America needs to make a new case for trade

By Lawrence Summers

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While the financial crisis dominates current discussion on the US economy, questions regarding America's future approach to globalisation are looming increasingly large.

Since the end of the second world war, American economic policy has supported an integrated global economy, stimulating development in poor countries, particularly in Asia, at unprecedented rates. Yet America's commitment to internationalist economic policy is ever more in doubt. Even before the significant increases in unemployment likely in the months ahead, the indicators are all disturbing. Presidential candidates attack the North American Free Trade Agreement. The Colombian free trade agreement languishes. There are increasing attacks on foreign investment in the US, not to mention growing support for restrictive immigration policies.

To all of this the conventional wisdom has a well developed response, with four standard elements. First, the sceptic regarding trade deals or other internationalist policies is educated around the many benefits of trade, not just for exporters but also for consumers and the economy more generally.

Second, the sceptic is assured that the trade agreement in question is not just good classical economics that reaps the gains available from comparative advantage – it is also good mercantilism. This is because the US already has low trade barriers, which it will typically not need to reduce as much as its trading partner. Sometimes the argument is added that we are in competition with other major economic powers and will be at a disadvantage if a developing country has a free-trade agreement with them but not us.

Third, the sceptic is also told that most of the observed increases in income inequality in the American economy are due to new technology rather than increased trade – and that even to the extent that trade has a role, most increases in trade are not attributable to trade agreements.

Fourth, it is acknowledged that while trade agreements are good for the economy overall, not everyone wins. And so it is increasingly recognised that they must be complemented by more ambitious efforts to reduce income inequality and income insecurity. Sometimes the discussion focuses on adjustment assistance of various kinds. More recently, there has been a recognition of the need for much broader-gauged efforts to combat inequality and insecurity, such as universal healthcare.

All of these points have the very considerable virtue of being correct economic arguments. Taken together, they make a compelling case that the US is better off with than without trade agreements and that the world will be a richer, safer place with increasing economic integration. It is very possible that, if efforts to help those left behind are pursued with sufficient vigour, support for economic internationalism can be maintained.

But I suspect that the policy debate in the US, and probably in some other countries as well, will need to confront a deeper and broader issue: the gnawing suspicion of many that the very object of internationalist economic policy – the growing prosperity of the global economy – may not be in their interests. As Paul Samuelson pointed out several years ago, the valid proposition that trade barriers hurt an economy does not imply the corollary that it necessarily benefits from the economic success of its trading partners.

When other countries develop, American producers benefit from having larger markets to sell into but are challenged by more formidable competition. Which effect predominates cannot be judged *a priori*. But there are reasons to think that economic success abroad will be more problematic for American workers in the future.

First, developing countries increasingly export goods such as computers that the US produces on a significant scale, putting pressure on wages. At the same time, rising global prosperity increases the rewards accruing to the already highly paid producers of intellectual property goods such as films, where the US has a comparative advantage. Second, the growth of countries such as China raises competition for energy and environmental resources, raising the price for Americans.

Third and most fundamentally, growth in the global economy encourages the development of stateless elites whose allegiance is to global economic success and their own prosperity rather than the interests of the nation where they are headquartered. As one prominent chief executive put it in Davos this year: "We will be fine however America does but I hope for its sake that it will cut taxes and reduce regulation and put more pressure on young people to study in the ways that are necessary for it to be able to keep competing successfully."

The chief executive was sincere and he captured an important truth. Even as globalisation increases inequality and insecurity, it is constantly and often legitimately invoked as an argument against the viability of progressive taxation, support for labour unions, strong regulation and substantial production of public goods that mitigate its adverse impacts.

In a world where Americans can legitimately doubt whether the success of the global economy is good for them, it will be increasingly difficult to mobilise support for economic internationalism. The focus must shift from supporting internationalism as traditionally defined to designing an internationalism that more successfully aligns the interests of working people and the middle class in rich countries with the success of the global economy. This will be the subject of my next column, which will appear on Monday May 5.

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