

How to Fight Anti-Trade Populism

*Long-time trade analyst
Richard Katz speaks with
C. Fred Bergsten, director
emeritus of the Peterson
Institute for International
Economics and an
important voice on global
economic policy, about
the populist backlash
against globalization.*

In a new report from the Peterson Institute for International Economics, *G-7 Economic Cooperation in the Trump Era*, Peterson founder C. Fred Bergsten wrote that, “The backlash against globalization represents the central, perhaps existential, threat facing the G-7. It could reverse seventy years of painstaking efforts to create an open and cooperative world economy, with unforeseeable but potentially disastrous consequences.” In response, he proposed that, “The G-7 should make an effort to establish consensus around a cooperative (and possibly coordinated) program of ‘Supporting the [American/British/Canadian/ French...] Worker’ that responds to concerns raised about the impact of globalization on labor.” Bergsten spoke to frequent *TIE* contributor Richard Katz about his proposals.

Katz: How much could trade really be hurt by backlash represented by Donald Trump, Brexit, Marine Le Pen, and so forth? I could make an argument that, with or without trade agreements, globalization is still growing, because that’s the way the private sector is moving. While trade agreements help, they are not fundamental. As you pointed out, even the Great Recession did not produce the rash of protectionism that some people had feared.

Bergsten: It depends on whether you believe in the bicycle theory: that, unless you’re moving forward on liberalization, you tend to slide backward, due to the omnipresence of protectionist pressures. With Donald Trump in the United States and Brexit, there has certainly been some backsliding, some erection of new barriers. That conceivably could accelerate, particularly when we inevitably get the next recession.

Katz: As least so far, Trump’s trade policies have proved to be a loud bark with little bite. Suddenly, Trump says that China is not a currency manipulator. He’s no longer talking about putting 45 percent tariffs on

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imports from China. In his list of proposed modifications of NAFTA, he did not include their value-added tax or currency issues, and he's not moved on the notion of a 35 percent tax of U.S. firms that import from their plants in Mexico. Do you think Trump will eventually carry out a lot of his threats, or just do things which, while problematic, are not disastrous?

Bergsten: That's probably the way to put it: problematic but not disastrous. I don't think he will pursue the very extreme things that he talked about in the campaign such as a 45 percent tariff on China, or a 35 percent tariff on Mexico. However, he has already initiated some steps that turn out to be reasonably significant, for example, possibly restricting imports of steel and aluminum on national security grounds, and the softwood lumber case with Canada. These sorts of steps would affect tens of billions of dollars' worth of trade. And, if you do this for steel and aluminum, that creates a precedent for other industries to seek the same sort of relief.

Katz: One of the biggest steps that some see as protectionist is a proposal from some Congressional Republicans for a border adjustment tax. Companies and retailers would pay taxes on their imports but not on any exports. What are the odds of that coming into existence?

Bergsten: The likelihood of it is quite low. That is due to the doubts in the Senate, the cold shoulder from Trump, and the strong political opposition from firms that would be hurt on the import side.

Katz: While free trade is generally a win-win proposition for nations as a whole, it's not win-win for everyone within each country. Some people are helped; others are hurt. To what extent is the backlash the result of the real damage caused by trade and to what extent is trade being the scapegoat for things such as technological progress? For example, compared to 2000, the United States can now

produce 44 percent more autos and parts (in constant dollars) with 30 percent fewer workers.

Bergsten: Automation and technological change is by far the dominant factor in most of the dislocation cases. But these technological changes are accelerated and intensified by globalization. Most studies say that 80 percent of the dislocation in terms of jobs and wages is due to technology and 20 percent due to globalization. You cannot vote against robots, but you can vote against trade agreements. So scapegoating certainly comes into the picture.

But let me add one caveat. When the trade component of the adverse impact comes from blatantly unfair trade practices, such as currency manipulation, then the case against the trade side is strengthened. The answer to that, of course, is not to stop trade, but to stop the unfair practice.

Katz: So, if people are blaming trade, fairly or not, doesn't this suggest that the best solution would be to help all of those who lose their jobs, whether due to trade or to technology? You mentioned in your report that the United States is the only rich country that limits its assistance to trade assistance, rather to overall job assistance. Why is that?

Bergsten: It would be highly desirable to have some comprehensive worker adjustment programs. The reason that the United States alone among major countries only has adjustment assistance for those affected by trade is that we have been such a relatively closed economy. The U.S. program of Trade Adjustment Assistance began in the early 1960s, as part of the effort for the Kennedy Round of multilateral trade talks. Trade was then just 9 percent of U.S. GDP. So you could have a program devoted solely to the people affected by trade without having the budget costs of a solution that helped all workers suffering job dislocation.

As you mentioned in your piece in the Winter

Fred Bergsten: "I don't think [Trump] will pursue the very extreme things that he talked about in the campaign."



Donald Trump

GAGE SKIDMORE

If you believe that the gains from trade are huge, then you have to experiment with different things and find the answers.

2017 *TIE*, in 1974, I had developed some proposals for the U.S. Chamber of Commerce to expand Trade Adjustment Assistance as part of an effort at further trade liberalization. Although the Chamber did not accept my proposals, Congressman Wilbur Mills (D-AR), chair of the House Ways and Means Committee, did incorporate many of them into the 1974 Trade Act and he told the administration that he would not support their trade agenda without an expansion of Trade Adjustment Assistance. But even today, most people still think of trade as a modest portion of the economy, even though it's now up to 30 percent of U.S. GDP, and so they don't think of putting in place a program to help workers across the board. In Europe, by contrast, trade amounts to two-thirds of GDP. So it would be impossible to separate the role of trade in worker dislocation from other factors.

The practical problem in the United States is the budget. If you try to extend adjustment assistance to workers across the board, you're talking about much, much larger adjustment costs for a safety net, worker retraining, or other elements. I had this debate with George Shultz in the early 1970s, when he was head of the Office of Management and Budget. George said to me, "Fred, why only trade? Why not everything together?" I replied, "Of course, that's right conceptually. Will you, as head of OMB, support putting up the money to do it across the board?" Well, he didn't believe in government intervention to help workers anyway, so he wasn't for it. But the practical reality is that we spend less than a billion dollars a year on Trade Adjustment Assistance. This compares to benefits to the economy from trade of \$2 trillion per year, according to estimates by Gary Hufbauer of the Peterson Institute. We obviously have to do much better.

Katz: What specific measures do you recommend?

Bergsten: Obamacare was not thought of as a trade measure, but it was a very helpful safety net to deal with the immediate cost to the losers from trade. That's because it helped break down the link between health insurance and a specific job. Before Obamacare, workers had to fear that, if they lost their job, they would lose their health insurance,

may not get it at their next job, and may not get it for pre-existing conditions.

One of the other big problems is the reduction of wages for current workers when they lose a job due to imports and go to their next job. A big part of the solution has to be wage insurance. The notion is that, if a dislocated worker can only find a new job at a significantly lower wage, then the government makes up part of that shortfall for some period of time. That encourages the worker to get back into the labor force, rather than sit on the unemployment line. Wage insurance is therefore a good thing for maintaining skills and increasing the chance that the worker will get a good job down the road.

We've had minor experiments with wage insurance. It has been very limited, applying only to people over age fifty and just for \$10,000 per year for a couple years. But you could liberalize all those variables. Robert Lawrence did a study for the Peterson Institute on this and it was included in our 2008 report, *Succeeding in the Global Economy*. He calculated that the annual cost would be just \$7 billion per year if you covered all workers—not just those affected by trade—over forty-five years of age, replaced 50 percent of the wage reduction up to \$10,000 per year for up to two years for workers, and only covered workers who had held their previous job for at least two years.

Katz: Wouldn't such a program tempt companies to hold down wages, because then the government would pay part of the wage bill?

Bergsten: There's some moral hazard in any of this. But I think benefits override that downside. That relates to another variable that I would put in the equation, which is raising the minimum wage. That would help cushion the downside for people who have to be shifted into minimum-wage jobs. Another big measure is improving unemployment insurance. The last time I looked, only about one-third of unemployed people got unemployment compensation at all. When they do get it, it only covers about one-third of the wage they were making. That's grossly inadequate. I think the Europeans and Canadians probably go too far when they cover 80 percent to 90 percent of the previous wage. That is probably a disincentive to go back into the workforce. But in the United States, we've gone too far in the other direction. That really increases the cost of unemployment for the workers affected. The need to do this will become more evident and more critical as automation and robots become more prominent.

Katz: What kind of response are you getting from the business groups? Has Trump's victory caused any shift in their attitudes on proposals like this?

Bergsten: They are complacent. They do not believe in the bicycle theory of liberalization. They feel that they've got a pretty benign globalization environment to keep their operations going pretty much as they are. The Trump phenomenon has obviously shaken that up to some extent. Some are beginning to speak out a bit. But, at least so far, they have thought that the status quo was fine. New trade agreements have come pretty far down their priority list, compared with tax cuts and regulatory stuff, and a whole bunch of other things that they care about. In the end, they may pay a price, but I'm afraid that's the sad reality of it.

The sad irony which I addressed in the G-7 paper you cited is that the people who are most enthusiastic about trade liberalization are also the biggest opponents of better safety nets and worker adjustment programs. This includes the Republicans in Congress, and their supporters in the business community. There has been a disconnect between the politics of trade liberalization and the politics of domestic policy changes needed to support trade liberalization.

Katz: For what it's worth, I spoke to someone at an association of multinational firms that are very involved in trade and investment in one of our large trading partners. Following the election, they have begun discussing this issue internally among their staff, as well as with the leading firms on their board. They've not yet reached any conclusion, but some of these people are open to at least thinking about ideas such as wage insurance that they had simply dismissed earlier.

Bergsten: I find the same thing with some of the groups in Washington with which I talk constantly. But none of them have yet stood up and started cheering for the kinds of things that would head off a relapse of progress on globalization.

Katz: What is behind this opposition? Is it just an ideological opposition to anything that they think violates free

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market principles? Is it that they don't want to pay the taxes or wages that would be required?

Bergsten: Those are important factors. But another large part is skepticism that government programs of that type really work. Most studies have shown that the labor retraining and education programs have not worked really well. They have not really prepared people for the jobs that exist. No administration has ever really put its shoulder to the wheel and tried to make them work. When it comes to the safety net proposals, the skeptics say this would just put people on the dole, and reduce their incentives to get a new job. How do we do enough to be humane and make trade politically sustainable, without going too far, as in some of the European countries? There is the notorious Dutch case where, at one point, one-third of all men aged 55–64 were receiving disability payments. There are no perfect answers. But if you believe that the gains from trade are huge, then you have to experiment with different things and find the answers.

Katz: Trump came to power riding the horse of being for the workers who were hurt by trade. So is there anybody in the Trump administration at all in favor of some of these measures?

Bergsten: I wish I could say yes, but I have not seen it. We know that Trump has already taken a lot of steps, like on health insurance, that run counter to the apparent interests of those who voted for him. I think these ideas are another case in point. His answer is that he'll provide more relief from imports and that will protect the people. This is not new. Back in 1974, some of the industries most opposed to my ideas on Trade Adjustment Assistance—textiles and steel—felt that, if Trade Adjustment Assistance were more robust, that would undercut their case for import protectionism.

Katz: It seems to me that, when these social safety nets are done right, they act like fire insurance which makes people more willing to build and buy homes. A social safety net makes people more willing to accept the creative destruction caused by trade. I found that, in cross-country data, a more robust social safety net was correlated with more trade and better growth. Have you found that same?

Bergsten: Yes. That's exactly right. If you want more homeownership, homeowners insurance helps. If you want increased trade, having these assistance programs for losses in jobs and wages would provide a more sustainable political foundation for that. Since the overall benefits to the economy from trade are huge, the cost-benefit ratios are very favorable. That data on this is very clear. ♦