

# It's time trade tycoons address the dark reality of globalization

By Jim Stanford

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The architects of globalization are worried, quite rightly, by both the rhetoric and the reality of recent trade developments. On the rhetorical front, the rise of nationalistic populism – exemplified by Donald Trump, Brexit and ascendant hard-right politicians everywhere – is hammering more nails into the coffin of a trade-liberalization agenda that was already moribund.

In real economics, meanwhile, the dynamism of world trade was already fading fast, even before the populists came on the scene. In recent decades, trade has grown twice as fast as global GDP; these days, however, it isn't even keeping pace. Canada's exports, for example, equal barely 30 per cent of GDP today, way down from 45 per cent in 2001. The old idea that trade is the engine of growth is taking a beating, from politicians and empirical data alike.

So far, however, trade elites have responded by merely doubling down on overstated claims that unregulated free trade is the best of all worlds. A top World Bank official worries that populism would “break the trade-based economic engine that has delivered peace and prosperity to the world for decades.” International Monetary Fund head Christine Lagarde urges world leaders to “better identify the benefits of trade ... to respond to the easy populist backlash.” Even Bank of Canada Governor Stephen Poloz waded in, urging economists to do “compelling research that reminds people of the impact of trade.” (Mr. Poloz, of course, assumes that impact is positive.)

In other words, thought leaders should simply work harder to convince the citizenry that free trade is good for them. At most, globalization

may impose transitional adjustment costs, as workers move from old jobs to new, more productive ones. Those temporary problems can be solved with support for mobility and retraining. Trade-created jobs and prosperity will then be right around the corner.

This response is arrogant and condescending. It assumes the trade nabobs know better what's good for us, than we do ourselves. And it is not likely to succeed. The reality is that hundreds of millions of people across the developed world (and in many developing countries, too) have been hurt by globalization as presently practised: whereby mobile private companies decide what to produce and where, and every jurisdiction can only bow down to business in hopes of capturing a slice of scarce investment and jobs.

We must remember that the economic theory underpinning free trade assumes that all resources (including all workers) will be productively employed, that trade flows will be balanced and mutually beneficial, and that the efficiency gains from trade will be shared throughout society. In the quantitative economic models routinely trotted out to “sell” each new trade deal, these assumptions are embodied in mathematical equations imposing full employment, balanced trade and the existence of a “representative household” (portraying each country as one big family, happily sharing all its wealth). None of these assumptions has any connection to reality; they are all imposed for the mathematical (and ideological) convenience of the economists.

In the real world, entire industries and communities have been dislocated by the unbalanced investment and trade flows which the theory denies. Enormous trade imbalances

(from China and Germany's huge surpluses, to chronic deficits in the United States, Britain and Canada) correspond to the migration of capital, work and income in favour of free trade's "winners." And these costs are not temporary or transitional. Large swaths of societies have been effectively cast aside under modern free trade – left to face lasting unemployment, non-participation or low-productivity service jobs.

Going to those devastated communities, the fodder for Brexit and Mr. Trump, and telling them they aren't really unemployed, and are in fact better off than they think they are, will hardly turn the tide of this debate. If we want to avoid the isolationism, xenophobia and worse that Mr. Trump and his ilk portend, we must start by recognizing that there is indeed a downside to free trade.

Acknowledging that modern free trade produces losers as well as winners allows us to start developing and implementing policies to moderate those downsides – and purposely share the upsides. This means actively managing trade flows, limiting beggar-thy-neighbour trade surpluses, supporting incomes for all workers, ensuring sensible and fair exchange rates, and actively fostering domestic investment in desirable, trade-intensive industries.

All this implies a much bigger role for government in managing globalization than free-traders imagine. But it would be an infinitely more effective response to the gathering backlash, than trying to convince suffering people that they have nothing to complain about.

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