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GLOBALIZATION AND ITS DISCONTENTS REVISITED
DONALD J. TRUMP became president of the United States on January 20, 2017, and threw a hand grenade into the global economic order—the arrangements governing the movement of goods, services, and capital across borders and attempting to ensure stability. The United States was pivotal in the creation of this system in the aftermath of World War II. Partly because of this system, the second half of the twentieth century was markedly different from the first half, which was marred by two world wars and the Great Depression. The smoke has not yet cleared, but the post-Trump world will almost surely be different from what came before. While for three-quarters of a century efforts had focused on creating a more globally integrated world, entailing global supply chains that had enormously lowered the costs of goods, Trump reminded everyone: borders do matter.

In the beginning of this century, I wrote Globalization and Its Discontents (which, for brevity, I write as GAID going forward) to explain the unhappiness with globalization on display in so many countries in the developing world that I had been able to observe closely from my perch...
as chief economist of the World Bank. This is the part of the world with 85 percent of the world’s population but with 39 percent of the world’s income. The unhappiness was greatest in Sub-Saharan Africa, often rightly called a forgotten region, with a burgeoning population expected to reach 2.1 billion by 2050—close to seven times that of the United States today; its rich human and natural resources have been stolen from it for centuries, leaving it today with a per capita income 2.5 percent of that of the United States.

Now, globalization’s opponents in the emerging markets and developing countries are joined by those in the middle and lower classes of the advanced industrial countries. Trump took advantage of this discontent, crystallized and amplified it. Trump explicitly blamed the plight of America’s Rust Belt workers on globalization—on the signing of the “worst trade deals ever.”

On the face of it, this is a remarkable claim. The United States and other advanced countries wrote the rules of globalization, and they run the international organizations that govern it. The complaint of those in the developing world was that the advanced countries had written the rules and managed these international organizations in ways that disadvantaged them. Yet, President Trump claimed—with enormous support from American voters—that the very trade agreements and other institutions that it shaped were unfair to America.

Populists in both emerging markets and advanced countries are giving voice to their citizens’ discontent with globalization, but just a few years earlier, establishment politicians promised that globalization would make everyone better off. So too, two and a half centuries of economic research—starting with Adam Smith writing at the end of the eighteenth century and David Ricardo early in the nineteenth—argued that globalization was beneficial to all countries. If what they said is correct, how do we explain why so many people in both the developed and developing world have become so hostile to it? Was it possible that not just the politicians, but also the economists, got it wrong?

One response occasionally heard from neoliberal economists—those economists who believe that the freer the markets the better, and accordingly advocate for “freeing” up trade—is that people are better off, but they just don’t know it. Their discontent is a matter for psychiatrists, not economists.

The fact, though, is that large segments of the population in advanced countries have not been doing well. The New Discontents have taken power in the United States in the form of the Trump presidency partly because the United States does things bigger than others—including having more inequality than elsewhere in the advanced world. But much of what I say for the United States applies in a somewhat diminished form to the rest of the advanced world, apart from a few countries, particularly in Scandinavia; here, and elsewhere in my discussion of the New Discontents in Part I, I use the United States as an illustration.

The Sobering Statistics

The data describing what has been happening in the United States are sobering: for nearly a third of a century the incomes of most Americans have been essentially stagnant. A middle-class life—a decent job with decent wages and a modicum of security, the ability to own a home and to send one’s kids to college, with the hope of a reasonably comfortable retirement—has been moving increasingly out of reach for a large proportion of the country. The numbers in poverty have been increasing, as the middle is being eviscerated. The one group doing well has been the top—especially the top 1 percent and even more, the top .1 percent, the richest several hundred thousand Americans.

While moving up the ladder seems increasingly difficult, everyone knows someone who has fallen down: trying to avoid falling down the ladder has put increasing stress on individuals, and not surprisingly, has had health consequences. This stress, combined with increasing inequality and the absence of an adequate health “safety net,” has had dramatic consequences: by 2015, the mortality rate (the probability of death) of American middle-age white males was increasing—while elsewhere in the world, it was decreasing. (This is to say nothing of life expectancies of, say, black Americans, which continue to lag far behind those of whites.) This was not because of an AIDS epidemic, Ebola, or the spread of some other virus: the death rate reflected social strains—alcoholism, drugs, and suicide. By 2016, life expectancy for the country as a whole was in decline. Such declines are shocking: they occur in rare circumstances,
such as the AIDS epidemic in Sub-Saharan Africa or the United States, or the breakup of the Soviet Union.

It is not just in the United States that the middle class is suffering. My former colleague at the World Bank, economist Branko Milanović, has studied how people in different segments of global income distribution have fared over the past quarter century, and he has found that the middle and working classes in Europe and the United States have experienced near stagnation. There are others that also seem not to have done well—including those at the bottom of the global income distribution (poor farmers in Africa and India, for example). As I explain in *GAID*, they have been among the victims of the “unfair” rules of globalization.

Not surprisingly, there are some who have done well over the past quarter century: the big winners are the global 1 percent—the multi-millionaires and billionaires—and the new middle classes in India and China.

The global picture then is this: in most countries around the world there is growing inequality—those that followed the American economic model have typically done worse than countries following other models, though their outcomes have not been as bad as that in the United States. Of concern is not just the disparity between the top and bottom; it’s that large parts of the population are not doing well. The economic model that’s been sold as the best possible—the “liberalized” and “globalized” free-market economy—has not been delivering for large fractions of the population, even more so in the country that seemed to be the most liberalized, the most globalized, and the most market-oriented: the United States.

This raises three questions: To what extent are these results the consequences of globalization? To what extent are they inevitable? And if due to globalization, to what extent do they occur because the rules of the game for globalization are poorly designed, and to what extent do they come about because individual countries have done a poor job at managing the effects of globalization, given the rules?

*GAID*—both the original book and this new volume—gives clear answers: Globalization has played a central role, even if there were other important forces at play, like changes in technology and the structure of economies. These adverse outcomes are not inevitable—they are a result of policies. Globalization has been mismanaged. The rules governing globalization are partly to blame—they are, for instance, unfair to developing countries and have given free rein to destabilizing capital flows. But, even with these rules, the advanced countries could have prevented what has emerged, with so many in the developing world, and now in the advanced countries as well, counted among the losers from globalization.

So, the short answer to the question of whether the economists and politicians who boasted of the virtues of globalization were correct is this: they were partly wrong, partly right. Globalization, if well managed, could have benefited all. But it was typically not managed well, and globalization has resulted in some—even possibly a majority—of citizens being worse off.

The Benefits of the Global Economic Order

Before beginning our discussion of what has gone wrong with globalization, we should say a few words about its benefits. Given the title of this book—and the mood around the world that inspired it—it is to be expected that I focus on the downsides of globalization, what has gone wrong. But we should not lose sight of its benefits. In spite of all the discontent, for all the inequities which are real, the world has benefited enormously from the post–World War II global economic order, of which globalization is a part. I alluded to these benefits earlier. It has contributed to creating the fastest rate of global economic growth ever, and the successes of emerging markets in particular, with hundreds of millions moving out of poverty—more than 800 million in China alone—and the creation of a new global middle class.

The second half of the twentieth century was in many ways a vast improvement on the first half, when millions died in two devastating world wars. Part of that improvement may be attributed to the economic successes associated with the global economic order, in the creation of which the United States was central. Modern economics has shown that the rule of law has been an important ingredient in the success of the advanced countries. But the same arguments for why the rule of law has economic benefits within a country hold internationally: a rules-based system is infinitely better than the law of the jungle.
As I look back at my critique of globalization today—distanced by two decades from the controversies that I was embroiled in at the World Bank and the IMF—I feel that I should have celebrated the successes more. The UN has succeeded in reducing conflict and protecting children and refugees. Global diseases have been effectively attacked—including HIV/AIDS, the avian flu, and Ebola. Life expectancies have increased in many countries through the efforts of international organizations. Cancer-causing ozone holes, a result of the use of chlorofluorocarbon gases, are being repaired. These are remarkable achievements in a relatively short period, achievements which should be recognized and in which globalization has played a key role. The right way to read GAID is that, given the importance of globalization and the global order that had been established in the aftermath of World War II, it was essential that we make that system as equitable and efficient as possible.

The Mismanagement of Trade Globalization

How we have managed one of the most important aspects of globalization—the freer movement of goods and services across borders, sometimes called “trade globalization”—illustrates the mismanagement of globalization more generally.

Trade Agreements: Unfair to Whom?

Global trade has increased enormously, some 50 percent faster than global growth since 1980. In the United States, imports went from 10 percent of GDP to 15 percent over the same period. This increase in trade results partly from the lowering of transportation costs, but even more important have been changes in the rules of the game, the reductions in tariffs (the taxes imposed on imports) and other man-made barriers to trade. These reductions typically occur through trade agreements, in which there is a mutual reduction of trade barriers.

Trump’s claim that in negotiating these agreements U.S. trade negotiators got snookered is simply false. American negotiators got most of what they wanted. Anyone who has watched these trade negotiations, as I have for years, would view Trump’s charges as laughable. The problem was with what they wanted: From the perspective of America as a whole, they wanted the wrong thing. What they asked for was essentially what American corporations wanted. American corporations wanted access to cheap labor, without environmental and labor protections. The corporations also liked the fact that threats to move their factories abroad weakened workers’ bargaining power. This enriched their coffers, as wages were driven down. They were pleased that trade agreements helped ensure the property rights of investments made in developing countries, for this made their threats to relocate their plants in these cheap-labor countries more credible. When they drafted the provisions concerning intellectual property rights, they weren’t thinking about what would be good for the advancement of science in the United States, let alone the world. They were thinking about what would increase the profits of America’s big corporations, and especially its large drug and entertainment companies—even if it increased the prices that American consumers had to pay and even if it resulted in a slowing down of the overall pace of innovation.
Could Everyone Have Been a Winner?

If the advocates of globalization were correct about the magnitude of the gains, then in principle, it would have been possible to take some of the gains away from the winners, having them share their gains with the losers, and everyone could have been better off.

But to put it bluntly, the winners as a group were selfish: politics in the era of globalization’s rapid advance concentrated globalization’s gains ever more in the hands of the winners, especially in the United States, where money has so much influence in determining political outcomes. There were successive tax cuts (for instance, in 1997, 2001, and 2003) under both major political parties—aimed at the top, the groups that were benefiting the most from globalization.

Had the advocates of globalization in the United States and other advanced countries been more enlightened and less shortsighted, they would have recognized the threat to workingmen and women posed by globalization and they would have done something about it—just as they would have recognized the threat to economic stability posed by unbridled financial market deregulation. They should have known that in a democracy, policies that, year after year, leave significant groups of the population worse off are likely not politically sustainable.

Destroying Communities

Globalization not only exacerbated the already too-high level of inequality among individuals but also deeply weakened many communities.

In the decades well before Ronald Reagan’s presidency, when a company grew, the executives and workers prospered together and so did the communities in which they lived and worked together. But increasing inequality split management, workers, and the communities in which they lived. Increasingly, as economic segregation grew apace, the executives making key decisions lived in separate neighborhoods from ordinary workers. They didn’t have to bear the consequences of living in dying communities; they could pretend they didn’t exist. Corporations often rotated managers among different locations—enabling the executives to get to know the company better, but distancing them from the community in which they lived. The community that is important to the executive is that of his or her fellow executives—very different from a hundred years ago, when the business leaders lived in the community where their businesses were located and were part of it and its leadership. The care for the community was born partly out of true social responsibility—a kind of noblesse oblige—and partly out of enlightened self-interest—well-functioning communities meant happier and more productive workers.

Globalization worsened trends that were already underway. With outsourcing, the separation grew even greater—workers and management didn’t even have to live in the same country. In this new era, labor was commodified—getting labor power was just like buying coal; one looked for the cheapest source. Never mind the consequences.

Some communities prospered—those in which the well-educated and well-off lived; but others, especially those relying on manufacturing, decayed. Gary, Indiana, the steel-mill town in which I grew up, was part of the “scorched earth” that followed. Its history represented that of globalization. Founded in 1906 by U.S. Steel—and named after its chairman of the board—to host the largest integrated steel mill in the world, it reached its peak in the mid-1950s when I was growing up. The steel mills today produce the same amount of steel that they ever have, but with one-sixth the labor force. Without enough good jobs, the city decayed and the well-educated left. (The ultimate irony of globalization was that it was an Indian steel company that finally saved one of the plants in the region from closing.)

When I went back to my fifty-fifth high school reunion in 2015, I got a glimpse of what globalization, deindustrialization, and the failure of America to deal adequately with these trends meant. When I was a student there in the 1950s, the students at Gary’s Horace Mann High School came from a wide swath of society—from the children of superintendents and executives in the steel mills and local businessmen to those of ordinary steelworkers, both skilled and unskilled. The school—and much of the dream for which it stood, a society which is economically integrated if not racially integrated—has now been abandoned. Some had wanted to get one of the jobs in the steel mill upon graduation, but the country was going into one of its episodic downturns. Many had aspired to go to college, but while America had provided college education for all who had fought in World War II under the GI Bill, that sense of generosity had waned by the time of the Vietnam War. There was among many a sense of bitterness. They saw others
passing them up on the ladder of life. They had a feeling that the system was unfair, rigged. Even before Trump had appeared on the scene, it was clear that they could be prey to a demagogue. There was a smattering of teachers who had had rewarding careers, and they were among the few that did not seem angry and disgruntled. I saw in my former classmates in Gary what the statistics had been telling me for years.

COMMON THEMES IN THE DISCONTENT WITH GLOBALIZATION

Rereading GAID, it appears that the answers to the questions being posed about globalization today—and how we can reconcile the seeming benefits with the widespread discontent—were largely anticipated by my analysis nearly two decades ago. While in GAID I focused on the developing world, most of what I said was equally applicable to the developed countries. There are eight related themes in GAID:

1. While globalization has benefits, the benefits were less than the advocates claimed. The advocates used simplistic models, which did not appropriately capture either the benefits or the costs. In some cases, for certain countries, the costs could even exceed the benefits, unless offsetting actions were taken—and the advocates of globalization typically did nothing to counter these adverse effects. If globalization is not managed well, it could thus lead to lower growth and more instability, with large fractions of the population worse off.

2. Because globalization has been oversold, when reality differed from the promises—when there were job losses instead of job creation—confidence in globalization, the elites, and the institutions that had advocated it waned.

3. Globalization has huge distributive effects on income and wealth—with large groups being worse off unless countervailing measures were taken to share the gains, but these measures were seldom undertaken.

4. We must see the failures of globalization in part as arising from deficiencies in the governance of globalization—in the way that the crucial decisions about globalization are made, including whose voices are heard. That implies that if we are to hope for well-managed globalization, we have to reform global governance, giving more weight, for instance, to the newly emerging economies. GAID notes, for instance, the distorting effects arising from the fact that one country and only one country—the United States—has effective veto power in the IMF.

5. But the problems of governance are deeper: the positions taken by, say, the United States reflect the special interests and the particular ideology of only a small part of the country, the financial and corporate interests. Thus, globalization was run, to too large an extent, by and for large multinational corporations and financial institutions in the large advanced countries. They were the winners. And much collateral damage occurred as they sought to maximize their winnings. Even if the United States as a whole was among the winners, many groups of American workers and workers in other advanced countries could be among the losers.

6. The positions taken typically reflected the interests of these groups; but in some cases, they reflected as much the ideology—sets of beliefs that are not always perfectly congruent with interests. The zeal for deregulation and liberalization was central in bringing on the global financial crisis, which imposed enormous costs even on many of those who had been the advocates of these policies.

7. Globalization can have and has had large effects on the distribution of power, both within and between countries. Some countries (poor developing countries) can become effectively dependent on the goodwill of others. Actions that could and should have been taken to prevent these changes in power relations were not taken. As globalization led to more inequality, in countries in which money matters a lot in politics—like the United States—the winners from globalization had increased power to shape globalization to benefit themselves, at the expense of others. There was a vicious circle—broken only by the popular uprising of the “new protectionism.”

8. Globalization has put a greater burden on governments to offset its adverse effects on so many at the bottom. But at the same time, it reduced their capacity to deal with the problems; globalization set off a race to the bottom among countries offering low taxes to corporations and individuals. As if that weren’t bad enough, rich
individuals and corporations then took advantage of globalization to avoid paying taxes—even corporations that prided themselves on being good citizens with a strong sense of corporate responsibility couldn’t resist. Clever firms like Apple avoided billions of dollars in taxes. The failure to stop the use of globalization for tax avoidance is itself a manifestation of the mismanagement of globalization and an illustration of the power relations underlying writing the rules of globalization. It would have been no more difficult to have international agreements circumscribing global tax avoidance than to have international agreements over trade. But it was in the interests of corporations to have global trade agreements, and so we had them; and it was in the interests of multinational corporations to avoid taxation, and so we didn’t have agreements to circumscribe tax avoidance. In the end, in the United States, corporate tax receipts fell from 5 percent of GDP in the 1950s to 2 percent today.

Even with all of these constraints, even with the rules of globalization that were far from ideal, globalization could have been managed better, especially by the advanced countries. It could have been managed in ways that could have prevented large segments of the population from suffering from the effects of globalization—ways which simultaneously could have led to more growth, stability and equality. Most of the advanced countries (including the United States) didn’t do so—and for much the same reason that the rules of globalization were “distorted.” Corporate interests that had shaped globalization in a way which led to lower wages were not interested in “correcting” this problem: they liked the lower wages, and they disliked the taxes that would have to be imposed to prevent workers from having significant income losses.

If one grasps these eight ideas, one understands the discontent with globalization, and one even has some notion about what should be done. But this analysis also provides some insights into why it’s so difficult to make changes, to make the changes that would enable globalization to work: the corporate forces that have created a globalization that works for them, but not for the rest, are not going to easily and willingly give up their power. 

The Failures of Globalization Are Not Inevitable

There is one underlying theme I want to emphasize: The failures of globalization were not inevitable. These failures were not, for the most part,19 failures of economic science. The adverse effects were predictable—and predicted. Economists had explained that, without government assistance, trade liberalization would result in unskilled workers in the advanced countries actually being worse off.

Of course, some economists forgot their role as analysts and became cheerleaders of globalization, emphasizing the potential benefits but not mentioning the downsides. Too many economists used simplistic models that led them to overestimate the benefits and underestimate the costs. And, of course, politicians turned to economists who said what they wanted to hear.

But still, the economics literature provided clear warnings. The fault lay with our politicians, who were responding to where the money was: finance and corporate America, in particular, were pushing a self-interested form of globalization through both political parties. It was called “free trade,” but it was really managed trade—managed for corporate and financial interests. Under these agreements, knowledge moved less freely, but short-term capital more freely. Agricultural subsidies for rich farmers were allowed in the developed countries, but subsidies to help the poor developing countries to catch up with the advanced countries were frowned upon.

So the problem was not with globalization itself, but with the way we managed it. The story of globalization could have been written differently—and in a few places, it was. The Scandinavian countries realized that as small countries they had to be open—they could only survive if they were globalized. But they understood too that market forces alone might result in there being winners and losers; and if the losers were too numerous, opposition to globalization would grow. So they created a system that provided a modicum of protection—they showed that there could be social protection without protectionism.20 They put in place policies that reduced inequalities in both market income and in income after tax and transfers: they have shown that inequality is not just a result of the laws of economics, but of the policies that countries put in place to respond to economic forces, including globalization, that have been pulling countries apart.
As a result, the Scandinavian countries enjoy the highest living standards in the world—and shared prosperity. Of course, these are relatively small countries, with a certain degree of homogeneity (though immigrants still make up 15 percent of the population in Norway and 17 percent in Sweden), but there is nothing about the policies that they used to achieve these outcomes that makes them inapplicable elsewhere. The problem is not the policies, it’s the politics. These countries understood what was in the collective interest of their people. Other countries, most notably the United States, seemingly have not. Their experience shows that inequality is a matter of choice, and that if globalization has detrimental effects, those effects are not inevitable or immutable. It is the wrong choices made in the United States and most of the other advanced countries that have fed the discontent with globalization.

Had domestic policies been more attentive to the effects of globalization and the growing inequality within their borders, countries could have undertaken policies that would have prevented there being so many losers. Had globalization been better managed globally, the outcomes too would have been better—indeed, the positive outcomes asserted by its advocates could have been achieved. But the kind of globalization that would have worked is markedly different from that foisted on developing countries by the IMF and the World Bank back in the earlier era of globalization described in GAID. This collection of policies is referred to as the “Washington Consensus” because it emerged in the 1980s as a consensus between 15th Street (home of the U.S. Treasury) and 19th Street (home of the IMF) in Washington, DC. While it was supposed to be a consensus of what constituted good development policies, in fact it was not a consensus forged in the developing countries—among those that were living through the consequences of those policies. It was only a consensus among those who imposed the policies, not among those who experienced the bulk of their effects, especially the negative ones.

Those policies, for instance, restricted government assistance in helping firms adapt to globalization, helping new industries develop through what are called “industrial policies.” They proscribed interventions in financial markets that would have made it more likely that firms in expanding export sectors got access to credit. They paid no attention to the danger of excessive risk taking by banks. After all, it was argued, private firms know better than government. By the same token, the policies’ backers argued for opening up markets to volatile short-term capital flows—of the kind that wreaked havoc during the East Asia crisis, plunging the countries into deep recessions and depressions as hot money suddenly left. Education was emphasized—but only primary education, not the kind of education that could have closed the knowledge gap separating advanced countries and developing countries. They paid little or no attention to inequality—the effects of which have proven to be the major political impediment to the sustainability of globalization itself.

While the Washington Consensus policies were directed at developing countries, the same economic philosophy predominated the response to globalization among the elites in the developed countries. At Davos, in January 2017, as these elites finally had to confront the mounting opposition to globalization and the growing inequality, the policy responses still—remarkably—focused on lowering corporate income taxes and deregulation, accompanied by a dose of better retraining. Their belief in trickle-down economics was unshaken: the best way to deal with the discontent was to get the economy to grow faster, the best way to do that was another dose of deregulation and tax cuts for the rich. If we could only make the economy grow faster, the disgruntled laid-off Rust Belt workers’ problems would be solved.

**Key Differences of Globalization’s Impacts on Developed and Developing Countries**

While the eight themes are relevant to both developed and developing countries, there are two fundamental differences between globalization as it affects a country like the United States and how it affects, say, a small African country. The first is, as I have noted, that the rules of the game have been largely set by the United States and other advanced countries. This means that globalization should be of benefit to these countries—or at least to certain influential groups within them. By contrast, developing countries may face an impossible choice: agree to the terms of globalization as they’ve been set, or be ostracized, excommunicated. And even the latter is often not really a choice: many of the developing countries have large amounts of debt. They are effectively in a debtor’s prison. The creditors can demand what they will as a condition for the country getting the funds it needs to function. For some
of the developing countries in Africa, globalization has been at best of ambiguous benefit—no matter how they handle their internal affairs.

Indeed, for some of the poorest countries, globalization as it has been managed may be—and as Gaid points out, often is—a raw deal. For instance, U.S. cotton subsidies have driven down the global prices of cotton significantly, pushing those in India and Africa already near the point of starvation closer to the verge of it. Tariff structures were designed to encourage African countries to produce raw materials—and not to produce the higher value-added products, which were supposed to be the province of the developed countries. 26

The second is that the advanced countries have the resources and capabilities to ensure that almost all within their borders benefit. The developing countries typically have less capacity to raise taxes, to generate the revenues necessary to compensate those who are hurt by globalization. They also have less institutional capacity; for instance, developed countries have stronger financial institutions that can provide finance to export industries that benefit as a result of a trade agreement, putting them in a better position to create new jobs even as jobs in import-competing sectors are destroyed.

CHANGES IN GLOBALIZATION IN THE TWENTY-FIRST CENTURY

I wrote Gaid just at the dawn of the new millennium. We live in a fast-changing world. In the last quarter century we’ve had the Argentine crisis, the Russian crisis, the East Asia crisis, the global financial crisis, and the euro crisis. We’ve had wars in Iraq, Syria, and Afghanistan. Many countries have already begun to feel the consequences of climate change. Confidence in globalization and the market economy has been volatile. There have even been wide swings in economists’ views of the world. While the standard model a quarter century ago was based on rational households and firms interacting in competitive markets in ways that achieved efficiency and stability, each of the underlying assumptions has come to be questioned: firms and households often act in a far-from-rational manner; 27 markets are often not competitive; and the outcomes often seem far from efficient or stable.

Not surprisingly, globalization today is different from what it was like when I wrote Gaid. In the afterword, I describe how the changes have affected developing countries. Here, I want to provide a broad overview, with a simple message: While globalization has changed over the past quarter century, giving more voice, for instance, to emerging markets, the changes are less than one might have hoped. Corporate and financial interests of the advanced countries still predominate. The conflict is not so much between workers in developing countries and those in developed countries, but between workers around the world and corporate interests. The backlash against globalization that the world is now experiencing should not, accordingly, come as a surprise. Globalization can be a positive-sum game, with workers in both developed and developing countries gaining. As it is, corporate and financial interests in the advanced countries have been the big winners. But the “reforms” proposed by Trump and the other protectionists are negative-sum: everyone is likely to lose, including the workers in the advanced countries whom Trump and his likes supposedly speak for. There are other ways of reforming globalization that can ensure that all, or at least most, citizens benefit. But these reforms will only be successful if they are part of broader progressive reforms, which achieve shared prosperity and inclusive growth.

The Historical Context

In Gaid I tried to put globalization, as it existed at the time of publication, in historical context. 28 Before the collapse of the Berlin Wall, there was competition for the hearts and minds and loyalty of those in the developing world between communism and the West. That competition prevented the United States from abusing its enormous economic power. The end of the Cold War gave the United States almost free rein in shaping globalization. It could have used that power to reflect its values and principles—to support governments that showed a commitment to human rights, provide assistance to end poverty, create systems of social protection, and ensure that young people had access to education. It did so, but only to a very limited extent; but it simultaneously tried to change the rules of international commerce in ways that would entrench the advantages of the advanced countries, and particularly their corporate and financial interests. Bill Clinton was elected
on a platform of “Jobs, Jobs, Jobs!” and “It’s the economy, stupid.” He decided to focus trade policy on advancing U.S. economic interests—but that turned out to mean U.S. corporate interests. In doing so, the United States lost an important opportunity to redefine globalization.

**Globalization in the New Millennium**

There was but a decade of relative calm after the fall of the Berlin Wall before a series of storms hit. First, in December 1999, came the Seattle anti-globalization protests, which were focused against a new round of trade talks. They brought together those worried about the effect of trade agreements on jobs, about the inequities imposed on developing countries, and about the environment. Protesters felt they knew where the talks would go: to another trade agreement advancing corporate interests in the advanced countries. The protestors won the day: the talks did not begin.

Shortly before *GAID* was published, the global war on terrorism began with the 2001 attack of 9/11. It became clear that not only did good things move more easily across borders in the era of globalization, but so did bad things. In the moment of solidarity that followed, a new round of trade talks, called the Development Round, began with a promise to rectify the imbalances of previous trade agreements that were very tilted against the developing countries. As I discuss in the afterword, that spirit of unity was short-lived; the United States and Europe reneged on their promise to reform trade rules to help the less developed countries grow, and fourteen years later, the Development Round was formally abandoned. By then, the larger emerging markets had shown that they could stand up to the United States; and the United States had not learned how to navigate negotiations in this new world—it could not tame the special agricultural interests, which, as I have noted, were powerful enough to ensure the continuation of massive subsidies for themselves.

But the real storm came in 2008, with the global financial crisis—globalization had enabled America to sell its toxic mortgages around the world, and globalization meant that an economic crisis originating in America spread quickly around the world, inflicting enormous pain to hundreds of millions. Ironically, as the United States sought to recover, with its forceful monetary policies (quantitative easing), it imposed still more instability on others: a rush of liquidity led to asset price bubbles in the emerging markets, and an increase in their exchange rates led to decreases in exports and surges of imports.

**The Rise of Trump**

All of this has given unfettered globalization a bad name, or at least given rise to skepticism about globalization in much of the world. But almost surely, nothing will have done as much to undermine faith in globalization as Trump.29 Trump and his supporters seemed to be saying to the world, if we can’t win in the game of globalization, we’ll take our marbles and go home. America had thought it had created a globalization that served its interests; and when that didn’t seem to be the case, it decided that the rules had to be changed, or else.

But the world of the twenty-first century is very different from that of the years immediately after World War II, when much of the developing world didn’t even have its freedom. By the first decade of the twenty-first century, the United States-led wars in Vietnam, Afghanistan, and Iraq had shown the limits of military power. America couldn’t even decisively win against small, poor countries. Its soft power—the influence exerted by its moral values and culture—had been diminished by the way it conducted the Iraq War, how it treated the poor in its own country, by the hypocrisy it demonstrated in its international trade negotiations, and by the power of money in its elections. Again, the election of a president so untethered to the truth—who is totally unfazed by lying—has simply compounded matters. In short, with the diminution of its soft power, with a new global balance of economic power, and with the limits of military power so evident, the United States is unlikely to be able to unilaterally rewrite the rules of globalization.

Trump, for instance, has complained about trade agreements like the North American Free Trade Agreement (NAFTA), which allows for the free movement of goods between Canada, Mexico, and the United States. There will be changes—agreements made close to a quarter of a century ago or more will have to be updated (NAFTA went into effect in 1994)—but they will be changes that will be mutually agreed to. The United States has the power to exit agreements—often, though, only with the consent of Congress—but that is a far cry from getting a
new agreement. Many of the trade agreements (such as that with Korea) faced strong opposition not only in the United States but in the other signatory nations. Any significant change that disturbed the balance of benefits and costs within and between the signatories would ensure the death of the agreement: citizens now realize that no agreement is better than a bad agreement.

There is thus considerable uncertainty about what globalization in a post-Trump world might look like—and this uncertainty itself will impede trade and economic integration. Trump is likely to fail to carry out many of his campaign promises, since many of them require unlikely congressional support, while others have been struck down by courts. Within months of taking office, he was equivocating on his promises. The 45 percent across-the-board tax on Chinese imports quickly became forgotten, replaced by the standard duties imposed in previous administrations on goods that China sells below costs. Even as negotiations on NAFTA began, the administration had no serious proposals on how to reverse the trade deficit with Mexico. Indeed, chapter 3 explains that Trump’s policies are likely to increase America’s overall trade deficit. America’s voters are used to there being a gap between campaign rhetoric and what follows; but just as Trump’s campaign rhetoric was outsized, so too has been the gap. Even so, because Trump has shown that borders matter, firms will now be more cautious in creating global supply chains.

Even without Trump, it is likely that globalization would have changed. The collapse of the Development Round of trade negotiations in 2015 meant that, for the foreseeable future, there would be no more global agreements. The opposition to the United States–driven trade agreements across the Pacific (the Trans-Pacific Partnership, or TPP) and across the Atlantic (the Transatlantic Trade and Investment Partnership, or TTIP) suggested it would be increasingly difficult to push forward the corporate–driven agreements that had marked the past. On the other hand, South–South agreements—among developing countries and emerging markets—were expanding: Trump’s “America First” rhetoric gave a big spur to a trend that was already under way. For instance, the Pacific Alliance, which since 2011 has brought together Peru, Mexico, Colombia, and Chile, enjoyed a major boost to its relevancy in the wake of the U.S. election. And there are a number of regional agreements moving forward in Asia.

A New Global Economy
In GAID I discuss some of the inequities between the North and the South. Several changes in the last fifteen years have only heightened the sense of injustice. The first is the heightened awareness of climate change—with most of the increases in the atmospheric concentration of greenhouse gases which give rise to it coming from the advanced countries, and most of the costs being borne by the developing countries. The United States, with its refusal to go along with any agreement with fair burden sharing—and with so many Americans, including Trump, even claiming that it’s a hoax—generates particular resentment in this arena.

A second change was an unforeseen consequence of the East Asia crisis and the way it was mismanaged by the IMF. Countries around the world, but especially in East Asia, said “never again.” They understood the benefits of globalization, but they also realized that openness exposed them to risks beyond their control. To manage these risks they needed reserves, usually dollars, that they held against a rainy day—and especially against a storm like the crisis of 1997. They knew, though, that they didn’t have enough to weather such a storm. Reserves increased by trillions of dollars.

The real irony is this: while it was the U.S. Treasury that was largely responsible for these policies which imposed such enormous costs on the East Asian countries, the U.S. Treasury has also been the big beneficiary. Countries typically hold reserves in the form of U.S. T-bills, which means that they are lending to the United States. However, they are lending at a low rate (in the years after the global crisis, at close to zero interest rate, which means in real terms, taking account of inflation, they are getting a negative return), but often borrowing from the United States at much higher rates. It was, in effect, a massive transfer of money from these poorer countries to the United States. The developing and emerging markets thus paid a high price to protect their loss of sovereignty.

There was a ready solution: the creation of a global reserve system. China, Russia, and France supported such a system, and the UN voted to have it studied. But the United States opposed such a system, or even the study of its feasibility—after all, under current arrangements, the United States could borrow from others at an interest rate close to zero, and they liked this. Given U.S. opposition, nothing happened.
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A third change was the increasing importance of intellectual property and the payments associated with it. As the world moved more to a knowledge economy, these payments increased, and with most of the patents held by the North, there was a substantial flow of money from the South to the North. Again, rather than money flowing from rich countries to poor countries to help them grow, it seemed as if the global economic system was designed to make the money flow the other way, seemingly defying gravity.

A fourth change is that the model of export-led manufacturing growth that had been the basis of the success of East Asia may well be coming to an end. Even if all the manufacturing jobs in China were to go to Africa, it would provide just a fraction of the needed jobs for the new entrants into the labor force, given the large increase in that continent’s labor force expected in coming decades. Without jobs, immigration pressures, especially in Europe, will continue unabated.

Perhaps the biggest change, at least from the perspective of the management of globalization—a change well underway before Trump—was the increasing economic power of the emerging markets. Their relative share in global GDP has grown enormously. Hardly a surprise: China, for instance, grew at nearly 10 percent per year, for a third of a century, doubling its economy every seven years. It grew even faster in some of the years after the global financial crisis, a period in which Europe and the United States performed particularly badly.

Rebalancing the Global System

As the disconnect has grown larger between the voice of the emerging markets in globalization and in global financial institutions like the World Bank and the IMF, established at the end of World War II, and the economic realities, the need for a rebalancing has become more pronounced.

Of course, there have been changes, for instance, small adjustments in voting shares at the IMF and the World Bank, which seem to have had no observable consequences. The global financial crisis made it evident that global problems need to be addressed globally—and not just by the club of the rich countries, the G-7. The G-20 brought in China, India, Turkey, Saudi Arabia, Argentina, and eight other emerging markets and became the key global meeting. But as the global financial crisis faded, disagreements about the direction the global economy should take prevented much progress in redefining globalization. Perhaps the most important achievement was in climate change, with the Paris Agreement signed by 195 countries and entering into effect on November 4, 2016. The strength of the agreement was demonstrated in the aftermath of President Trump’s announcement of the U.S. withdrawal from the accord. The rest of the world stood firm in solidarity in support of the agreement, and many businesses and states within the United States reaffirmed their commitment to achieving its ambitions. Trump was mocked everywhere. Rome’s City Hall displayed a huge banner: “The Planet First” (making fun of Trump’s slogan, “America First”); and President Emmanuel Macron of France used the slogan “Make Our Planet Great Again” (making fun of Trump’s slogan, “Make America Great Again”).

Not surprisingly, given the slow progress in rebalancing globalization, in giving voice to emerging markets commensurate with their economic power, these countries have taken matters into their own hands, setting up their own institutions—sometimes over the futile opposition of the United States, which made efforts to retain its influence. The United States has had a hard time adapting itself to this world in which its relative economic power is diminished—and I suspect matters will only get worse under Trump.

Rebalancing globalization to give more voice to developing countries and emerging markets will not be easy. It will require a kind of cooperation that will be hard to attain so long as the United States maintains an “America First” position.

THREE WAYS FORWARD

The discontent with globalization is evident both in developing and developed countries. The question, then, is where does globalization go from here?

Doubling Down on the Washington Consensus

One approach is some variant of the Washington Consensus: a continuation of the structure of globalization much as it has been, with rules
set by and for the large corporations and big finance in the advanced
countries. This would be a doubling down on the Washington Con­
sensus policies that failed in so much of the developing world. I wrote
GAID to explain why that was not the way the world should go. Still,
at the time I wrote it, I was very much afraid that that was the direction
in which the world would go.

If the world took this approach, I felt I knew how things would play
out. In GAID, I describe IMF policies as being like dropping bombs
from 50,000 feet. One couldn’t see the human suffering down below.
The IMF focused on cold numbers like the unemployment rate. But
behind a 10 percent unemployment rate are millions of families with­
out a job. For those families, a change in policy leading to an 8 percent
unemployment rate makes a world of difference—a human difference
that simply can’t be captured in that small change in the statistic. But the
disconnect between what advocates of globalization thought and what
was happening was even greater. They had a theory that globalization
would lead to faster economic growth—but they didn’t even look at
statistics about how globalization was affecting ordinary people.

Failing to Make Globalization Sustainable

At the time I wrote GAID, it seemed to me that globalization, as it was
then being structured, was unsustainable. What happened in the ensuing
years, as I’ve described, only made matters worse.

At the national level, somehow, the politics has not worked in a way
which would have led to the changes to make globalization sustainable.
Those on the right who have been the strongest advocates of globaliza­
tion have not been willing to push policies that would have protected
those who have been hurt by it. To the contrary, they have even resisted
assistance to those who have lost their jobs as a result of globalization.

More surprising has been the behavior of the center-left—such as the
Democrats in the United States. They should have been the defenders
of the interests of the workers who are displaced by globalization—and
opposed globalization if those interests weren’t protected. In practice,
though, they were cognitively captured by the arguments for the benefits
of globalization—perhaps attracted a little by the campaign contribu­
tions that came from the financial sector for those who supported their
view of globalization. Perhaps some even came to believe in trickle-

The New Protectionism

One of my predecessors as chairman of the U.S. Council of Economic
Advisers once said: that which is unsustainable won’t be sustained. But
while I had worried that globalization that paid so little attention to
ordinary workers was unsustainable and would come under attack from
protectionism, the attack came faster than I expected, with greater vigor
and success, with the election of Donald Trump on an explicitly pro­
tectionist platform.

A retreat into protectionism is the second way of responding to the
challenges of globalization. This “New Protectionism”—actually, little
different from old-style protectionism—entails creating a wall between
Mexico and the United States to stop the migration across the border
(never mind that such immigration had already plummeted),37 taxes of
45 percent against China, and the castigation of firms that shift produc­
tion out of the United States.

Trump sought to put workers in the United States and other advanced
countries in conflict with workers in developing countries and emerging
markets. He suggests that the low-wage workers in China, Mexico, and
elsewhere are effectively “stealing” American jobs. The real conflict is
elsewhere: on one side, workers and consumers—the 99 percent—in
both developed and developing countries, versus corporate interests on
the other.

The prospects of New Protectionism working are no better than
the first approach, doubling down on the Washington Consensus. The
New Protectionist policies—the wholesale destruction of globalization
that Trump and other anti-globalizers seem hell-bent on—will only
lower the living standards of those who they profess to be helping. The
newly discontented have every reason to be unhappy. But the snake oil
that Trump and the New Protectionists elsewhere are selling will only
worsen the plight of those who are already suffering. In chapter 3, I explain why this is so.

Doubling down on the Washington Consensus was a policy inspired by the special interests that it served, but the belief in the efficacy of these policies was supported by “market fundamentalist” ideologies—the notion that free, unregulated markets were the best way to organize a society. (Ironically, by the time these ideas had become fashionable under Reagan and Thatcher, economic theory had long shown the limitations of these theories. The actual policies pushed were markedly different than one would have thought based on free-market ideology—trade agreements were not free trade agreements, but managed trade agreements, and even the bankers who believed in small government enthusiastically endorsed the trillion-dollar bank bailout.)

By contrast, the belief in this protectionism is not so much based on corporate interests or a realistic analysis of the future as much as a simple nostalgia for the past, a nostalgia which appeared to have enormous appeal to large numbers of voters.

Nostalgia for a World That Will Never Return
Some Americans—especially those who have not been doing well—look back with nostalgia at those years of American dominance after World War II, when their manufacturing jobs seemed secure, their wages were high, and they could attain a middle-class lifestyle that was beyond anything that they, their parents, or their grandparents had dreamed of when they immigrated to the United States. Now, many families struggle to make ends meet even with both parents working; then, a single breadwinner could comfortably support a family. It is this long-gone period—never to return—that Trump recalls, promising to bring it back along with the confidence and the social structures that accompanied it. That won’t happen. One can’t reverse the arrow of time.

There are many reasons that we can’t reshape our world back into the Leave It to Beaver era of American dominance that the Make America Great Again campaign fetishized. That period after World War II was unusual in many ways. The war had brought people from all walks of life together to fight the common enemy. There was an unprecedented level of social cohesion and solidarity. It seemed wrong to exploit those who had risked their lives for the sake of the country. In the United States and many European countries, the period after the war was one of rapid growth, but with shared prosperity: every group saw their incomes grow, but those at the bottom saw their incomes grow faster than those at the top.

Trump promises to bring manufacturing back. This is one among many promises that will be broken. At the end of the war we were completing the transition from agriculture to manufacturing. In the nineteenth century, some 70 percent of workers were in agriculture. Now, in the United States, for instance, less than 3 percent of the workforce grows more food than even an obese society can consume. Now, the advanced countries are in the process of completing the transition from manufacturing to a service-based economy. Of course, just as agriculture still plays a role in our economy, manufacturing will continue to have a part. But it won’t employ as many people as it once did—those jobs aren’t coming back any more than will the farm jobs that were erased a hundred-odd years ago.

The period after World War II had other distinctive characteristics, especially in the United States. High-paying manufacturing jobs went disproportionately to white males, and put them at the top of a social pyramid among workers, almost always above women and people of color. This was true even though it was nearly a century since the emancipation of slaves and a quarter of a century since women got the right to vote. Civil rights laws reflected and propelled civil society movements attempting to reduce the scope of this kind of discrimination, sometimes with explicit affirmative action programs, sometimes with just greater sensitivity to implicit biases. Once discrimination was reduced, in many arenas—including college graduation, with the access to further advancement that followed—women did better than men. Large numbers of men, who in the old order would have been the “alpha males”—often by dint of unearned social advantage—found themselves being surpassed. To them, it was as if they were climbing the ladder of life in the way that they had come to expect, and suddenly, someone was given the green light to pass them up.

Several studies have suggested that a longing for those “good old days”—good in the eyes of the privileged if not in the view of those who were oppressed—has played a role in the discontent of the white males. No wonder their call to take the country back, and becoming
drawn to politicians promising to bring back that old order—a promise which they will not be able to fulfill.

The Third Approach: Fair Globalization with Shared Prosperity

If going back to the past—to old protectionism in a new guise—won’t work; if doubling down on the Washington Consensus won’t work; what will? The third approach has two parts: (a) managing the consequences of globalization within each country to ensure that fewer lose as a result, and (b) rewriting the rules of globalization in ways that are fairer to developing countries and less dominated by the corporate and financial interests.

Making Globalization Work for Each Country through Inclusive Globalization

GAID strongly criticizes globalization as it has evolved, but its critique begins from exactly the opposite perspective of Trump. As I noted, he is under the delusion that our trade negotiators were snookered. The reality is that, for anyone looking at globalization from the perspective of global social justice, it is the poor countries and ordinary workers that got the short end of the stick. The great achievement of the emerging markets was that even with this "unfair" globalization, they managed to make globalization work for them and for much of their populations. That’s why a global middle class has emerged—in China, in India, and even in some African countries. For those concerned with the long-term stability of these parts of the world, nothing could be better news.

The global economy is not a zero-sum game, with their gains coming at the expense of the United States or Europe. Rather, if others prosper, demand for the goods and services of the advanced countries overall can increase, and so too their GDP.

But there were losers: workers in developed countries, especially those with fewer skills, and the poorest in the poor countries who are near-subistence farmers whose cash crops, like cotton, have depressed prices because of U.S. subsidies, further impoverishing millions in Sub-Saharan Africa and India. These farmers suffered too in another way from the actions of the United States, Europe, and China: massive pollution (greenhouse gas emissions) from the developed countries has contributed to desertification in Africa and India, further lowering their incomes.

There are other ways that globalization has not worked well at the global level. The world has been marked by repeated crises since the beginning of the era of liberalization—the worse being that of 2008. A failure of American regulators combined with excessive greed and a total absence of moral standards by America’s financial system brought the entire globe into crisis. Since the crisis, the world has struggled to impose a set of rules on the financial sector that would prevent another such crisis. Matters are better today than they were in 2008, but few think that the problem has been “fixed.”

Domestic Policies for Marking Globalization Work for All

As most countries, and especially smaller ones, begin thinking about globalization’s impacts, they don’t begin with the grandiose question of how they can change the global rules. They begin with the more modest question: how should they design their economic policies, given the rules of the game and the particular economic situation in which they find themselves.

Advanced countries have to adopt two core sets of policies: an overall economic framework that allows for a modicum of shared prosperity, and social protection for those hurt by globalization because no matter how well our economic system functions, some will be left behind. Those who fall off the ladder of success shouldn’t go into an economic abyss. What is required is a progressive agenda, one that recognizes the respective roles that the market, the state, and civil society must play; that recognizes that markets often don’t work well, and even when they are efficient, the distribution of income which they result in is often socially unacceptable; an agenda that realizes that markets don’t exist in a vacuum, and have to be structured.

Over the past third of a century, there have been marked changes in the “rules of the game.” Earlier, I described the Washington Consensus policies. They had their counterpart within most of the advanced countries. The notion was that by freeing up markets—stripping away the regulations that constrained the economy—and incentivizing individuals and firms, through lower tax rates, the power of markets would be unleashed. Economies would grow, and even if those at the top got
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a larger share of the pie, everyone, even those at the bottom, would prosper. Better to have a smaller share of a much bigger pie than a larger share of a small pie. The results of this experiment, tried in countries around the world, are now in: it has been a dismal failure. Inequality grew even more than expected, but growth slowed, with the result that in countries such as the United States, the vast majority have seen incomes virtually stagnate. The new rules led to excessive financialization and short-termism, with corporate executives focusing on quarterly returns, and on their own compensation, rather than on the long-term well-being of the companies that were entrusted to their care. The rules of the game now have to be rewritten, once again, for the twenty-first century.

We've learned a lot from the failed experiment of the past third of a century: about the need to curb abuses of corporate governance (the ability of CEOs to get a larger and larger share of corporate income), of the financial sector (including the predatory lending, market manipulation, and abusive credit card practices that became so evident in the 2008 crisis), and of market power generally. Workers' productivity has grown, but workers' compensation has not kept pace, partly because of the weakening of workers' bargaining power, and that's partly because of changes in labor legislation, but also partly because of globalization. The world has changed—there are no longer lifetime jobs. But systems of social protection have not kept pace.

Most importantly for purposes of this book, the laws governing globalization need to be rewritten—but not in the protectionist ways advocated by Le Pen and Trump. Here, for insights, I turn to Scandinavia. These countries were too small to dictate the rules of globalization, as Trump wrongly believes he can do. To manage globalization, they had to turn inward, designing policies based on principles of openness with inclusive growth—ensuring that the benefits of globalization are sufficiently shared so that no one, or at least no significant group, is left behind.43

The failures and promises of globalization over the past third of a century have one more implication: politicians won't be able just to promise to help those left behind, to provide them with a safety net, perhaps a little job training here or there. Workers who see globalization as threatening their future want more than a bare safety net, something to hold on to when they are drowning. And even such threadbare promises no longer seem credible. What is required is real commitment; many will be reassured only if there is an economic and social system that works for all—and works whether they lose their job as a result of trade or an advance of technology or a change in the structure of the economy.

In chapter 4, I sketch the outlines of this alternative globalization as seen from the perspective of an advanced country like the United States.

Structure of the Book

Globalization and Its Discontents Revisited consists of three parts. In the first, I describe “Globalization's New Discontents,” those in the advanced countries who have joined those in the developing world in their antipathy to globalization. I explain in detail why the benefits of globalization have been less than its advocates claimed and why so many have been made worse off by globalization—why there is so much anger toward globalization. I then explain why the new protectionism of Trump will only make matters worse, and describe the alternative policies that will deliver the promise of a globalization that will benefit all.

In the second part, the original text is reprinted, largely unchanged. The original book focused, as I have noted, on the discontents in the developing world. To understand where globalization is today, one has to understand how we got here—and to a large extent Gaid, written at this early crucial stage of the evolution of globalization when there was such optimism about it, helps us understand globalization as it is today.44

The final section, the afterword, picks up where Gaid ends: it describes the evolution of the battles over globalization over the subsequent fifteen years, and how the global landscape looks so different today than it did then. When Gaid was first published, there were many battlefields in which the struggle over globalization was going on. There is a natural curiosity: How did these play out? Who, in the long run, won? Who lost? This afterword answers this question and looks toward the New Globalization that may emerge in the post-Trump world.
Chapter 1

The Failures of Globalization

The discontent with globalization in the advanced countries is palpable. As I noted in the introduction, large segments of society feel that their lives are not improving, and those perceptions are accurate: in many countries, such as the United States, even a majority have been experiencing near stagnation for more than a quarter century. Here, I explain the role that globalization has played. It is not the only force, but it is such a powerful force that even if there were no changes in technology—no advances, for instance, that enabled employers to replace unskilled workers with machines—globalization by itself could, and probably would, have led large numbers of unskilled workers to be worse off.

Globalization is about more than trade—it is also about the movement of capital, people, and ideas across borders. But because trade is at the center of current controversies—and because it illustrates so forcefully the issues at play—I begin the discussion focusing on trade.

OVERSELLING TRADE GLOBALIZATION

Economists' belief in the virtues of free trade has been so deep and so long-standing that any economist who expressed skepticism was at risk
of losing his "union card"—or at least his credibility as a serious economist. One of the earliest contributions of my thesis supervisor, Paul Samuelson, was to show that the country as a whole was better off as a result of trade liberalization—that is, overall national income was increased. This expanded on the earlier argument of David Ricardo about the gains from trade that arise when each country increases production in what it does relatively well; and that of Adam Smith, about the gains from trade that arise when each country specializes, so that it can get better and better at what it does.

A Little White Lie: Trade Creates Jobs

The problem is that the story I've just told about the virtues of trade was not understood by most politicians, and those that did understand it thought it was too complicated. So, sometimes with the help of some economists, they told what they thought was a white lie—trade creates jobs. And when the evidence showed the contrary, they lost their credibility—and so did globalization.

The objective of trade policy is not to increase jobs—maintaining the economy at full employment is the responsibility of monetary policy (the Federal Reserve in the United States, the Bank of England in the UK) and fiscal policy (the setting of taxes and expenditure). The objective of trade policy is to increase standards of living, by increasing productivity.

If exports create jobs, as claimed by the U.S. trade representative (USTR—the U.S. "trade minister," whose job is to design and sell trade policies), then imports destroy jobs. Over the long term, trade is roughly balanced; that is, on average, exports expand with imports. The goods that advanced countries export use less labor than what they import. The advanced countries import textiles and apparel, which require a lot of labor, and export advanced products like aircraft. But this means that if the United States, say, expands exports and imports by $100 million, the new imports destroy more jobs than are created by the new exports.

Hence, on net, trade by itself destroys jobs. But if monetary and fiscal policy do their jobs, this isn't a problem: the economy expands, creating new jobs to offset the jobs that are lost. The new export-sector jobs pay higher wages than the jobs in the import-competing sector that are lost.
pened, others in the community were affected, as housing prices fell and demand for nontraded goods and services (like haircuts, restaurant meals, car repairs, legal services, that are bought locally) decreased. As real estate prices fell, small businesses that used real estate as collateral for their loans were hit. Banks in these communities were also hit, and they responded by cutting lending, in a downward vicious circle.

**Increased Risk**
Advocates of globalization ignored other problems with globalization as well. Many of these “mistakes” were the result of the use of oversimplified models of the economy to guide policy. Oversimplified models, for instance, assumed markets worked so well that there was never a problem with unemployment—hence, they ignored a critical source of opposition to globalization. Oversimplified models led some economists to ignore too the many other ways in which markets differ markedly from the textbook stories, which assume perfect information and perfect competition. In these mythical worlds, markets work so well that there is never any reason for governments to intervene in the economy—there are, for instance, neither bubbles nor recessions. But it should be obvious that it is nonsensical to base any serious policy analysis on models making assumptions that depart so far from reality.

The 2008 crisis brought home how globalization can increase the risks faced by firms and individuals. Indeed, most of the macroeconomic risks facing developing countries come from outside of the country—such as a sudden decline in the price of what they export, a sudden increase in the price of what they import, or a sudden increase in the global interest rate. Making matters worse, individuals and firms cannot insure themselves against many of these risks, nor can the risks be shared across society. These shortcomings have profound consequences. Consumers are worse off when they have to bear the consequent risks. Workers too may face greater insecurity. And firms, without insurance protection, may shift production toward safer activities with lower average returns and productivity. The result is that with imperfect risk markets all individuals may be worse off as a result of globalization.

One particular risk relates to a country’s energy security. Gung-ho globalizers pretended that in the post–World War II era, borders don’t matter, and because they don’t matter, countries shouldn’t mind becoming dependent on others for energy (or food or any other essential item). But borders do matter, and for anyone who has forgotten, Trump has provided a powerful reminder.

Mexico has become heavily dependent on U.S. gas. The North American Free Trade Agreement (NAFTA), the pact between Canada, Mexico, and the United States, assured Mexico of the free flow of gas across the border. Trump, with his virulent and irrational anti-Mexican stance, is planning to build a very expensive wall, and some Mexicans worry that he could take actions that would interrupt the supply of gas; at the very least, it could be an important bargaining chip as he tries to force Mexico to pay for his ill-conceived wall.

So too Germany believed that with the collapse of the Berlin Wall, borders with the East would not matter. It has, as a result, become heavily dependent on Russian gas—a dependence with economic and political consequences. If Russia should suddenly shut off the gas, it could have disastrous effects for Germany’s economy. This scenario is not just a remote possibility or an economist’s nightmare; Russia did cut off the supply of gas to Ukraine in 2014. Germany might reason that it wouldn’t be in Russia’s economic interests to do this. But Russia (and its leader, Vladimir Putin) might have other concerns—such as inducing the West to remove sanctions imposed as a result of its blatant violation of international law with the invasion of Crimea. And of course, economists’ presumption that humans are always and everywhere fully rational is obviously wrong.

Markets don’t appropriately “price” the cost to society of an interruption in the gas supply, and thus German firms, looking for the cheapest source of energy, turned to Russia. The failure to price this risk is an example of a market failure—one with consequences in the short run as serious as the failure to “price” the risk of global warming in the long run.

**Imperfect Competition**
The standard models also assumed perfect competition—all firms were small—in spite of the fact that much trade is conducted by corporate behemoths which are larger than many countries and which often have marked market power. Walmart may use its market power in China to drive down producer prices, and then, when it enters other countries,
like India or South Africa, use the benefits of this market power—the low prices at which it can acquire goods—to effectively drive small producers out of business. Standard results on the unambiguous desirability of free trade do not hold when there is imperfect competition. And yet, policy analysts have tended to ignore these effects, worried that it would open up a Pandora’s Box of special-interest claimants for protection.

Dynamic Comparative Advantage
Perhaps the biggest mistake that globalizers made was that they paid too little attention to the long run (as is the case for most firms in our economy). They asked, what is the comparative advantage, the relative strength, of the economy today? Cheap labor in China meant that it had a comparative advantage in labor-intensive manufacturing. So, firms shifted their production from the United States to China.

In the past, this shift would have happened slowly. China simply wouldn’t have had the initial technological capacities: labor might have been cheap, but not cheap enough to compensate for the technology gap. But China invited American firms in, and these firms were able to couple their advanced technology with China’s cheap but often well-trained and disciplined labor. And of course, access to the potentially huge Chinese market made it even more attractive for foreign firms to set up shop there.

What happened next changed the course of globalization: China and other countries in East Asia learned, and they learned quickly. They developed their own technological capacities, which meant they still had a comparative advantage in labor-intensive industries even as their wages started to rise.

In manufacturing and many other sectors of the economy, firms learn how to increase productivity by doing, by actually producing. But there is an unappreciated converse of this proposition: if firms don’t produce, they quickly fall behind. As America shifted production of, say, thermos bottles to China, China learned how to produce even better thermos bottles at a lower cost. And thus, America, as it stopped producing, lost some of its technological advantage.

In essence, globalization’s advocates forgot about “spillovers”: the ways that learning in one firm spills over to another firm in the area. These spillovers also help to explain “clusters,” those dense groupings of high-tech firms in Silicon Valley today, or the new manufacturing enterprises in Ohio and Michigan at the beginning of the twentieth century.

History matters: twenty or thirty years later, after production has shifted to China, we can’t just say, let’s bring manufacturing back to the United States or Europe. While overall, America has a high level of technology and very skilled workers, in many specific areas we have neither the technology nor the skilled workers required. Of course, America and Europe could also learn. They could train a new coterie of workers. But that would require a concerted effort—beyond the ambit of any single firm. More likely, if production were to return, it would be based on new and different technology—in particular, the use of robots. These are areas where the advanced countries probably do have a comparative advantage. But—and this is key—bringing production back with these new technologies will not resuscitate the old manufacturing jobs; indeed, it is unlikely to create many jobs at all, and the jobs created will be mostly highly skilled jobs and in different places from where the jobs were lost. This doesn’t mean that the advanced countries shouldn’t try to recover manufacturing jobs, but only that they should have realistic expectations of the results. And bringing back manufacturing jobs can’t be at the core of any agenda to “make America great again,” or even a less nationalistic agenda of restoring shared prosperity.

Impact of the Exchange Rate: Currency Manipulation or Market Forces
A key factor in the changing competitive-advantage landscape is the exchange rate, which determines the relative value of one currency to another. The relatively high value of the dollar as compared to the Chinese renminbi (rmb, also known as the yuan) made competition with China especially difficult. As a result, China’s goods can be sold very cheaply in the United States.

A couple of factors led to a high value of the dollar. First, and most important, was the macro-economy in the United States. Beginning with Reagan and his tax cuts of 1981, the country ran large fiscal deficits—that is, the government was spending more than its income; and this was not offset by an increase in private savings within the country. So, to finance the increased deficit, the United States had to bor-
row from abroad; that is, there was a flow of capital into the country
to finance the deficiency between what the United States was investing
and its total national savings. But the flip side of this capital inflow is the
trade deficit—imports exceed exports.

This is a basic truism of international macroeconomics: the current
account deficit—which includes not just the difference between imports and exports of goods, but also of services—equals the difference
difference between domestic investment and savings. I’ll return to this several
times in this chapter. Economists differ about many things; but they
cannot and do not disagree about a truism such as this.

For a third of a century, the entire period of modern globalization,
U.S. macroeconomic policy has created and sustained huge trade deficits.
The inflow of funds, in turn, leads to a strong dollar. The strong dollar
helped make U.S. manufacturing uncompetitive, especially as advanced
technology was flowing so freely toward China.

Second, China discovered that by managing its exchange rate, keeping
it slightly lower than it otherwise would be, it expanded exports, providing jobs for its burgeoning population and enabling China to industrialize and raise the standard of living for its people very rapidly. The United States accused China of manipulating its exchange rate.

In practice, all countries engage in policies which affect the exchange
rate. When the United States lowered its interest rates in response to
the Great Recession, one of the main ways it helped the U.S. economy was that it led to a lower exchange rate, increasing exports and reducing imports—a kind of beggar-thy-neighbor policy that helped the United States’ recovery at the expense of that in Europe. Ironically, by the time Trump began accusing China of exchange rate manipulation, China had reversed course, and was actually intervening to increase its exchange rate, to strengthen its currency, responding to a flow of money out of the country—between 2014 and the beginning of 2017, China lost about $1 trillion in foreign reserves—which had depressed the exchange rate too far.

In no country is the exchange rate just a matter of market forces. The most important factor determining movements in a country’s exchange rate is the interest rate set by the central bank—by a public institution, not by the market. The United States has gone around the world trying to persuade governments that they should not intervene in their

exchange rate, that it should be determined by market forces. In practice, what that means is that it should be determined by the Federal Reserve, America’s central bank, but not by their own central banks.

In China, matters are even more complicated. China restricts its citizens putting their money abroad. If China removed this restriction, but then let the exchange rate be determined by “market forces,” the exchange rate would plummet as Chinese citizens sought to diversify their portfolios and invest money in other countries. And of course, the United States would complain. What the United States wants is not a market-determined exchange rate for China, but a high exchange rate. Indeed, in the East Asia crisis, the United States put pressure on China to ensure that its exchange rate did not plummet as the other East Asian currencies plummeted. Then, it didn’t want China to let the market determine the exchange rate, for if it had, their exchange rate would have fallen in tandem with that of other countries in the region.

SOME BASIC PRINCIPLES OF TRADE

But the most important point is that any one country’s exchange rate, even that of China, has little effect on the overall U.S. trade deficit. The overall trade deficit is determined by the balance of domestic savings and investment, which is little affected by any particular country’s exchange rate. The value of the renminbi affects the bilateral trade deficit—the difference between exports and imports to China. But that itself is of little relevance. If the United States imported less apparel or shoes from China (because the renminbi strengthened), it would import more from some other developing country like Bangladesh or Vietnam; it wouldn’t produce much more inside its own borders.

Bilateral trade deficits only matter in a barter economy. The reason that money was such an important invention is that it avoids barter—it allows multilateral exchange. We buy more from China than we sell. But China may buy more from Australia than it sells there. And Australia may buy more from the United States than it sells to it. We would all be worse off if each of these three trade accounts had to balance individually.

There are, perhaps, a few people who think that because the United
States is better at everything than everybody else we should only be exporting: by definition, in this logic, if someone is undercutting our firms, they must be playing unfair. That's the kind of mercantilist reasoning that Smith railed against more than two hundred years ago. The citizens of a country benefit from consuming, from enjoying the fruits of their labor. It makes no sense for them just to sell to other countries everything that they produce. We export in order to import. A country exports things that it's relatively good at, importing things that it's relatively bad at. And being relatively bad at something doesn't require ineptitude—it just means someone else can do it at least a little better. It's not a matter of "unfair play." We don't need to export—or to prevent imports—to remain at full employment. As we emphasized earlier, the task of maintaining the economy at full employment is the responsibility of monetary authorities (the Federal Reserve) and fiscal policy. It is not the responsibility of trade policy.

Competing with Cheap Labor and Low Labor and Environmental Standards

The same kind of fallacy arises with complaints about trading partners that have low wages. How can the United States compete? Of course, in competitive markets, the reason that wages are low is that productivity is low—and that translates in turn into lower living standards. It's unfortunate to have low wages and productivity, but not unfair. These low-wage economies could similarly complain, how could they compete with American technology? Or with an economy where the Federal Reserve sets interest rates at near zero? The theory of comparative advantage describes the benefits that arise from trade whenever countries differ in their relative productivities in doing different things: we are relatively more productive in making airplanes, our trading partners are relatively more productive in making clothes.\(^{23}\) Our trading partner could be far less productive overall—and thus have far lower wages. In the case of trade with poor countries, it should be obvious that there are typically huge differences in relative productivities, and hence huge gains from trade.

This principle of comparative advantage applies as well no matter how different countries decide to spend whatever income they get, or for that matter how they organize various parts of their economy. They could spend, for instance, more money on preventive health care (as our European trading partners do), and less money on emergency room treatment.\(^{24}\)

There are, however, some important instances where there are large market distortions, which mean that observed patterns of trade may not correspond to those of the underlying comparative advantages. Most obviously, a government could provide subsidies to a firm. As simple as this sounds, in practice, going beyond direct subsidies, it is complex. Some complain that when a country (like the United States) sets interest rates at zero, or bails out banks, so that they can in effect charge their customers lower interest rates than otherwise would be the case, there is a subsidy.

So too there is a real societal cost when a firm imposes environmental damage, and not to charge the firm for the costs it imposes is de facto a subsidy. The 2015 Paris Agreement on climate change committed countries to reduce their climate emissions. Many will implement their commitments by imposing charges for carbon emissions. There is a large societal cost to such emissions—the costs arising from climate change. Not charging for such costs is as much a subsidy as having an arrangement by which firms could have free access to labor. Many countries are worried that if some country—say the United States—refuses to impose such a charge, it distorts the pattern of trade. America might produce an emissions-intensive good, like steel, more cheaply not because it is relatively more efficient, but because of the implicit subsidy. Trade based on advantages arising from an absence of environmental regulations or charges for greenhouse gas emissions is "unfair"—or at the very least distorted.

I also noted that imperfections in competition can give rise to distorted patterns of trade. Of particular concern is market power in the labor market—where firms are able to so exploit workers that they provide substandard working conditions.

Trade agreements over the past quarter century have included provisions intended to deal with some of these distortions. When a country provides a subsidy, its trading partners can impose a "countervailing duty" to offset the effects. Some believe that this provision extends to implicit subsidies, such as not charging for environmental damage, including not imposing a carbon price.\(^{25}\) Recent agreements also include provisions relating to labor and environmental standards, though the evidence is that even the limited conditions are often not enforced effectively.\(^{26}\)
It is important to realize, however, that most bilateral trade deficits have little to do with these distortions. Thus, the United States has a trade surplus with the Netherlands (of some $24 billion in 2016). But that doesn't mean that America is engaging in some unfair trade policies vis-à-vis the Netherlands, and the imbalance cannot be blamed on the United States having worse labor or environmental laws than the Dutch.

And it is also important to go back to the underlying macroeconomic fundamentals: none of this matters for the overall trade deficit, which is a matter of the imbalance between domestic savings and investment.

Winners and Losers: The Distributive Consequences of Trade

Some of the discontent with globalization arises from the fact it didn't deliver on the promise either of jobs or growth. More apparent than the jobs created were the jobs destroyed. And growth in the era of globalization was slower than in the decades before. But the real discontent arises from the fact that so many people were actually worse off as a result of globalization. That the corporations got more than 100 percent of the gains—all of the growth, and then some of the existing economic pie that had belonged to others—made globalization that much more attractive for them, but that much less attractive to the rest of society.

In fact, honest academics always pointed out that there would be winners and losers in globalization. When globalization worked well, the standard theory arguing for globalization went, the winners gained enough so that they could compensate the losers and everyone would be better off. But the theory said that they could compensate the losers, not that they would. And typically they didn't. And because they didn't, many—even a majority of citizens—may be worse off. These are inconvenient truths, which were not widely explained in the heyday of globalization, when the advocates seemed to claim that everyone would win.

With perfectly free trade and well-functioning markets, unskilled workers everywhere in the world would get the same wages—and moving toward free trade results in unskilled wages in advanced countries going down. The argument was simple: trade in goods was a substitute for the movement of the factors of production, the unskilled and skilled labor and capital that go into making the goods. If the United States imports more unskilled-labor-intensive goods from China, there is less of a need to produce those goods in America, and that lowers the demand for unskilled labor in the United States, and hence the wage of unskilled labor decreases.

These insights were never highlighted—indeed never mentioned—by the advocates of globalization. Was it a matter of willful deception, ignorance, or because somehow many politicians, even Democrats, continued to believe in trickle-down economics? Ever since President Kennedy claimed that “a rising tide lifts all boats,” the idea of trickle-down economics has persisted without theory or evidence backing it. The last quarter of a century has simply provided more evidence against the idea.

Weaker Bargaining Power

Workers’ wages were lowered as a result of another force: a weakening of their bargaining power. This had, of course, already been greatly weakened by the attack on unions and changes in labor legislation that began in the United States under President Reagan and in the UK under Prime Minister Margaret Thatcher. But now corporations had another tool. They could threaten to move their factory elsewhere, to China or Mexico, where there was cheaper labor. Trade agreements then gave them the right to bring the goods thus made back to the United States—in the case of Mexico, with no duties, in the case of China, typically with very low duties. Workers felt forced to accept lower wages and worse working conditions. There was nothing the unions could do to stop this outsourcing of jobs and the lowering of wages—and with their power thus diminished, so was their membership, in a vicious downward spiral.

And then there was no one to speak up for what was happening to America’s working people. That had also been the role of the Democratic Party. But as elections increased in cost (each party had to spend about a billion dollars in the 2016 election), the Democratic Party had to move increasingly close to the sources of the money—the bankers and the new tech entrepreneurs of Silicon Valley—and increasingly distant from their traditional base. Even when I served in the Clinton administration, when either I or Robert Reich, the secretary of labor, spoke out against the regressivity of our tax system (very rich people actually pay a much smaller fraction of their income than those who are not so
rich) or the unwarranted subsidies to our banks and corporations, which we derisively referred to as corporate welfare, we were put down as fomenting class warfare.32

Of course, many politicians simply didn’t care whether trickle-down economics worked or not: as long as enough of their constituents—or enough of those who financially supported their politics—were doing well, that was all that mattered. And the top 1 percent has been doing very well.

Given this, our politicians didn’t want to think about the consequences of their policies for ordinary Americans; they didn’t want to hear the voices of those economists who warned of the large potential consequences for America’s and Europe’s middle class.33 They listened only to what they wanted to hear.

Balancing Interests under Managed Trade

The globalization which emerged at the end of the twentieth century and the beginning of the twenty-first was not based on “free trade,” but on managed trade—managed for special corporate interests in the United States and other advanced countries, balancing those interests even as the agreements put little weight on the interests of others—either workers in advanced countries or those elsewhere.

One of the lessons that students in public policy schools take to heart is that a new law should have a name that is the opposite of what it actually does. Thus, a free trade agreement is actually not about free trade. If it were about free trade, it would be short, a few pages—each country gives up its tariffs, its non-tariff barriers to trade, and its subsidies. The Trans-Pacific Partnership (see introduction), ran upward of 6,000 pages. I was once asked by a South American president whether he should sign a so-called free trade agreement with the United States. I suggested he propose a true free trade agreement: if he did, almost surely, the United States would refuse. It has consistently refused to do away, for instance, with its agricultural subsidies.34

To see that these “managed trade” agreements represent a balancing out of special interests within the advanced countries, imagine, say, congressional reactions to alternative rules. As I have noted, it is almost unimaginable that Congress would have supported a true free trade agreement that would have eliminated both the overt agricultural subsidies and the more covert subsidies for fossil fuels (some of which are hidden in the tax system). In the Uruguay Round of trade negotiations completed in 1994, the United States demanded, and got, a ten-year delay in the elimination of protection for textiles. Given the shortsightedness of the corporate sector, ten years is an infinity. Of course, when the ten years expired, the industry wanted an extension of its protection.

Technology or Globalization

Defenders of globalization argue that globalization is only one of several forces contributing to the growing inequalities and the decline in incomes of unskilled workers. It is (in this view) unjustly being treated as if it is the only, or the major, contributor to inequality.35 Technical change is more important—advances in technology have made Rust Belt jobs obsolete and reduced the demand for unskilled workers. In a market economy, lowering wages is the inevitable result.

Most of the job loss in manufacturing is in fact due to technology. Even if there were no globalization, the fact that productivity growth in manufacturing is so much greater than the growth in demand would have led to major reductions in manufacturing jobs. By some reckoning, one can explain some 65 to 80 percent of job losses in manufacturing in the United States in this way.36

So too Trump has made much of the loss of jobs in coal mining—this time blaming regulations. But the real reason is simple: advances in technology resulted in a massive increase in the supply of natural gas, making coal uncompetitive. The United States exports coal to Europe—depressing coal prices and production there. If the Europeans had the same “protectionist” mentality that the Americans are assuming, they would, of course, keep American coal out. (Trump, like most protectionists, seldom thinks of what would happen if everyone acted as he does.)37

Perceptions of ordinary citizens toward technical progress and globalization differ—partly, but only partly, because of how certain politicians have made globalization the villain. To oppose technical change is to be antediluvian. No one wants to wear that label. Moreover, it is
hard for individuals to think of what one might do to stop technological progress. There's no activism disposed to smashing machines, as in the nineteenth century Luddite movement.

Besides, optimistic Americans as well as workers elsewhere in advanced countries believe that they can respond to technical progress. They see it as increasing living standards—there is a clear link between that and the new products they love. Moreover, embracing progress is part of the American identity. The ability to innovate and to adapt is part of the success of the country. Many in other countries feel similarly.

Globalization, though, is shaped by politicians at home and abroad. And so it's easy to think of what one could do to stop imports: impose trade restrictions. Those “others” are engaged in unfair competition. When I was chairman of the Council of Economic Advisers, I frequently heard pleadings from those in the business community who were resolutely in favor of competition and against subsidies for others. But they were eloquent in explaining how at that moment and in their industry competition was unfair and destructive, and a little government help—sometimes in the form of subsidies, often by protecting them from “unfair” competition from abroad—would be of enormous benefit, not to themselves personally, but to their workers and their communities. When those who seem to be outcompeting oneself are foreigners, the inclination to say that they are engaging in unfair competition is irresistible: to argue otherwise is to suggest that one simply doesn't measure up.

In short, people feel that at least some of their travails are due to globalization—the way it's been shaped by our political system. They feel they don't have to put up with it, and they shouldn't put up with it.

Besides, whether true or not, it gives little comfort to those in the middle who have seen their incomes stagnate to say that only part of their suffering is due to globalization, or even that most of the decline of the middle class is due to technological change. That this may be so only increases their resolve to do what they can to preserve their standards of living through “reforming” globalization.

There are politicians who are willing to give voice to their anger, to tell those people what they want to hear: America can and should use its economic power; on its own, with protectionism, it would be stronger than it is now. Their jobs would be restored and their wages returned to levels they haven’t seen in years. This is the promise—a promise that will inevitably be broken, as I show in chapter 3.

A Thought Experiment
In short, even if globalization is only part of the reason for the decline of the middle class, if citizens feel that it is something they can do something about, then it is natural for them to want to take action. It might not “solve” their problems, but it could make things better.

In fact, technology and globalization are inextricably linked. Without advances in communication and transportation, the kind of globalization we have today would not have been feasible. We couldn’t have had outsourcing to the extent that we do.

Nonetheless, it's instructive to engage in a thought experiment. What would have happened if there had been no changes in technology, but globalization had gone forward apace, with the stripping away of barriers to the movement of goods, services, and firms. The standard theory to which I have already alluded gives a clear answer. Wages of unskilled workers would have plummeted, converging toward levels in the emerging markets. Of course, markets never work quite as perfectly as they do in economists’ models, so the decline would not be instantaneous. Yet, no one believing in markets and globalization has provided a cogent reason why these wages wouldn’t have fallen and by a great deal.

THE ROLE OF TRADE AGREEMENTS
The discontent with globalization has focused on trade agreements, like NAFTA. In exploiting the discontent with globalization as much as he could, Trump called NAFTA the “worst deal ever,” blaming America’s trade negotiators, even though it was negotiated by former president George H. W. Bush of his own party. In the negotiations, Mexico brought down its tariffs, on average, by 10 percentage points, the United States by only 4 percentage points—and the United States was allowed to keep in place its corn subsidies, which by some accounts did damage to the poorest in Mexico, its corn farmers. American corn farmers receive a
substantial portion of their income from Washington rather than from the soil. Mexican farmers might be able to compete against American farmers, but it’s hard to compete against Washington—against such subsidies.\(^{40}\)

Today, the American and Mexican economies are intertwined. While America lost jobs as factories moved to Mexico, jobs were also created; and the new export-related jobs typically paid more than the jobs that were lost. An estimated 5 to 6 million American jobs depend on exports to Mexico.\(^{41}\)

While the U.S. trade deficit with Mexico (the gap between U.S. exports to Mexico and its imports) is large, \$63 billion in 2016, it is small compared to that with China (\$347 billion) and roughly the same as that with Germany (\$65 billion).\(^{42}\) The fact that Germany has not experienced Trump’s wrath to the same extent as Mexico has never been adequately explained—it may be just racism and bigotry.

In any case, as I’ve explained, one shouldn’t really look at the deficits or surpluses between two countries—the focus should be on the multilateral trade deficit. The United States has a trade deficit with Mexico but a trade surplus—when we include services—with Canada.\(^{43}\) Selling education, health, or tourist services creates jobs just as selling automobiles does. It appears that some in the Trump administration are enamored with the idea of selling goods but not services. There is no economic basis for this. The fact that the United States has a surplus with Canada does not mean that the country has been engaging in “unfair trade” with Canada, or that NAFTA is unfair.

**A Loss of Sovereignty?**

Trade agreements do mean that a country gives up certain rights—a free trade agreement means that the country gives up the right to impose a tariff. But it’s a reciprocal action: the other country makes a similar agreement. The benefits of this slight loss of sovereignty, through such reciprocity, can be large relative to the cost. And it means that when there are disputes about one party or the other honoring the agreement, both sides agree to respect the outcome of the dispute resolution mechanism. The world is far short of an international government, but these are small steps toward creating an international rule of law. In the absence of such an international rule of law, there is a jungle, with might making right.\(^{44}\)

Economists have long noted the importance of the rule of law for growth and efficiency—the modern market economy couldn’t exist without a modicum of the rule of law.\(^{45}\) As the world has globalized, there is an imperative for creating an international rule of law. So far, we’ve fallen short. But our international trade agreements are a step in the right direction. This is especially important for smaller countries. The United States, the EU, and China might be able to bash it out, as each struggles to do better for its exporters but keep our imports. The rest of the world—some 38 percent of global GDP—would especially suffer as collateral damage. Interestingly, with Trump announcing a U.S. retreat from globalization and the global rule of law, China has stepped forward as its defender.\(^{46}\) China has every reason to do so: its remarkable growth would not have been possible without globalization. It has been explicit that it will defend a rules-based system, which is of such importance to developing countries and emerging markets. It’s not just about cutting deals that are of benefit to itself, even though that kind of negotiating is precisely what Trump loves.

The World Trade Organization (WTO), created in 1995, was the critical step forward in creating a global rules-based system. It not only provided for a set of principles, including the most favored nation principle, ensuring that countries wouldn’t engage in discrimination against each other,\(^{47}\) but it also provided for a kind of international tribunal for adjudicating disputes. Its enforcement mechanism was limited—if a country violated its obligations, for instance, if the United States imposed a 45 percent tariff against China—then the injured country could impose duties in an equivalent amount on the offending country. The offending country could, of course, choose to continue to impose the tariffs. But there would be consequences. So far, this system has proven remarkably effective. It has, for instance, prevented, or at least limited, trade wars. There was considerable worry in the aftermath of the 2008 crisis that countries would attempt to reignite their economies by beggar-thy-neighbor policies, shifting demand away from imports and toward their own economy, as happened in the Great Depression.\(^{48}\) It didn’t happen, and the WTO is generally given credit.

Trump has announced that he intends to upend this system, and that he will not honor adverse rulings. If he does as he says, the United States will pay a high price. If it ignites a trade war, the whole world will pay a high price.
Other Goals beyond Promoting Growth

Trade and other economic agreements are about trade, but they are also about other objectives. They are often an instrument of foreign policy—trying to bind countries together. When the United States signed a free trade agreement with Jordan in 2000, no one thought that it would have any significant effect on U.S. growth. The hope was that it would help one of America’s closest allies in the Middle East. When Obama argued for the Trans-Pacific Partnership (TPP) agreement, he often did so on the basis of extending U.S. influence in Asia. In his State of the Union address on January 20, 2015, he said, “But as we speak, China wants to write the rules for the world’s fastest-growing region. That would put our workers and our businesses at a disadvantage. Why would we let that happen? We should write those rules.” Though he talked about the TPP’s impact on the U.S. economy, it was clear that he saw it as an instrument to advance our political interests in Asia and the Pacific vis-à-vis China. But in suggesting that the United States would write the rules, he failed to state who within the United States would do so. In the secretive process that the USTR employed to negotiate the TPP, corporations were effectively at the table, but not ordinary citizens or civil society groups concerned about health or the environment. And so it was not a surprise that what emerged was an agreement that served corporate interests, with negligible benefits for the U.S. economy as a whole.50

These non-trade-related goals of trade agreements are often coincident with the more traditional goals. NAFTA was intended to increase incomes in both Mexico and the United States; and one of the ancillary benefits would be that higher incomes in Mexico would reduce immigration pressure. As I have noted, that has in fact happened, though NAFTA may have played only a minor role in migration from Mexico diminishing to but a trickle.51

If, on the other hand, the trade agreements are not well-designed, they may be counterproductive. Thus, the 2004 agreement with Morocco, again intended to help one of the more progressive countries of the Middle East and North Africa, actually had an adverse effect: restrictions in the agreement on access to generic drugs, so important for AIDS patients, gave rise to massive protests in the country.

The New Trade Agreements: A Regulatory Race to the Bottom

Globalization is as badly managed and untempered as it was when I wrote GAID, and in some ways it has become worse since then. Until this century, trade agreements entailed pitting producers of one country in one sector against those of another in another sector; the agreement would entail lowering tariffs on one good in one country in return for the lowering of tariffs against another good in another country. Consumers were the unambiguous winners. But this is not so for the new trade agreements of the last decade and a half. With tariffs very low, the focus of trade agreements has been on regulations. Now, producers in one country say that they could sell more in another country if the government only got rid of some regulation, for instance, on emissions of pollutants or safety. The producers of both countries can easily agree: let’s get rid of the regulations in both of our countries; and the trade ministers (in the case of the United States, the U.S. trade representative) can quickly agree too—these ministries are typically “captured” by producer interests. But while consumers in both countries gained when tariffs—and prices—were lowered, in this case, citizens in both countries lose from the weakening of important protective regulations, and the corporations gain. International trade becomes their ally in arguing for the kind of world that they, the corporations, had sought, but couldn’t get because domestically, within each country’s legislature, society balances the cost and benefits of these regulations. Provisions in recent trade agreements (going back to NAFTA) are designed to make it difficult if not impossible for new regulations to be imposed, no matter what the social benefit.52

With only producers at the international “bargaining” table, only the costs of regulations are weighed. The TPP, advocated by the Obama administration but subsequently killed by Trump in one of his first acts, serves as a good illustration of this point. It was hailed by Obama as the largest trade agreement ever, embracing 40 percent of global GDP and one third of global trade, involving twelve countries around the Pacific Rim. Yet its economic impact was estimated by the government itself, after full implementation in, say, fifteen years, to be .15 percent of GDP—that is, its growth impact was negligible.53 Other studies, more independent, argued that even this small number was a gross exaggeration.54
(This didn’t stop Obama and other TPP backers from promoting it with language that suggested it would be a major boon to the growth of jobs and the economy. But the real objective, as suggested earlier, may have been in foreign policy: the role of the United States vs. China.)

The corporations offer a weak justification for what they ask. They have said it is important to harmonize regulations, and that different regulations act as nontariff barriers to trade. But in fact, what they wanted was not harmonization itself, but the elimination, or at least weakening, of regulations. In most sectors, we simply don’t need to have full harmonization of regulations. Indeed, different states within the United States have different regulations. Within Europe, the notion that responsibility for setting regulations should be assigned to the lowest possible level of government—the level closest to the people—is called subsidiarity.55

For example, regulation is not needed to set the percentage of heavy cream in ice cream. If different countries want to regulate this, it should be up to them. Of course, consumers should have the right to know the percentage in the product they are purchasing. Thus, what is important, in this case, is a regulation about information.

Different countries may weigh different costs and benefits differently. Some countries may not care much that their citizens are torn to shreds in an accident by shards of glass; Americans may find this particularly distasteful, and so create regulations requiring shatterproof windshields. Just as cars can be ordered with different colors, so too they can be ordered with different kinds of windshields. The additional costs from lack of harmonization are negligible.

We should be asking for the minimal level of harmonization required to make the global system work, not for the minimal level of regulation—the level of regulation that maximizes corporate profits.

Though recent trade agreements have been designed to reduce prospects of future regulations and, where possible, to engineer regulatory rollbacks under the guise of harmonization, there was a broader, more invidious agenda: to develop a system of globalization under which countries competed in every way possible to attract business—lower wages, weaker regulations, and reduced taxation. Of course, corporations love this kind of competition. Globalization has become a race to the bottom, where corporations are the only winners and the rest of society, in both the developed and developing worlds, is the loser.

But corporations do not exist in a vacuum. They have shareholders and executives, who, try as they might, cannot insulate themselves from what is going on. If our environment is polluted, if climate change accelerates, they too will suffer—though perhaps not as much as the rest of society, since the rich are usually more capable of finding ways to insulate themselves from problems. And if our democracies and societies are undermined by populist extremists—as seems to be happening now—even they, their families, their children and grandchildren will be touched.