Trade errors: Globalization versus internationalization

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Finally we come to a place where we must give some credit to Trumponomics for having opposed neoclassical economics rather than blindly following it. Whether this was out of conviction, or devious political expediency, or both, is a question I will leave to the reader. Free trade, off-shoring, capital mobility, and uncontrolled immigration added up to the neoclassical cheap labor policy, nominal opposition to which gave Trump his big issue and political victory. Of course it was sold as "pro-growth" rather than "cheap labor". The Democrats, under the influence of neoclassical free traders and global corporations, were blind to the devastation and resentment their cheap labor policy had caused in working class and rural America. Bernie Sanders understood, and almost got the nomination, but Hillary Clinton and the Democratic establishment failed to learn the lesson.

The presidential election revealed a deep-seated discomfort with globalization and its costs, and as Donald Trump sets the agenda for his new administration, some fear he will move the United States towards isolationism and nationalism. There is another alternative open to him that served the country well for over fifty years, neither globalization nor nationalism, but internationalism.

Globalization is frequently conflated with internationalism but is something quite different. Globalization refers to the global integration of many formerly national economies into one global economy. "Integration" derives from "integer", meaning one or whole, and when we integrate, we combine into one the previous parts. Since there can only be one whole, the disintegration of the national economy is necessary to reintegrate its pieces into the new global economy.

As the saying goes, "To make an omelette you have to break some eggs". Under globalization the disintegration of a nation's economic boundaries is achieved through globally integrated capital markets, labor pools and trade agreements.

Internationalism refers to international trade, treaties, protocols, alliances and other structures where nations rely on each other and work together towards common goals. "International" means between or among nations, and under internationalism the basic unit of policy and decision-making remains the nation. Internationalism was the post-WWII goal of the Bretton Woods institutions; globalism has become the goal with the WTO, TPP and transnational corporations. As nations outgrow their domestic resource base they expand, via globalization, into the global commons, and into the ecological space of other nations.

In internationalization, trade is conducted between nations with their own self-interests in mind. Countries determine what they are best at doing, specialize in those goods or services, and trade with each other on that basis. In the classic example, England trades its wool and textiles for Portugal's wine and vice versa. It would be unproductive for English investors or workers to attempt large scale winemaking in the English climate, and England's resources are better put to use in sheep farming and wool-making. Through trade based on comparative advantage, both England and Portugal benefit.

In a globalized economy with free capital mobility, nations no longer specialize in their own "comparative advantage", but instead global capitalists and corporations follow "absolute advantage"–allocating their resources to maximize global productivity and global profit. They function as components of an integrated global economy. U.S. corporations or investors shift capital to China to produce goods with less expensive Chinese labor for sale back into the U.S. By doing so, the same investment generates more product at lower cost, thereby growing the global economy. However, these global gains can inflict enormous cost at the national level.

While the global economy may grow more with globalization, each nation no longer necessarily benefits. With globalization the nation loses its ability to enforce its own laws and standards. The U.S. has national policies, for example, governing workers' rights and workplace standards–minimum wages, non-discrimination, fair pay, child labor laws, and environmental and safety regulations. These agreements have been reached through generations of national debate, elections, strikes, lockouts, court decisions, and, at times, violent conflict. They affirm national values and strike a balance between how the economic pie is split between "capital" and "labor". These policies become meaningless in a globally integrated economy.

If a U.S. corporation run by U.S. executives closes a plant in Michigan, lays off its workers and opens a new one in Mexico facing muchless stringent compliance standards, staffs it with lower salaried Mexican workers who do not require health insurance or unemployment benefits, and then ships products back to sell to U.S. consumers at a much higher profit, the result is not what most Americans think of as "free trade". It is instead freedom from regulation and responsibility done under the cover of globalization.

The restoration of internationalism re-establishes the nation as the locus of policy and reasserts the principle of interdependence –not integration–as the basis for international collaboration. Interdependence is to integration as friendship is to marriage. Strong real friendships lead to a long and happy life, but few people attempt or survive a multi-lateral marriage.

Trump has recognized the distributive flaws of globalization, but it remains to be seen if he will limit capital mobility in order to make the world safe for trade based on comparative advantage. Or will he opt to maintain capital mobility and accept the consequence of substituting absolute advantage for comparative advantage in the quest for global growth? Probably, like neoclassical economists, he is not aware that the logic of comparative advantage is based on the assumption of internationally immobile capital, as explicitly stated by David Ricardo in his famous comparative argument. Probably global growthism will win out in the Trump regime, since it is in the interests of the billionaire US elite, from which he has entirely drawn his cabinet of advisors.