Protectionism for Liberals

By Robert Skidelsky
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The ability of companies to allocate jobs globally changes the nature of the discussion about the "gains from trade." In fact, there are no longer guaranteed "gains," even in the long run, to those countries that export technology and jobs.

Liberal revulsion at US President Donald Trump's mendacious and uncouth politics has spilled over into a rigid defense of market-led globalization. To the liberal, free trade in goods and services and free movement of capital and labor are integrally linked to liberal politics. Trump's "America First" protectionism is inseparable from his diseased politics.

But this is a dangerous misconception. In fact, nothing is more likely to destroy liberal politics than inflexible hostility to trade protection. The upsurge of "illiberal democracy" in the West is, after all, the direct result of the losses suffered by Western workers (absolutely and relatively) as a result of the relentless pursuit of globalization.

Liberal opinion on these matters is based on two widespread beliefs: that free trade is good for all partners (so that countries that embrace it outperform those that restrict imports and limit contact with the rest of the world), and that freedom to trade goods and export capital is part of the constitution of liberty. Liberals typically ignore the shaky intellectual and historical evidence for the first belief and the damage to governments' political legitimacy wrought by their commitment to the second.

Countries have always traded with each other, because natural resources are not equally distributed round the world. "Would it be a reasonable law," asked Adam Smith, "to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?" Historically, absolute advantage – a country importing what it cannot produce itself, or can only produce at inordinate cost – has always been the main motive for trade.

But the scientific case for free trade rests on David Ricardo's far more subtle, counter-intuitive doctrine of comparative advantage. Countries with no coal deposits obviously cannot produce coal. But assuming that some production of a naturally disadvantaged good (like wine in Scotland) is possible, Ricardo demonstrated that total welfare is increased if countries with absolute disadvantages specialize in producing goods in which they are least disadvantaged.

The theory of comparative advantage greatly widened the potential scope of beneficial trade. But it also increased the likelihood that less efficient domestic production would be destroyed by imports. This loss to a country's production was brushed aside by the assumption that free trade would allocate resources more efficiently and raise productivity, and thus the growth rate, "in the long run."

But this is not the whole story. Ricardo also believed that land, capital, and labor – what economists call the "factors of production" – were intrinsic to a country and could not be moved round the world like actual commodities. "Experience ... shows," Ricardo wrote,

"that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself, with all his habits fixed, to a strange government and new laws, check the emigration of capital.

These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations."

This prudential barrier to capital export fell as secure conditions emerged in more parts of the world. In our own time, the emigration of capital has led to the emigration of jobs, as technology transfer has made possible the reallocation of domestic production to foreign locations – thus compounding the potential for job losses.

The economist Thomas Palley sees the reallocation of production abroad as the distinguishing feature of the current phase of globalization. He calls it "barge economics." Factories float between countries to take advantage of lower costs. A legal and policy infrastructure has been built to support offshore production that is then imported to the capital-exporting country. Palley rightly sees offshoring as a deliberate policy of multinational corporations to weaken domestic labor and boost profits.

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At the end of his life, Paul Samuelson, the doyen of American economists and co-author of the famous Stolper-Samuelson theorem of trade, admitted that if countries like China combine Western technology with lower labor costs, trade with them will depress Western wages. True, citizens of the West will have cheaper goods, but being able to purchase groceries 20% cheaper at Wal-Mart does not necessarily make up for wage losses. There is no assured "pot of gold" at the end of the free-trade tunnel. Samuelson even wondered whether "a little inefficiency" was worth suffering to protect things which were "worth doing."

In 2016, *The Economist* conceded that "short-term costs and benefits" from globalization are "more finely balanced than textbooks assume." Between 1991 and 2013, China's share of global manufacturing exports increased from 2.3% to 18.8%. Some categories of American manufacturing production were wiped out. The United States, the authors averred, would gain "eventually." But the gains might take "decades" to be realized, and would not be equally shared.

Even economists who concede the losses that come with globalization reject protectionism as an answer. But what is their alternative? The favored remedies are somehow to slow down globalization, giving labor time to re-skill or move to more productive activities. But this is scant comfort to those stuck in the rust belts or decanted into low-productivity, low-paid jobs.

Liberals should certainly exercise their right to attack Trumpian politics. But they should refrain from criticizing Trumpian protectionism until they have something better to offer.

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