

What does progressive trade policy look like?

A 10-point plan for building a better global order

By Jim Stanford

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The Progressive Economics Forum awards a biennial prize named after John Kenneth Galbraith to recognize lasting contributions to progressive economic theory and policy in Canada. The 2018 Galbraith Prize was awarded to Jim Stanford, former economist with Unifor (previously the Canadian Auto Workers), long-time research associate with the CCPA, and currently Director of the Centre for Future Work in Sydney Australia. Stanford delivered a lecture on occasion of his award at the Canadian Economics Association meetings in Montreal in June, on the theory and practice of progressive trade policy. The following excerpt from his talk leads off our *Monitor* feature on the promises and problems with the Trudeau government's so-called Progressive Trade Agenda.

I am humbled and deeply honoured to receive the Galbraith Prize, named after one of my true heroes. I was lucky enough once to meet Dr. Galbraith in person, when I was a graduate student at Cambridge University. He was a towering figure, both intellectually...and in his physical stature! I am also incredibly grateful to the 14 individuals who co-nominated me for this award, and to the selection committee of the Progressive Economics Forum. Finally, I would like to acknowledge and thank the previous winners of the Galbraith Prize: Mel Watkins, Kari Polanyi Levitt, John Loxley, Mike McCracken, Lars Osberg and Marjorie Griffin Cohen. On top of their enormous contributions to progressive economics in Canada, every one of them has influenced and mentored me personally in important ways; I pledge to return the favour, by supporting up and coming progressive economists as they find their role in our struggle to build a more diverse and emancipatory economics.

My lecture today will discuss the need for, and possible components of, a progressive trade policy. Progressive economists in Canada have been fighting neoliberal trade deals for a generation—to the point where we sometimes sound like a broken record. But suddenly, neoliberal trade policy is at a crossroads, and everything is on the table. This reflects the cumulating failures of the existing trade

system: in particular, the imbalances and dislocations caused by decades of beggar-thy-neighbour competition to run ever-larger trade surpluses, and the race-to-the-bottom in social, labour and environmental standards that the current business-friendly rulebook of globalization facilitates and endorses.

This moment also reflects a growing crisis in democracy in the advanced capitalist economies. Existing democratic mechanisms are proving inadequate to channel popular discontent in positive, evidence-based directions. Instead, ugly and increasingly dangerous forms of right-wing populism are capitalizing on discontent, creating a platform for inconsistent, arbitrary and ultimately destructive policy responses. Donald Trump and his xenophobic unilateralism is the most important case in point, but the phenomenon is much broader—and, with Doug Ford's election in Ontario, we see it taking firm root in Canada's political culture as well.

Into this ferment, progressives must inject an ambitious, honest and pragmatic vision of how to manage international trade, capital and human flows in ways that protect and enhance living standards, equality and the environment. A progressive understanding of globalization and its effects must be rooted in our overall alternative analysis of how the capitalist

economy works, and doesn't work, and draw on heterodox economic theories of why international trade and investment flows can cause lasting hardship and losses (in contrast to conventional trade theory which always sees trade as a "win-win" outcome)

In my full lecture (a considerably abridged version of which is published here) I discussed the major channels through which progressive policy tries to make the economy work better for the majority within one national economy. These core strategies are useful in thinking about progressive international trade policy, because exactly the same tools will be important in our efforts to achieve progressive economic outcomes under globalization. The most important strands of progressive strategy include:

- Stimulating more output and employment through measures like fiscal and monetary policy and other macroeconomic levers. Unemployment always exists in capitalism. But when unemployment is lower, workers are better off, for many reasons.
- Empowering workers to win a better deal in the distributional struggle that is a hallmark of the economy. This means stronger minimum wage laws and other labour standards, stronger income security programs and other social policies, and stronger unions and collective bargaining.
- Regulating private production to reduce the harm imposed on workers, communities and the environment—through labour laws, consumer protection standards, environmental measures, and more.
- Challenging the dominance of private investment and production in the economy by establishing and expanding a strong public and non-profit section of the economy, and expanding the sphere of collective social consumption (to supplement private consumption).

These have been the most important ways that progressives, over the history of capitalism, have tried to shape the economy to attain higher living standards, protect the environment and build stronger, more equal communities. To a large extent, describing "progressive trade policy" should start by preserving and enhancing our capacity to apply those same key strategies.

Moreover, it is important to note that the themes listed above, for the most part, are not usually discussed in trade agreements (whether bilateral, multilateral, or at global institutions like the WTO). So focusing on trade *agreements*—what is in them and what is not in them—may not be the most important avenue for achieving a progressive trade *policy*.

Finally, almost all the progress made along those four avenues was achieved through progressive organizing and campaigning at the national or sub-national level, not the international level. So to pursue a progressive vision of international trade, we still need to focus first and foremost on winning progressive policies at the national level—rather than focusing solely on changing the wording of trade agreements or trying to build new international institutions.

In that light, here are 10 key themes that I think are crucial to a progressive vision of globalization, one that is consistent with progressive goals of employment, equity and sustainability:

1. ***Preserve the power to regulate.*** A crucial tool for limiting the negative effects of private profit-seeking business is government's ability to regulate the conditions and side-effects of private production: through labour laws, consumer protection standards, environmental rules and other means. Neoliberal trade deals define these regulations as "trade barriers," banning many of them, in other cases establishing "ratchet" rules so that the intensity of regulation can only diminish

over time. These provisions should be eliminated from trade deals; government can and should retain the authority to regulate any business activity in the public interest.

2. **Active sector development strategies.** To participate successfully in global commerce, every country needs a healthy share of desirable tradable industries—sectors characterized by technology intensity, high productivity and income potential, strong supply chain linkages and strong export orientation. Governments need to actively support these strategic industries (which can include high-value traded services, not just manufacturing and other goods-producing sectors) to maximize potential gains from trade. Ideally, these sector strategies would be negotiated on a multilateral basis, so all countries can attain a fair share of high-value industries, rather than waging a beggar-thy-neighbour war to increase one country's market share at the expense of others'.
3. **End preferences for investors.** Another symptom of the unbalanced priorities of neoliberal trade deals is their extraordinary provisions to protect and privilege businesses and the investors who own them—everything from strengthening patent and copyright restrictions to the anti-democratic judicial mechanisms of investor-state dispute settlement. These preferences have no justification in a progressive policy vision, which is premised precisely on *constraining* the actions of private firms, not privileging their freedom and mobility. Fundamental decisions such as patent systems, company taxes, consumer protection regulations and others should be left fully within the purview of national democratic decision-making.
4. **Regulate capital and currencies.** Flows of foreign direct investment (FDI) can enhance the productive capacity and know-how of the host country, and in some cases deliver benefits to the source economy as well. However, FDI must be held accountable to public interest goals through a thorough review process, to block unproductive investments (like takeovers that do not enhance investment but merely transfer control) and extract commitments from incoming firms to high-value domestic activity (such as global product mandates, commitments to R&D, and more). International financial flows are more volatile, and their benefits more questionable. Hence cross-border financial flows should be tightly constrained through stricter banking regulations (especially governing short-term money flows), limits on international investments by pension funds and other financial institutions, and transactions taxes. Manipulation of exchange rates is another financial factor that distorts trade patterns. Existing practice allows countries to suppress exchange rates in order to achieve larger trade surpluses. Limiting that practice will be important in a broader system for managing trade imbalances (see below).
5. **Invest in public export infrastructure.** Canada has obvious need for a massive and lasting expansion of investment in public infrastructure, and the macroeconomic and job-creation benefits of infrastructure spending are well-known. Export infrastructure can be one useful component of this broader infrastructure strategy; investments should be directed into transportation, communication, research and development, and other facilities that support export-oriented enterprises.
6. **Market access conditional on human and labour rights.** Most free trade deals now pay token attention to labour and environmental issues. But their various

“side deals” or special chapters never have real force. Suppression of basic human, labour and environmental rights distorts competitiveness and hence influences production and investment patterns. Limiting this damage requires powerful remedies, not symbolic commitments. Preferential market access under trade deals should be conditional on participating countries meeting basic standards of democracy, human rights, labour rights and environmental protection. Failure to meet universal standards should result in countries losing that access, either through the imposition of significant trade penalties or through exclusion from the trade zone altogether.

7. ***Meaningful adjustment, transition and training supports.*** Conventional trade policy also pays lip service to the risk that certain industries and groups of workers may suffer losses because of exposure to international competition. But there is rarely any meaningful commitment to transition, relocation or retraining assistance to help affected workers adapt. As part of a broader focus on job creation (see below), well-funded skills, adjustment and early retirement programs can reduce the human costs of sectoral and employment shifts resulting from international trade.
8. ***Humane and just immigration.*** Migration is one of the most important and potentially beneficial aspects of globalization, but also one fraught with hardship and risk. High-quality migration programs should permanently settle migrants (including refugees, who will become ever more numerous), supporting them with services, housing and employment, and protecting them under the same laws and standards that apply to other workers. Temporary migrant labour programs are highly vulnerable to exploitation and abuse; these programs should be phased out (with

pathways to permanent migration for existing temporary foreign workers).

9. ***Manage trade imbalances fairly.*** Successful export countries (such as China, Germany and Korea) have every incentive, and full permission, under current trade rules to accumulate ongoing surpluses. Their experience of successful export-led growth proves that super-competitive jurisdictions can experience gains from trade far larger than the modest efficiency improvements predicted in neoclassical trade theory. But those surpluses imply corresponding deficits (and stagnation and unemployment) among their trading partners. We must replace that beggar-thy-neighbour quasi-mercantilism with a more balanced adjustment process that limits trade imbalances and shares the burden of adjustment fairly between both surplus and deficit countries. Trade surplus countries must recycle net earnings into new spending (including imports from other countries) or else face restrictions on access to foreign markets. That recycling would in turn stimulate stronger output and job creation on all sides.
10. ***An inclusive, fully employed economy.*** Trade policy elites talk a lot these days about making sure the “gains from trade liberalization are shared more broadly,” conceding that many segments of society have not benefited from globalization (but still not conceding that anyone suffered actual losses). This won’t happen automatically. Indeed, the gains from economic expansion, wherever it comes from, are *never* broadly shared without active measures to make it so. So an overarching commitment to job creation, economic inclusion and equality is thus the most important prerequisite for ensuring that the large majority of people experience rising incomes and better security. The existence of a consistently inclusive domestic economic agenda explains why

opposition to trade liberalization is mild in the social-democratic countries of Europe: there, most people know they won't be left behind by *any* economic change (whether globalization, technological change or any other), and hence can embrace change rather than resisting it.

This vision of actively managed international trade and investment does not imply erecting barriers to trade, nor restricting the amount of trade. To the contrary, by eliminating deflationary biases inherent in the existing trade system (whereby all countries try to achieve trade surpluses, and deficit countries suppress domestic demand to reduce imports), our progressive approach would stimulate more trade, not less. It cannot therefore be described as protectionist or anti-trade.

The coming years will constitute a turning point for the international trade system, which

is coming apart at the seams after decades of imbalance and dislocation. Donald Trump and other erratic populists, who ultimately want to reinforce corporate power (albeit in a more nationalist framework), will not help those suffering under globalization. Instead they will lead the world into intensifying social conflict, recession, and even war.

Into this maelstrom, progressives need to energetically inject a more hopeful and positive vision of how to rein in globalization, seriously address trade imbalances and resulting unemployment, and make rising living standards, inclusion and sustainability the goal of economic policy (including trade policy) rather than an afterthought. This is truly a time for progressive trade economists to think big, and to make our voices heard.