Leave Zombies Be

The stalled march toward trade liberalization is just as well

Paul Krugman

GLOBALIZATION is currently under political siege, with populists from both the left and the right denouncing proposed new agreements like the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership. Much of what these politicians say is nonsense. But there are some deep reasons why the march of globalization seems to be faltering, and denouncing bad economics won't be enough to restore business as usual.

The crucial point, I'd argue, is that there has always been significant dissonance between the rhetorical commitment of economists and elites to free trade and the message that actually emerges from economic models. Yes, textbook trade theory says that international trade makes countries richer, while restricting it makes them poorer. But it also suggests both that there are relatively limited costs from anything short of extreme protectionism and that trade can have strong effects on income distribution within nations, creating losers as well as winners.

Why, then, has trade liberalization drawn so much approbation from economists and policy elites alike? For economists the answer, I suspect, is that comparative advantage is such a nifty concept—an insight Paul Samuelson famously held up as a prime example of economics reaching a conclusion that is both true and nonobvious, and which therefore holds a special place in the profession's heart (see "Get on Track with Trade," in this issue of *F&D*). For elites, I suspect that it matters a lot that the post–World War II trade system has been a uniquely successful example of international cooperation. This makes trade liberalization very attractive to the kinds of people who go to Davos and talk knowingly about global affairs.

And for a long time—from the 1940s into the 1980s—trade liberalization proceeded remarkably smoothly. The losers from growing trade didn't seem that obvious or numerous, largely because much of that growth took the form of intra-industry flows between similar countries, which had minimal effects on distribution.

Since around 1990, however, the story has been very different. For a couple of reasons—lower transportation and communication costs (exemplified by the container ship revolution), a wholesale shift of developing economies away from import-substituting policies—we've seen a huge surge in North-South trade, that is, trade between countries at very different levels of development, with very large differences in wages. This trade still expands real income on both sides, but it has produced much bigger effects on industry employment and, probably, the distribution of income between labor and capital than the trade growth from 1950 to 1980. Chinese exports really have displaced millions of U.S. manufacturing jobs; imports from developing economies are an important reason, although not the only reason, for stagnating or declining wages for less-educated workers.

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As Branko Milanović has shown, the overall effect has been big gains for the third-world middle class and the global top 1 percent, with a big sag in between representing the advanced-economy working class. From a global welfare point of view, this is surely positive: the income gains of hundreds of millions of formerly very poor people matter a lot. But that's not much comfort for first-world workers who find their lives getting harder, not easier.

Given this reality, it's surprising that the backlash against globalization has been so long in coming, and that its effects have so far been so mild. Many people predicted a turn to protectionism after the Great Recession; in fact, not much in the way of new trade restrictions has happened, at least so far.

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What is true is that the march toward ever-more-liberal trade and investment policy seems to have stalled. In fact, it was losing momentum even before the Great Recession, let alone Donald Trump: the Doha Round has been a zombie for a long time.

Should we be disturbed by the end of this particular road? I'd argue not. Trade is already remarkably free by historical standards, and proposed new agreements like TPP are more about intellectual property and dispute settlement than trade per se. It will not be a tragedy if they don't happen.

A global trade war—which would have devastating effects on poor countries dependent on labor-intensive exports—would, of course, be a different matter. But if we can avoid that kind of plunge, the best attitude might well be to treat globalization as a more or less finished project, and turn down the volume on the whole subject. ■