

The Globalisation Crisis: Populism and the Rise of an Anti-Trade Coalition

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Abstract: The contemporary sclerosis of trade policy challenges the merits of open markets and has raised significant attention to the unequal distribution of gains from international market forces. We argue that the failures of trade policy are more a consequence of past policy choices, particularly the purposeful design of both international and domestic institutions. Using a novel panel-survey of Americans through the great recession, we show that past apparent support for free trade and open markets was ephemeral. In the tradition of historical institutionalism, we show how institutions designed in one era to shield policy makers from import competing voices were 'locked in' and prevented otherwise efficient remedies for the distributive effects of globalisation.

Key Words: US trade policy; populism; job displacement; GATT/WTO

Introduction

It has been confusing times of late for scholars of trade policymaking. For a generation, academic researchers have analysed and dissected the requisites to open markets, populating journals with both theoretical and empirical studies on all aspects of commercial policy. Much of the intellectual foundations of the field of international political economy, whether on the rationale and design of agreements, the nature of political coalitions for and against free trade, or the factors that encourage international cooperation, can be traced back to economic models in which open markets are efficient and more or less self-sustaining. It is thus with great surprise that scholars have watched an almost worldwide backlash against open markets and much of the policy and organisations of post-war liberalism. While it may be premature to declare the end of the liberal international order, it is apparent that we

must reassess both the sources of support and friction that have led to the current loss of confidence in open markets.¹

What has happened? Explanations for the sources of this backlash against open markets are varied. Some scholars have focused on the international requisites of a liberal world order. Among these scholars, the loss of support is associated with a decline in US power. According to these analysts, open trading borders were made possible after WWII because of the relative power of America and its interests in markets abroad.² Accordingly, current frictions are a response to the decline in that power; today, the US government is less inclined to provide collective goods, in particular, the public good of keeping its own market open and has chosen to undercut global trading rules. From this perspective, the blame for the current malaise rests with the new unwillingness on the part of some other nation, or set of nations, to take up the mantle of the protector of open markets.

Other scholars look within nations to explain the source of current dissatisfaction. While economists offer an optimistic view that over time, trade should be increasingly valued by voters because of the new and more varied consumer goods available for purchase or because exports opportunities drive growth and employment, these gains are not taken for granted in politics. One reason for this is that although consumer prices have declined and exports grown, job gains are ephemeral. Even if history ultimately reveals a positive relationship between job growth and globalisation, making that attribution has been undermined by increasingly long value chains, by job growth in less legible service sectors, and by the geographic consolidation of winners. One has only to look at what we now know about the effects of China's entry into the WTO to see unequal effects.³ While trade has produced many jobs, many in high-end occupations, the distribution of employment opportunities has shifted dramatically and quickly. Technological change has compounded economic uncertainty and increased worker anxiety. In short, the pace of change makes it difficult to prepare for the new marketplace.⁴ The long-running effects are magnified because of an absence of labour mobility; in fact, there is growing evidence that people are less likely to relocate to areas of growth than had been previously assumed.⁵ Thus, even if there are new jobs, they may well demand particular skills and be located in geographically specific regions.

The opacity of gains from trade are in stark contrast to the readily apparent costs for workers. Trade appears to have created large numbers of workers who will be persistently under-employed because of a mismatch between their skills and job opportunities and the ability for MNCs to substitute away from a particular labour market.⁶ The assumption of economists that there would be a smooth adjustment into more competitive sectors for workers in import-competing sectors has proven incorrect. Instead, we see rising inequality, in part a result of regions of the US, and Europe, suffering from persistent under-employment. Anti-trade attitudes, fuelled by

1 For an introduction to the debate on the current issues surrounding the global order see Pepinsky and Walter 2019.

2 Kindleberger, 1973; Krasner, 1976; Ikenberry, 2011.

3 Pierce and Schott, 2016; Autor, Dorn and Hanson, 2016; Scheve and Slaughter, 2004.

4 Autor, Li and Notowidigdo, 2019.

5 Autor, Dorn and Hanson, 2016.

6 Scheve and Slaughter, 2004; Blinder, 2019.

a perception that globalisation has not delivered as promised has produced instead an electorate who no longer believe that open markets are welfare enhancing.⁷

The disconnect between free trade in 'theory' and open markets in 'practice,' is not new. The benefits of comparative advantage and international specialisation, a striking yet counter-intuitive economic insight, has never translated easily into political practice. Politicians cannot, and have not, ignored these distributional effects.⁸ Following on this logic, we argue below that the potential of political resistance to liberalisation explains the design of pro-trade institutions: they were explicitly designed to shift the incentives of groups to mobilise, favouring the mobilisation of pro-trade exporters and undermining the ability of import-competing groups to undermine policy.⁹ Through myriad ways – delegation, bundled trade deals, hand-tying via international agreements – trade policy institutions were made impervious to public dissent. As such, domestic policy making was fundamentally 'illiberal,' insulating policy from popular pressures. Similarly, while trade agreements are public *ex post*, the procedures used in writing a trade agreement had an illiberal character, that is, they were negotiated in secret out of fear that too much information about upcoming market pressures would undermine an agreement. Intra-round transparency was thought to be an obstacle to agreement.¹⁰ From the start, democracy and trade liberalisation was understood to be a difficult partnership.

We argue that the sclerosis of trade policy making today is not only driven by the very unequal distribution of gains from international market forces. Rather, we argue that the design of both international and domestic institutions has exacerbated these market effects and has undermined a political response. In the tradition of historical institutionalism, we look at how temporal events 'locked in' a particular sub-optimal institutional design. In particular, we argue that while it may have been functional in the early days of the regime to shield policy makers from import-competing voices so as to craft a stable pro-trade coalition, over time, this institutional design proved problematic in that the lack of pressure foreclosed the creation of ameliorating policies.¹¹

In order to illustrate our argument, we take up the American case, both because of its importance in the creation of the regime, but also because of its current position as chief critic. We argue that American trade institutions were created in the shadow of the Smoot-Hawley experience, where a flurry of interest group activity closed the US market and according to some contemporary analysts, exacerbated the Great Depression.¹² In response, central decision makers, particularly Democrats who had long championed trade, responded with an institutional design that protected elected officials from organised interests. But while it may have been necessary to undermine collective action in the early years of trade liberalisation, the absence of voice from disadvantaged groups created an unexpected externality. Instead of responding to short-term dislocations that occurred over the ensuing 75 years, central decision makers crafted policy in the absence of pressures from those who were hurt by the

7 Rodrik, 1997, 2018; Bisbee et al., 2019.

8 Rogowski, 1987; Alt and Gilligan, 1994.

9 Bailey, Goldstein and Weingast, 1997; Barton et al., 2007; Goldstein and Gulotty, 2014.

10 See Goldstein and Gulotty, 2014. Failed early agreements made negotiators wary of too much public attention. For example, the failed attempt to pass the ITO in Congress meant that the Executive office did not even try to ratify the GATT, but rather, enacted the agreement via executive order.

11 See Goldstein and Gulotty in Fioretos, Falleti and Sheingate 2016.

12 Kindleberger, 1973.