

Backlash Immortal

Here's a two-step exercise.

Step 1: Read this passage.

Based on research to date, there would seem to be little reason to worry about a protectionist backlash against globalization in response to rising inequality. If the "average" economist thinks that technology's role has been four times as important as that of trade, surely policy discussion is focusing on how to even out the gains from technology, not on how to erect new trade barriers? Unfortunately, this is not the case. My reading of the current U.S. policy debate is that such a backlash is already underway. This is particularly so with respect to setting the terms of trade-policy debate.

This assessment is based on a few broad observations. First, in the United States there has not been a concerted policy effort — at either the federal level or the state level — to ameliorate the recent wage problems of the less skilled. Whether this is good or bad is open to debate on various philosophical and ethical grounds. But regardless of this, inaction has an important political implication: the median U.S. voter has experienced disappointing wage performance for more than 20 years. Labour economists often distinguish the more-skilled and less-skilled by the college-graduate / high-school graduate distinction. Table 3 shows that by this convention about 75% of the U.S. labour force is less-skilled. The wage problems of the less-skilled affect the majority of the U.S. population, not just a small minority of it. Has this voting bloc made its political might felt?...

[S]everal recent political events in the United States suggest a marked turn away from policies aimed at freer trade.

Step 2: Guess the year it was published.

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Done guessing? Here are the “recent political events” the author names.

The events include Ross Perot’s strong electoral performance in 1992; the NAFTA (North American Free Trade Agreement) debate and close Congressional vote in 1993; Pat Buchanan’s strong electoral performance in 1996; and the failure by Congress to renew “fast-track” negotiating authority for the President in 1997; and the House of Republicans’ reluctance to renew funding for the International Monetary Fund in 1998. Clearly, all these events involved other issues in addition to trade. But the consensus analysis of them factored in sentiment for greater protectionism. Based on events like these one can argue that a protectionist backlash is already underway.

Yes, this piece (Matthew Slaughter’s “Globalisation and Wages: A Tale of Two Perspectives”) was published a full two decades ago in *The World Economy*.

What should we conclude?

You could call the piece “prescient.” But how prescient is it to predict a “backlash against

free trade” almost two decades in advance? What if that backlash is itself mostly rhetorical?

I say the real lesson of this piece is that free trade is a hardy weed. Politicians are *always* complaining about free trade. Free trade is *never* popular. If you look at policy, “warning signs” and “harbingers” of radical change abound. Before you announce the “beginning of the end” for free trade, though, remember that the world is vast. A thousand dead “canaries in the coal mine” shows next to nothing when the world contains billions of canaries. Whispers of change pale before status quo bias.

The preachers of backlash habitually paint themselves as “realists.” The real realists, however, aren’t the people who highlight the multitudinous threats to free trade. The real realists aren’t the people who opine, “We need to seriously address inequality or else the populists will win.” No, the real realists are the people who stare at the multitudinous threats and say, “Meh.” The real realists are the people who refuse to be stampeded into fighting populism with populism.

Be a real realist.

P.S. The rest of Slaughter’s piece, by the way, is golden. He wasn’t the first to say this, but he says it well:

In the United States, supporters of free trade have ceded the terms of debate to their opponents, making it very hard to argue the true merits of free trade. Trade supporters, knowingly or not, are increasingly making specious arguments that are prone to fail and thereby lend support to opponents. Consider, for example, the argument that “freer trade creates jobs.” No: on net trade neither creates nor destroys jobs — it is about the kinds of jobs in an economy, not the number of jobs. Similarly, consider “freer trade raises exports.” Maybe, at best: the overall level of U.S. exports depends mainly on macroeconomic considerations like the exchange rate and the level of foreign aggregate demand.

[...]

To reverse the trend towards greater trade protection, I think that the key change needs to be with the terms of debate. The proponents of

free trade need to make the correct arguments about trade's benefits: comparative advantage, greater product varieties, greater product-market competition, and so on. This recommendation is probably not new, but it still seems timely. To solidify support for freer trade, debate needs to move away from trade balances and jobs — if for no other reason that business cycles and recessions will always drive these numbers the “wrong” way. In particular, successful arguments might develop the “trade is a form of technological change” analogy. In the United States the baseline assumption tends to be that technology's aggregate gains outweigh any redistributive costs; public-policy and media discussions of technology often get at its general-equilibrium gains. But discussions of trade almost always get stuck in the partial-equilibrium issue of job creation and job destruction. Maybe this can change with a change in the terms of debate.