costs of distance need not be of benefit – at least initially.

Even so, we need to be cautious rather than pessimistic. The modelling issue is complicated by reductions in the costs of distance and involves simultaneous tariff-type reductions by both parties. For instance, while the inbound tourist industry has benefited from the ease with which tourists may come here, the same domestic industry suffers from it also being cheaper for Australasians to go overseas. On the other hand, we know that a reduction of tariffs on the inputs of a protected industry reduces welfare because resources are attracted into the inefficient industry. A similar possibility may apply for transport costs. Some of the big reductions in the costs of distance have been in telecommunications which have created possibilities such as off-location call centres, which are an industry input.

Distributional Issues

Anti-globalisers are also concerned with distributional issues and not just the production. These can be easily illustrated by considering the extreme case of an economy which moves from autarchy to total free trade. The shift moves the economy to a higher level of welfare. However, the theorem does not say that under the shift, everyone is better off (that is there is a Pareto improvement in welfare), since some specific factors will have reductions in their remuneration (even after full redeployment). An example might be that were there to be free access of Australasian foodstuffs into the United States, the US would be better off as a whole, but those US owners of foodstuffs specific capital (in the short to medium run), and foodstuffs specific land (in the long run), would be worse off.

The economic theory is straightforward. The endpoint of the shift to free trade is Pareto efficient – that is nobody can be made better off without making

someone worse off – and so is the beginning point of autarchy under the model assumptions. However the theorem does not say that the shift between the two points makes everybody better off. Rather the standard analysis says that following the opening of trade, the gains are such that everyone who is worse off could be compensated back to where they were, and there would still be a surplus for some people to be better off. Anti-globalisers may say 'that may be true, but the compensation rarely happens'.

There is a practical reason. Calculations of the gains from trade from existing protective regimes almost always suggests the gains from the total elimination of protection are small. For instance in the 1970s, when there was careful measurement on the New Zealand economy, the typical estimates suggested gains from removing what by today's standards were onerous border protection, were less than 1 percent of GNP (Easton 1997, pp. 169-173) The implication is the gains are so small that the costs of administration would make effective compensation impractical.

(It does not necessarily follow from this that there is no case for eliminating protection. Free trade may not be not a policy strategy in itself, but a part of a wider strategy, in which the growth process in a small open economy starts in the external sector and feeds into the domestic one. Eliminating border protection may be a part of the policy mix to generate an open growth strategy. On this argument the static gains from trade are not particularly relevant.)

The anti-globalisers often make the further general point that globalisation raises the profit rate at the expense of reductions in wages, and thus the income distribution becomes less equal. This is much disputed. It is not obvious that wage earners should always be worse off under changes such as a reduction in the costs of distance. However the empirical models do suggest that while the gains from trade are small, the redistribution from the change in factor prices is a magnitude larger. It illustrates one of the most general rules in policy analysis: *the impact of a policy change usually affects distribution more than it affects efficiency*. (Perhaps that is why economists focus on efficiency.)

Differential Factor Mobility

Recall that the standard free trade analysis can be interpreted as a special case of the second best theorems, where there are prohibitions of movements on all

factors between the two parts of the economy, or in the international trade example, between two economies. What happens if a particular labour skill is allowed to migrate, say from Australasia to Europe, because its factor return is higher in Europe than Australasia? Because they have chosen to move, the Australasians with the skill are better off, while those in Europe with the skills may experience a depression in their wages from the additional supply and be worse off. (This assumes that economies of scale are not significant.) But what about the rest of those involved?

The standard trade model can be rejigged by pretending that the Australasians migrants still live in Australasia and simply sell their labour skills in Europe. In this context the permission to migrate could be treated as the elimination of an infinite tariff on the skilled labour service. Second best theorems warn us this may not result in an improvement in world welfare. But suppose it did. It would not necessarily result in an increase in the welfare of the Australasians who did not migrate, even if there was an increase in the aggregate welfare of all Australasians, if the gains to the migrants exceed the national gains, as we have observed in other cases of the freeing of trade (Easton 2002).

The migration of labour, capital/savings and technology are all facilitated by the falling costs of distance. There is a tendency to assume that such migration is necessarily a good thing, but it is not always clear what are the assumptions that are being used to justify the conclusion.

To give some simple examples. An increase in the supply of foreign capital presumably decreases the domestic profit rate. Why then do local capitalists generally applaud capital inflows?² What assumptions are we making about the substitution elasticity between labour and capital if we think capital inflows benefit workers, or if – as in the case of anti-globalisers – we think the inflows are a detriment to workers? In the case of the international technology transfer, what are our underlying assumptions if we think that it is profitable to Australasia? And if we believe that technology does not conform to the private property standard rules of the market, what does that say about domestic technology policy and market strategies generally? Policy discussions often ignore such questions. What is clear from the trade issues where we have a better analytic understanding, is that often the answers require attention to second best phenomenon, to distributional impacts, and to production

² One referee mentioned the fallacy of composition insofar as 'each capitalist (typically) believes he or she can use the new capital to personal advantage.'

structures, and also possibly to factor endowments such as the quality and skills of the workforce.

Extending of the Analysis

The recognition of globalisation being driven by falling costs of distance leads to other insights, some of which are listed and developed briefly here.

New Economic Structures and Locations

Historically, agriculture and other resource based industries were located near their resources, service industries were located near their customers, and manufacturing traded off the transport costs between the resources they used, the labour and other costs available, and the markets they served. Some new technologies, especially telecommunications, which reduce the costs of distance mean that some service industries are now as footloose as manufacturing. We need to revise our notions of the nature of the economic structure and where and how it is located.

It is instructive – and consequential – that this international mobility has led to a General Agreement on Trade in Services, some fifty years after GATT (although some of the 'services' included in the trade are not really services).

International Regulation

Historically, nations created the institutions which regulate domestic markets as the falling costs of distance integrated their markets. (The Australian Federation for example.) International institutions, such as the World Trade Organisation, are today's global equivalents, a regulatory response to globalisation as a consequence of the falling costs of distance. Like their nineteenth century counterparts they may not be particularly just institutions. The parallel from the past suggests that the aim of anti-globalisers should be to modify them to obtain more just outcomes, rather than oppose internationally over-arching institutions.

Another example of a broadening of markets leading to cross-border regulatory mechanisms is the increasing intra-industry trade between Australia and New Zealand. Tax regimes also have to be modified as markets integrate across fiscal boundaries and factors migrate.

Endogenous Policy Responses

The cynic might argue that as capitalists found themselves increasingly bound at home, they escaped by going offshore, a phenomenon made possible by the falling costs of distance. In which case reductions of protection and the internationalisation of the regulation of markets may be treated as consequences of globalisation rather than its driver. It seems likely that the post-war regime of increasingly free (intra-)trade of manufacturers and, latterly, of services reflects a response to the possibilities that falling costs of distance generated, together with some other technological and social changes which arose in the postwar era. An endogenous theory of the freeing of trade may contribute to our understanding as to why agricultural liberalisation has been so disappointing, for land cannot migrate like other factors.

Nationalism and Culture

A central issue in the globalisation debate is that of nationalism. In Europe, in particular, nationalism was a nineteenth century response to the falling costs of distance in regions. (Twentieth century nationalism in ex-colonies may be a different story.) Alesina et al. (2000) suggest that freeing trade makes economies based on countries possible, the intuition being that trade reduces the economic costs of international boundaries because a country need not be as self sufficient. Anti-globalisers would go on to argue that the boundaries become less effective in other ways too, but issues of why and how nation-states exist has to be addressed. It is possible the nation-state is a temporary phase, although perhaps it is significant the Kyoto agreement is being implemented via nations rather than through an international regime. But nations are not just economic entities, they are also cultural ones. The internationalisation of culture, as far as it is taking place is a consequence of the falling costs of distance which enables some cultures to dominate others that were previously naturally protected.

Non-economic Issues

There are also some globalisation issues which are not primarily economic, even though – like terrorism – they could impact on the world economy. These include international political relations where diminishing distance – including for military logistics, the speed at which diplomats can move around, and the public's awareness of foreign tragedies – are transforming the nature of world politics. Another non-economic issue for Australasia is that once their first line of defence against the international spread of plant, animal and human disease

was the voyage times from other countries. Today their transmission is much faster.

The Implications of the Falling Costs of Distance

Blainey concludes the third edition of his classic book with that while 'it is tempting to proclaim distance is dead', in fact 'distance is tamed but far from dead'. (2003, p. 359). It is a conclusion greatly reinforced by some dimensions of distance being effectively zero (communications) while others remain comparatively large (goods shipped by sea). Distance has not shrunk uniformly since the great phase of nineteenth century globalisation. It still presents a challenge.

During the nineteenth century the balance of economic activity shifted from agriculture to manufacturing in the Western type economies, for it was also a period of industrialisation. Manufacturing processes, once performed locally, moved to increasingly larger factories, as the falling costs of distance made possible the reaping of economies of scale. Australasia's ancestors moved from their villages into the vast slums of Britain and the rest of Europe. There was an extraordinary destruction of the environment by the 'dark satanic mills', polluting air and water and destroying eco-systems. Economic historians debate whether living standards rose or fell over the nineteenth century. They probably rose for some, fell for others. The process of industrialisation led to much personal and social trauma as well as environmental damage. Today's descendants are the beneficiaries of that suffering.

Over time mankind learned to harness the new technologies by the creation of regulating social institutions: factory acts preventing the use of child labour, regulations; public infrastructure dealing with the disposal of waste and public hygiene (as well as reducing the costs of distance); social security protecting those which the industrial market failed to support; workers' compensation responding to increasing accidents in the new factories. So gradually – step by step – the capitalist tiger unleashed by nineteenth century technological change was tamed as mankind learned to control the forces and make them work in our interests.

At an early stage of nineteenth century globalisation and industrialisation, a major dispute took place within the Left. On one side was the French anarchist, Pierre-Joseph Proudhon. Appalled by the human costs of the

changes, he argued for a reversion to the way of life which preceded these changes, with a nostalgia for an Arcadia which never existed, but he hoped to recreate. Another version of the Arcadian nostalgia was among some of the reasons people came to Australasia. They thought to escape the trauma of European industrialisation by coming to green and pleasant lands, and starting afresh to create a utopia (not, one adds, always sensitive to the indigenous people already there, nor to the indigenous environment).

The best-known opposition to Proudhon came from Karl Marx who argued that industrialisation and globalisation were essentially progressive forces. The processes, he said, was unstoppable, even though they caused misery to the worker caught up in the transformation to the new economy. But, Marx went on to argue, ultimately the outcome would benefit workers with the creation of a 'communist' state, in which they would enjoy the fruits of their labour.

With hindsight we can see that Marx was broadly correct. Sure, we have not reached any communist state – Marx himself was a bit vague about what he meant by the notion. But ultimately the workers of the world are better off. Had they retreated to the nostalgia of Arcadia, they would not be, for they would be isolated from the benefits of the technology which drove globalisation and industrialisation. Admittedly there has not been much equity in the sharing of the fruits of the transformation. Among those who have benefited least were those in the continents of Africa and Asia. Nineteenth century globalisation only really applied to those of European origin (just as some of the main beneficiaries of late twentieth century globalisation have been East Asians).

Yet no matter how awful some of the effects of nineteenth century industrialisation were, our ancestors, informed more by democratic socialism than the ideas of Marx or Proudhon, learned to control it and to benefit from it. That is the challenge and the prospect also for this bout of globalisation, to harness the forces of globalisation, not to deny them. To do so, we need to understand the implications of the uneven reductions in the costs of distance.

References

- Alesina, A., Spolaore, E. & Wacziarg, R. 2000, 'Economic Integration and Political Disintegration,' *The American Economic Review*, vol. 90, no. 5, December 2000, pp.1276-1296.

- Bano, S. 2002, *Intra-Industry Trade and Trade Intensities: Evidence from New Zealand*, Working Paper 5/02, Department of Economics, University of Waikato, Hamilton, New Zealand
- Blainey, G. 1966, *The Tyranny of Distance: How Distance Shaped Australia's History*, (2nd edn 1983, 3rd edn 2001), Sun Books, Sydney.
- Easton, B. 1997, *In Stormy Seas: The Post-War New Zealand Economy*, UOP, Dunedin.
- Easton, B. 2002, 'Globalisation and Labour Markets', *Labour, Employment and Work in New Zealand: Proceedings of the Tenth Conference: 2002*, Victoria University of Wellington.
- Fischer, S. 2003, 'Globalisation and Its Challenges', *American Economic Review: Papers and Proceedings*, vol. 93, no. 2, May 2003, pp. 1-30. (Richard T. Ely Lecture, 2003).
- Gomory, R. & Baumol, W. 2000, *Global Trade and Conflicting National Interests*, MIT Press, Cambridge Mass.
- Helpman, E. & Krugman, P. 1985, *Market structure and foreign trade: increasing returns, imperfect competition, and the international economy*, MIT Press, Cambridge Mass.
- Krugman, P. & Obstfeld, M. 2002, *International Economics: Theory and Policy*, (5th edn), Addison-Wesley, Reading, Mass.
- Lipsey, R. & Lancaster, K. 1956, 'The General Theory of the Second Best', *Review of Economic Studies*, vol. 24, no. 1, October, 11-32.
- Meade, J. 1955, *Trade and Welfare*, OUP, London.
- O'Rourke, K. & Williamson, J. 1999, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy*, MIT Press, Cambridge Mass.
- Stiglitz, J.E. 2003, *The Roaring Nineties*, Norton, N.Y.

